SOME ASPECTS OF THE CONSTITUTION AND THE ECONOMICS OF ISLAM

by

NASIR AHMAD SHEIKH, M.A., LL.B.

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With Foreword by

The Late ZAHID HUSAIN,

Ex-President, Pakistan Economic Association,
Ex-Governor, State Bank of Pakistan,
Ex-Chairman, Planning Board, Government of Pakistan.

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To

DAG HAMMARSKIOLD
who gave his life serving the cause of the United Nations in an air crash in the Congo on 18th September, 1961, while the present edition was being printed

As the cause of the United Nations — the Unity of Mankind — is the cause of Islam
FOREWORD

Mr. Nasir A. Sheikh is an assiduous writer on economic subjects, particularly those in which prevailing economic theory or practice involves an inconsistency with deep-rooted Muslim beliefs which have been held sacred throughout the centuries. He has been writing papers and articles, which are now being printed in the form of this book for the general benefit.

Mr. Sheikh is an active member of the Pakistan Economic Association. The manner in which he combines intellectual activity with the day-to-day conduct of his business is an example from which many others can benefit. Whether one agrees or not with the conclusions he suggests for managing economic life in the modern age, one is struck by the vigour and determination with which he pursues his ideal and the range of his studies for this purpose. More than anything else, our community needs men who can contribute to the promotion of intellectual activity.

The theme of interest-less economy, to which Mr. Sheikh has devoted a great deal of his attention, is very close to the heart of every Muslim. It is not a new theme. It probably goes back to the time when, upon emergence from barbarism, sympathy for fellow human beings in distress began to stir the spirits of warm-hearted men and women. The search for an interest-less economy involves a questioning of the structural foundation of economic life in this age. Countries like ourselves, deficient both in learning and the physical and intellectual tools of modern life, have to go a long way before they can see any light. The quest for knowledge and light is a sacred duty enjoined upon Muslims, and Mr. Sheikh is indefatigable in the pursuit of this duty. Let him be a shining example to us all.

ZAHID HUSAIN.

4, Bath Island,
Karachi.
14th June, 1957.
PREFACE TO THE FIRST EDITION

This book consists of five articles that I wrote at different times. In the beginning of each article I have mentioned the circumstances under which the article was written. So far as the practical side of this book is concerned, as every individual has to pursue some economic activity for earning his livelihood, and, being a member of a nation, this activity of his is influenced by the politics of his country, hence, only a common man can be the best judge for assessing the importance of this book. As for the theoretical side of the book, because I myself was a layman, and perhaps am still so, I have tried to find an answer to the manifold problems that face a common man in his life, and for finding the solution to which he is baffled. I myself have found a great satisfaction by this book, as I have not presented any original philosophy of my own in it, but have tried to show some eternal truths in operation in the struggle of life. If the reader is able to find some solution to his problems, I shall feel that my arduous labour of writing this book is not wasted.

As a book is a reflection of the ideas of its author, which spring up in his mind by the reaction of his environment, and as in every period this reaction takes place in the minds of all thinking persons and helps form their ideas as a consequence thereof, it would be very ungrateful on my part if I did not make mention of the personalities from whose ideas I got an opportunity to profit, and who, I think, were influenced by the same environment by which I was to be influenced a few years later.

Having been born to Muslim parents and having got the initial education in an Islamia High School, I had a natural affection for Islam, especially when I was told that Islam is not only a religion, but is a code of life and a law of nature. So, in the light of this background, the first person who influenced my mind was Professor Narinjan Singh, my teacher of chemistry in Khalsa College, Amristar. This was twenty-eight years ago. Whenever Professor Narinjan Singh came to the class, it was his routine to devote the first fifteen minutes to a talk on character. He used to say, “Whatever
lecture I deliver to you on character, you will remember all your life, while the formulae of chemistry you will forget after one or two years.” And it actually turned out like that. His greater emphasis for a student of science was on leading a scientific life, and, according to him, a scientific life was a regulated life, exactly as every scientific phenomenon happens under some law of science. He used to say that so far as the degree of B.Sc. was concerned, Gandu, the laboratory sweeper, was a better B.Sc. than any of us, as he had seen chemical actions being performed all his life and he could himself conduct every experiment. But he was not a scientist.

Professor Narinjan Singh expected us to be scientists in this sense, that we should begin to lead a regulated life. He used to quote an example that, while performing an experiment at his desk in the laboratory, if he wanted to pick up the bottle of caustic soda, he could pick it up blindfolded; similarly, he could pick up the bottle of hydrochloric acid or any other chemical. The reason was that he had kept every bottle in its place under a system, and, while picking it up, he knew at what distance and at what place it would be lying. But if he asked his wife in his home to fetch him the phial of tincture of iodine, she would make the whole house topsy-turvy, because she had not placed the phial under a scientific system. He was so much devoted to science and the scientific system that he used to say that, if at all we read novels, we should read those by H. G. Wells on scientific topics. He used to ask everyone in the class whether he prayed for the independence of his country while saying his prayers in the morning. Another thing he emphasized was that every one of us should take stock of his daily actions before going to sleep, while lying on his bed at night, and should assess how many good deeds he had done against his evil deeds. In this way, his endeavour should be that his good deeds on one day are greater than his good deeds on the previous day and his evil deeds less. He called it Introspection. He wanted us to practise it so thoroughly that gradually we might be able to revive our lesson also in our minds in this way.

His own life was exemplary. Whatever salary he drew he returned a part of it to Khalsa College, a part of it he
contributed towards a poor students’ fund and a part to the managing committee of the Golden Temple. His dress and his turban used to be of homespun cotton and his shoes of locally tanned red chrome. I have watched him for hours, from a distance, busy in his studies, sitting in the spacious playgrounds of Khalsa College, opposite the chemistry department. Perhaps he may not be knowing me, as I was not a conspicuous student in the class, but I feel very gratified today that I am paying my tribute of admiration to a personality whose ideas left deep impressions on my mind. I have not yet seen another person so great. Professor Narinjan Singh is running his own College in Delhi at present, and last year, when one of my class-mates went to Delhi and met him, he said, “I have one desire left in life that once I go to my village in Rawalpindi District and stay with the sweeper of the village, who used to call me brother and hear him addressing me as brother.”

The second person from whose ideas I profited is the ‘Allama I. I. Kazi, the present Vice-Chancellor of Sind University. I met him in December, 1945, on the steamer “City of Exeter”, when he was going to England to pass his usual vacation there, and I was going there on business. I was his co-passenger on the steamer for about three weeks, and met him in England on various occasions. I found the argumentative and scientific approach to Islam with him for the first time in my life.

The third person from whom I learnt to stand by my cause and to utter fearlessly the thing in which I sincerely believe is Mr. L. C. Deason, Director of a London firm, Messrs. Hales Brothers (Overseas) Ltd. I had business dealings with this firm before Partition, and since Partition I have been acting as their agent in Karachi. Besides business, I have talked for hours with Mr. Deason on the problems of life, and he supported every idea of mine about which I could convince him. By supporting me in every sitting on the right of every individual for a dignified life in this world and on the principle of every person being worthy of honour, he taught me to love life and to love mankind at the critical moments of my life.

The fourth person whose writings and weekly lectures have helped me understand Islam as a code of life, is the
'Allama Ghulam Ahmad Parwez. When for the first time I read the principles of "Nizam-i-Rabubiyyat, the System of Cherishing and Sustaining Mankind," on the title page of his book, I was flabbergasted as to whether a person could be so bold in this dark period. But I remembered the saying, "Knowledge is Power," and a scholar who possesses the argument of knowledge is the owner of tremendous power and is bold to the same extent.

The fifth person from whom I got the last link of the chain of my ideas is the 'Allama Mashriqi, the founder of the "Khaksar Movement" and the founder of the "Indo-Pakistan Islam League". I have been working as a Joint Secretary to his party, the "Indo-Pakistan Islam League", for the last two years. During this period, I have read almost all his writings and have had the honour of talking to him on many occasions. If I had not happened to read these writings of his I should not have arrived so convincingly at the conclusions at which I have now arrived. He taught me to be above petty religious prejudices and regional divisions. I got solid arguments for Islam being a law of nature from him. At present he is corresponding with the prominent scientists of Europe and America for starting a "Human Movement".

Another person under whose guidance I practised public speaking is Mr. M. A. Mogul, Executive Engineer. He used to conduct free classes, and his method was that of Dale Carnegie, which he had learnt during his stay in America. Besides me, other people also benefited by his useful work.

So far as the subject matter of this book is concerned, first of all I am grateful to Mr. Hasan Ali Abdul Rahman, Principal, S.M. Law College, Karachi, from whose lectures on "Constitution", and from the books recommended by him, I learned much. The Vice-Principal of this College, Mr. Sheikh Haider, very kindly lent me some standard works on the subject.

In the sphere of economics, Dr. Said Ahmad Meenai, Research Director, State Bank of Pakistan, Dr. Hameed Farooqui, Agricultural Economist, I.C.A., and Mr. Iftikhar Ahmad Mukhtar, Reader in Economics, Karachi University, created confidence in me by suggesting standard books to
me on my problems and by replying to my irrelevant ques-
tions in the course of their lectures. I also profited a good
deal by the Presidential Address, delivered at the Pakistan
Economic Association, held in 1952, on "Interest" by Mr.
Zahid Husain, ex-Governor, State Bank of Pakistan, and
ex-Chairman, Planning Board, Government of Pakistan. As
a matter of fact, this address of Mr. Zahid Husain created
in me a desire for acquiring a knowledge of economics.

I am also very grateful to some students of law and
economics, by exchanging views with whom I acquired self-
confidence. In this regard, the names of Mr. Faiz Muhammad
Soomro, Mr. Muhammad Akram, Mr. M. A. Majid, Mr.
Shaukat Kazimi, Mr. Siraj-ud-Din Ahmad and Mr. Riaz-ud-
Din are specially worth mentioning. The first three gentle-
men are practising law at present and the last three are
working in different departments of economics.

When I went into the world twenty-three years ago
after leaving the College, I was one of those millions of
youths who have to fight the battle of life in the atmosphere
of slavery, when opportunities were limited and were the
closed preserve of the privileged few. I had nothing with
me at that time except the advice of Professor Narinjan
Singh: "If wealth is lost, nothing is lost; if health is lost,
something is lost; if character is lost, all is lost." But, in
practical life, I found that if the advice of Professor Narinjan
Singh is read by interchanging words like this: "If wealth
is lost, all is lost; if health is lost, something is lost; if
character is lost, nothing is lost," it then fitted the con-
ditions prevailing at that time. It was the irony of life.
The world was still suffering from the after-effects of the
Great Depression of 1929-33. A revolution was developing
in economic theories. Classical capitalism was to yield place
to welfare economy. Humanity was to march to the United
Nations' agencies and the Declaration of Human Rights.
Such stringent conditions could not last for long. So the
Second World War started after five years, and, two years
after its termination, on the partition of India in 1947, such
massacre and pillage took place as was unprecedented in the
history of the world. Would the conditions change to such
an extent that the above advice of Professor Narinjan Singh
could fit them? It could happen only if society recognizes
the basic rights of man, viz., the right of employment, the right of education to be eligible for employment, and the right to the basic necessities, like food, clothing, shelter and medical care, temporarily in the case of sickness or unemployment, and permanently in the case of disability and old age. If society does not recognize these rights, it cannot blame an individual who, in the pursuit of his livelihood, reads the advice of Professor Narinjan Singh by interchanging its words. Rather the whole of society itself stands accused before the individual.

20, Nariman Kothari Chambers, McLeod Road, Karachi-2.
1st May, 1957.

PREFACE TO THE SECOND EDITION

The facts and figures used as observations for the theoretical aspects of the book have been brought up-to-date in the present edition. Readers would, therefore, find more details in the present edition than in the first one. Two sub-heads, “The world is adopting the Qur’anic idea of the whole mankind being one nation” and “A survey of the Land Reforms announced by the Martial Law Régime of Pakistan” have been added at the end of chapters 1 and 5 respectively.

14th July, 1959.

PREFACE TO THE THIRD EDITION

References have been numbered and given at the foot of each page, having been taken out of the text of the book — a departure from the Urdu editions. Further references have been given at the end of each chapter instead of being at the end of the book, as in Urdu editions. Some further notes according to page numbers of the present edition have been added at the end of the book.

I am grateful to Mr. William Bashyr Pickard, B.A. (Cantab.), L.D. (London), the great scholar and writer on
Islam, for going through the manuscript from the linguistic point of view, and to Sheikh Muhammad Tufail, M.A., the Imam, the Shah Jehan Mosque, Woking, Surrey, England, for going through the manuscript from the Islamic point of view. I am particularly grateful to Maulvi Abdul Majid, M.A., the Editor of The Islamic Review, Woking, Surrey, England, for his great and kindly encouragement in bringing out the above edition.

18th August, 1961.
Where the mind is without fear and the head is held high;
Where knowledge is free;
Where the world has not been broken up into fragments and narrow domestic walls;
Where words come out from the depth of truth;
Where tireless striving stretches its arms towards perfection;
Where the clear stream of reason has not lost its way into the dreary desert sand of dead habit;
Where the mind is led forward by Thee into ever-widening thought and action —
Into that heaven of freedom, my Father, let my country awake.

(Excerpt from Gitanjali-Rabindranath Tagore)
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CHAPTER 1

AN ISLAMIC CONSTITUTION AND PAKISTAN

(This article was written towards the end of December, 1952. The subject of an Islamic Constitution was hotly under discussion at that time. The general opinion among the intellects was that there was no such thing as an Islamic Constitution existing in this world. Three months before this article was written, the then Minister of Law of the Government of Pakistan, Mr. A. K. Brohi, issued a statement in the Press that he would pay a prize of Rs. 5,000/- to anybody who proves the existence of an Islamic Constitution. Originally, this article was written to be read at a meeting of some Law students. Two or three days after this, the Basic Principles Committee report on the Constitution was published on 23rd December, 1952. As the above report was in conflict with this article in many respects, this article was cyclostyled and distributed to all the then members of the Constituent Assembly. At the same time it was sent to all the daily papers of Pakistan. The Civil & Military Gazette, Karachi, published it in its issues of 5th January, 1953, and 6th January, 1953, in two instalments. In England, it was published in the April, 1953 issue of The Islamic Review, Woking. It was also published in the May, 1953 issue of the Voice of Islam, Karachi. The daily Dawn, Karachi, commented on this article in its issue of 17th May, 1953, that the article was thought-provoking. It was also published in the August, 1953 issue of Yaqeen, Karachi. The Editorial Department of the daily Pakistan Times, Lahore, regretted that they were unable to use the article, but they appreciated the offer. The daily Nawa-i-Waqat, Lahore, returned the article with thanks. No other paper replied or published the article. On 24th October, 1954, when the first Constituent Assembly was dissolved, a hope was raised of one section of the article being implemented, i.e., of One Unit for West Pakistan being established. Thus, after having been passed by the Second Constituent Assembly, the Establishment of the West Pakistan Act came into force on 3rd October, 1955.

This was the first article of my life, and only a writer can know to what bounds his joy extends when his article gets published. Wherever I have made any additions in the original text, I have mentioned the fact at that place.)
2 SOME ASPECTS OF THE CONSTITUTION

Out of the many definitions of constitution that I have come across the one that has appealed to me most is—"Constitution is the instrument of Government". This definition was given by Professor Bashir, while he was lecturing on Indian Constitution in the classroom. Now this instrument may be a written one or may be an implied or unwritten one. Of course, there is no Islamic Constitution in the sense that there is no written Islamic Constitution, just as there is no written codified English Constitution. But you cannot say that there is no English Constitution because there is no written English Constitution. Similarly, you cannot say that there is no Islamic Constitution.

I am leaving out the definition of Constitutional Law given by Dicey as his definition begins like this: "Constitutional Law, as the term is used in England, appears to include all rules which govern the distribution of power among the Judiciary, Executive and Legislature". Dicey's definition is a qualified definition because he defines the term as it is used in England. It is not a general definition.

At this stage I may differentiate between the words "Constitution" and the "Constitutional Law". Constitution, as I have said before, is an instrument written or implied. Constitutional Law, as I take it, lays down and discusses the rules for its interpretation, quoting different cases on constitutional points already arisen and decided, or guiding us how to interpret the constitutional points likely to arise in the future.

An Islamic Constitution, as I have said before, is an unwritten Constitution. But there is one big difference, that it does not clearly point out whether the Constitution should be Unitary or Federal, Presidential or Parliamentary. But one thing is certain, that it is not a hereditary kingship or dictatorship. Had it been a hereditary kingship the head of the State after the Prophet Muhammad would have been his legal heir. But this office did not go to his heir. It went to one of his companions, Abu Bakr. The Prophet himself did not nominate his successor. So, when he died, differences arose as to who should be his successor. 'Umar proposed the name of Abu Bakr and he was unanimously elected the first Caliph. After the election, Abu Bakr addressed the whole assembly and said:
"I am not the best and greatest among you. I shall depend in every matter upon your counsel and assistance. Support me if I act well and correct me if I make mistakes. To tell the truth to a person commissioned to rule is a mark of loyalty: to suppress truth is treason. The strong and the weak, both are equal in my eyes and both will receive Justice at my hands. You honour me so long as I honour God and his Messenger and I shall be entitled to receive your allegiance if I observe the laws and rules of the Prophet."  

This, one of the most significant incidents in the history of Islam, leads us to the inevitable conclusion that Islam does not admit the institution of kingship and dictatorship, and that Islam recognizes the institution of election for the purposes of running a Government. The first address of the head of the State after his election lays down that the affairs of the State are to be decided by Consultation and Counsel, which is a method prevalent in the present-day institution of Legislative Assemblies.

We find the same guidance about deciding the affairs by Counsel in verse 38, chapter 42, of the Qur'an:

"And those who respond to their Lord and keep up prayer and those whose affairs are (decided) by Counsel among themselves and who spend out of what we have given them."

The first Caliph, in his address, asked the people to support him if he acted well and to correct him if he made mistakes. He exhorted them to tell the truth to the rulers, so much so that suppression of truth was treason. Then this address also determined the fundamental rights of the citizens. The address went on: "The strong and the weak, both are equal in my eyes and both will receive Justice at my hands." In other words, all are equal before law and there is the guarantee of the supremacy of the rule of law.

But what is that law? The Caliph said: "You honour me so long as I honour God and his Messenger and I shall

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be entitled to receive your allegiance if I observe the laws and the rules of the Prophet." From this you will observe that only a very small field is left for arbitrary legislation by the Head of the State or for the legislation enacted by the sheer force of majority in the Legislative Assemblies of today. The rules and laws are laid down by God and his Prophet and the head of the State is entitled to the allegiance of the people only if he observes and implements the laws and the rules of God and the Prophet. This is also corroborated by the well-known doctrine of Vicegerency of God given to the head of the State in an Islamic Polity. The head of the State, according to this doctrine, has to rule according to the laws of God as all the kingdom belongs to God2 and the head of the State is only God’s Viceroy to rule in accordance with the laws of God as enunciated in the Qur’án and Hadith. In the Qur’án, this doctrine is given in chapter 38, verse 26: “O David, we did indeed make thee a vicegerent on earth; so judge thou between men in truth (and justice): nor follow thou the lusts (of thy heart), for they will mislead thee from the path of God.”

You will ask why it is not strictly laid down whether an Islamic State should be Unitary or Federal, Presidential or Parliamentary. Islam, as you all know, is a universal and eternal religion. It is meant for all places and for all times. Different constitutional forms may appeal to different peoples and may suit different times. Hence Islam has not put a limitation on what form you adopt as long as the Government is run in accordance with the laws of the Qur’án and Hadith,3 as submitted above.

There are four sources of Islamic law:

1. The Qur’án;
2. The Hadith;
3. Ijmaa’; and
4. Qiyás or Ijtihád.

What the Qur’án and Hadith are, you all know. Ijmaa’ means the majority decisions of the companions of the Prophet and his disciples. Qiyás or Ijtihád means analogical deductions derived from a comparison of the first three

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3 The Sayings of the Prophet Muhammad having the force of Law.
sources, when these sources did not apply to any particular case. These are the sources of Public as well as Private Law. Constitutional Law being Public Law, we can revert to these sources for the Constitutional Law and for the Constitution itself.

I started by giving you an example from Ijmaa‘, which was the decision of the companions of the Prophet in electing the head of the State after the death of the Prophet, because, from the point of view of the Constitution, I had to elaborate the most important point, i.e., the non-existence of the idea of kingship and dictatorship in Islam and the recognition of the institution of Election in Islam.

By quoting from the first address of the Caliph Abu Bakr after his election, I have tried to throw some light on the fundamental rights of citizens and on the rule of Law in Islam, and also on how to decide the immediate matters of State, like those of a local nature, by consultation, which interpreted in terms of the present-day institutions equals the Cabinet system, Parliamentary or Presidential. These consultations are required for your immediate needs, such as when you have to embark upon a certain building plan or to lay out parks or build roads and bridges; or to construct schools, colleges and hospitals; or to draw up a treaty; or to repel the forces of aggression, or to make an attack in case of the infringement of the right of the State by a foreign power. But cardinal principles are laid down in the Qur’án, the Hadith and in the Ijmaa‘ — the decisions and the conduct of the companions and disciples of the Prophet — and you have to apply these laws in the light of the present-day needs by the doctrine known as Qiyás or Ijtihád.

The Qur’án is full of the cardinal principles of private law and public law. It lays down the laws of inheritance, the laws for commercial dealings, the law for the prevention of interest, the marriage and divorce laws, the laws relating to crimes and torts, and so on. The Qur’án, similarly, lays down public or constitutional laws like the collection of Zakat,4 the drawing up of treaties, the treatment of prisoners

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4 Annual State Tax at the rate of 2½% on all uninvested wealth like cash, debts receivable, jewellery, gold, silver and commercial goods but not leviable on the value of agricultural implements, tools of the artisan and built-up houses.
of war, the nationalization of land, the rights of women, and so on.

All these cardinal principles have to be taken out from the Qur'an, the Hadith and the Ijmaa', and the constitution which is based on these principles will be the Islamic Constitution. A difficulty will arise in tackling the problems which are peculiar to the present generation and which did not exist at the time of the Prophet or the Caliphs, like banks, insurance companies, factories, public debts, cinemas and other entertainments. These problems can be solved by applying the doctrine of Qiyas or Ijtihad, i.e., we shall have to deduce from most approximately similar cases decided by the Prophet, the Caliphs or the disciples.

Now why does a common man want an Islamic Constitution? Because, when in the time of the Prophet, the community was being ruled in an Islamic way, the rich people could not find the poor and needy in the streets of Medina to accept alms. There was such a fair distribution of wealth under the Islamic régime, and such was the result achieved by a community governed in an Islamic way. The common man wants to see the same result achieved again. The root-cause of all social evils is poverty in the country. It is the result of the maldistribution of wealth produced in the country.

According to the Census Report, 85 per cent of the population of Pakistan are agricultural workers, either tenants or labourers. If their lot is bettered, the lot of nearly the whole population is bettered, and this can be done only by the abolition of the Zamindari System, as has been done in East Pakistan. It is anomalous that a step considered necessary and implemented in one part of the country is not being taken in West Pakistan and is being dilly-dallied for the sake of influential people and their stooges. It goes

5 The town of Arabia where the Prophet Muhammad migrated from his native place, Mecca. Medina became the seat of the Government during the lifetime of the Prophet Muhammad, and remained so till the election of the last of the first four Caliphs, after whom the State degenerated into kingship.


7 The system of share-cropping landlordism.
to the credit of the leadership of East Pakistan that almost a three-centuries-old injustice has been redressed and economic dis-equilibrium brought to a level. The toiling, underfed, under-clothed, unattended, uneducated humanity in West Pakistan look forward to the same redemption from the economic yoke of the Zamindari System, which their countrymen in East Pakistan have already got. The half-measures being taken in the provincial legislatures of West Pakistan to rectify this anachronism of the Zamindari are eye-wash and do not strike at the root-cause of the problem of poverty. I quite remember having heard a few months back an interview between the Foreign Minister of Pakistan, Mr. Muhammad Zafarullah Khan, and a commentator of the B.B.C. on Radio Pakistan, Karachi. The B.B.C. commentator asked the Foreign Minister what steps Pakistan was taking to implement Islamic social justice, and the Foreign Minister could allude only to this step of the abolition of the Zamindari System in East Pakistan. If the Foreign Minister thinks the abolition of the Zamindari in East Pakistan is a step towards the implementation of Islamic social justice, why is it not abolished in West Pakistan? West Pakistan needs Islamic social justice as much as and at the same time as East Pakistan needs it.

I should now like to give some instances from early Islamic history which will lead you to draw very important inferences having a vital bearing on the Constitution and the Constitutional Law. There is a well-known incident in the life of the second Caliph, ‘Umar. He would go out in the streets at night in disguise to find out at first-hand the condition of the people. One night, when he heard children crying in a house, he enquired of their mother the reason for their crying. She replied that she had no food in the house to offer them. ‘Umar went back to his own place, carried a sack-load of flour and delivered it to the mother of the children. This incident shows the solicitude that an Islamic State, in the person of the Head of the State in the present example, should have for feeding the people.  

There is the famous law of ‘Umar granting military stipend to every male Muslim child born in the State, so that on growing up he could be recruited in the National

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8 Shibli Nu‘mani, Al-Farooq, 1951 edition, pp. 536, 537.
Army and could fight in the hour of need. It imposes on the soldier fighting for the State a moral duty to acquit himself well in the war, as he is fighting for that State which looked after him in his childhood and his youth and he must, in honour-bound, fight for it, and fight to the last drop of his blood. The same principle was applied by the last Labour Government in England that every child born after the first child in a family should be paid a stipend of five shillings per week till he or she attains the age of 18. The Conservative Government, that came to power after this, increased the allowance to eight shillings per week. In April, 1956, the then Conservative Government fixed the above allowance at eight shillings per week for the second child and ten shillings per week for the third and each subsequent child. Up till 1947, laws relating to children's allowance had been passed in 25 countries of the world. Out of these, seventeen were European countries, three were South American, and three, viz., Canada, Australia and New Zealand, of the British Commonwealth.

Then there is the incident of the Caliph 'Umar going to a scene of battle on a camel with his servant. It was decided by 'Umar that he and his servant should ride the camel by turns, and by chance when the besieged city was near, it was the turn of the servant to have the ride. When the people of the city came to know of this incident, they at once implored peace, because they felt in their hearts that they could not face an army whose leader was so righteous and hardy.* This is the conduct expected of a head of a State under an Islamic Constitution. His conduct will be reflected in every branch of the administration, the public life of the community and the private life of the individual, and that will be the Islamic State at the pinnacle of glory. I may dispel one erroneous notion among some of the people of Pakistan. Whenever you talk to them about an Islamic State and an Islamic Constitution, they tell you to become true Muslims individually and everything will be all right, every evil will vanish and Pakistan will become a heaven on

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9 Shibli Nu'mani, op. cit., p. 536.

earth. But these people seem to forget the demonstrational effect of the life of the leaders. If there is to be a renaissance of Islam, it has to begin from the top and, if the head of the State and the whole hierarchy of the higher-ups are righteous and hardy, the whole nation will follow their conduct. The opening chapter of the Qur’án, the Fatiha, which every Muslim repeats in his prayers forty-four times a day, reads, “Thee do we worship and Thine aid do we seek. Show us the right way.” The prayer is of the individual, but he is ordained to use the plural “We.” The ‘Allama ‘Abdullah Yusuf ‘Ali in his translation of the Qur’án comments on these lines as follows: “The plural ‘we’ indicates that we associate ourselves with all who seek God, thus strengthening ourselves and strengthening them in fellowship of faith.” Similarly, in chapter 10, verse 104 of the Qur’án, the last part runs thus: “I am commanded to be (in the ranks) of the Believers.” The Prophet is not commanded to be a believer but to be (in the ranks) of believers. The ‘Allama ‘Abdullah Yusuf ‘Ali comments on this portion of the verse like this: “Individual faith is good, but it is completed and strengthened by joining or forming a righteous society.” And who can form a better righteous society than the Government itself with all the resources of the State at its disposal? The Prophet himself formed and brought to perfection this society when he was the head of the State. This is the only way to bring about a renaissance in Islam and a reformation in society, and anything short of it is bound to fail.

Here it is worth while to mention the reason for the murder of the third Caliph ‘Uthman. He showed partiality in giving the majority of official appointments to his relatives and kinsmen from Mecca. The people of Medina were very much perturbed by this kind of conduct. The Caliph rejected their protestations, whereupon he was killed by the hostile faction.11

There is a most remarkable incident in the life of the fourth Caliph, ‘Ali, bearing on Constitutional Law. During the time of his Caliphate he purchased an armour from a Jew and paid the price for it. The Jew brought a false suit

11 K. B. Ahsanullah, History of the Muslim World, 1930 edition, pp. 41, 44.
against him. The judge issued a summons upon the Caliph. The Caliph declared that he had paid the price of the armour. The judge asked him to produce his evidence to prove his assertion. The Caliph cited, as his witnesses, his son, Husain, and his servant. But the Jew objected that the evidence of the son on behalf of his father and of the servant on behalf of his master was the evidence of influenced persons and hence inadmissible. The judge admitted the contention of the Jew and decided the suit in his favour and the Caliph had to pay the price twice. The Jew was so much impressed by the Islamic Court that he embraced Islam.\(^2\) Now this incident leads to the conclusion that the Head of the State, while in office, is under the jurisdiction of a court. This incident also leads to the principle of complete independence of the Judiciary from the Executive and the Legislature in the modern democratic States, and this principle Islam gave the world in its early history thirteen hundred years ago.

There is another incident during the Caliphate of 'Umar. 'Umar was delivering a sermon when an Arab got up and asked him how he had his shirt made out of the one sheet of cloth given him as the share of booty, because he, being a bulky man, needed more than one sheet for his shirt. The Caliph declared that his son would reply to this query. His son got up and said that he had given his share of one sheet to his father so that his father could have his shirt made out of two sheets.\(^3\) This right of criticism and opposition was conceded and recognized by Islam, when the other States were being ruled under the tyrannical heels of their rulers and nobody dared raise a finger at their actions. We find this principle recognized in Britain to such a healthy degree that the Leader of the Opposition is a paid person; in other words he is as necessary for running the Government as the Cabinet Ministers themselves.

We now see the economic rights of man guaranteed by Islam in comparison with the U.N. Declaration of Human Rights.

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12 K. B. Ahsanullah, op. cit., pp. 57, 58.
13 The 'Allama 'Inayat Ullah Khan al-Mashriqi, Quau'i-Faisal—the Verdict. 1935 edition, p. 79.
The following was published as a separate article in the
January, 1956 issue of the Voice of Islam, Karachi. Some parts
of this article were already scribbled in the article under considera-
tion, viz., An Islamic Constitution and Pakistan. But, as the article
published in the Voice of Islam is more exhaustive, so we
reproduce the same verbatim.)

The Universal Declaration of Human Rights was
adopted by the General Assembly of the United Nations
on 10th December, 1948. The economic side of Human
Rights is covered by Articles 17, 22, 23, 24 and 25 of this
declaration. These Articles run as follows:

Article 17. (1) Everyone has the right to own property
alone as well as in association with others.
(2) No one shall be arbitrarily deprived of his property.

Article 22. Everyone, as a member of society, has the
right to social security, and is entitled to realization, through
national effort and international co-operation and in accord-
ance with the organization and resources of each State, of
the economic, social and cultural rights indispensable for his
dignity and the free development of his personality.

Article 23. (1) Everyone has the right to work, to free
choice of employment, to just and favourable conditions of
work and to protection against unemployment.
(2) Everyone, without any discrimination, has the right
to equal pay for equal work.
(3) Everyone who works has the right to just and
favourable remuneration ensuring for himself and his family
an existence worthy of human dignity, and supplemented, if
necessary, by other means of social protection.
(4) Everyone has the right to form and to join trade
unions for the protection of his interest.

Article 24. Everyone has the right to rest and leisure,
including reasonable limitation of working hours and
periodic holidays with pay.

Article 25. (1) Everyone has the right to a standard of
living adequate for the health and well-being of himself and
of his family, including food, clothing, housing and medical
care and necessary social services, and the right to security
in the event of unemployment, sickness, disability, widow-
hood, old age, or other lack of livelihood in circumstances
beyond his control.
Islam had declared these rights nearly fourteen hundred years ago in the context of the conditions prevailing at the time of its revelation. The Islamic conception of the right to acquire and maintain property is inherent in the precepts about Zakat and inheritance. These precepts presuppose the ownership of property, on which Zakat is to be levied and which is to revert to the heirs on the demise of the owner. But the free gifts of nature such as water, air, light, sunshine and land are outside the pale of private property, as they are meant for the collective good of humanity and any appropriation of these gifts by one individual would deprive the others of the life-giving and life-sustaining effects of these gifts.

According to the Qur’án:

“Ye have no good thing but it is from God.” ¹⁴

Again:

“And the earth — we have spread it out, and set thereon mountains, standing firm, and produced therein every kind of beautiful growth (in pairs) to be observed and commemorated by every devotee turning (to God). And We send down from the sky rain, charged with blessing, and We produce therewith gardens and grains for harvests; and tall (and stately) palm-trees, with shoots of fruit-stalks, piled one over another, as sustenance for (God’s) servants; and We give (new) life therewith to land that is dead; thus will be the Resurrection.” ¹⁵

Again the Qur’án says:

“See ye the seed that ye sow in the ground? Is it ye that cause it to grow, or are We the cause?” ¹⁶

The General Assembly of the United Nations passed five resolutions relating to the development of underdeveloped countries on 11th December, 1954, and one of the resolutions urged U.N. members to encourage land reforms. The Qur’án had obviated the necessity for these

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¹⁴ The Qur’án, 16: 53.
¹⁵ Ibid., 50: 7-11.
¹⁶ Ibid., 56: 63, 64.
reforms by not letting anybody usurp land, as it is a free
gift of nature to mankind, and according to the Qur'án,
"He set on the (earth), mountains, standing firm, high above
it, and bestowed blessings on the earth, and measured
therein all things to give them nourishment in due propor-
tion in four days, in accordance with (the needs of) those
who seek (sustenance)." And at the same time the Qur'án
— "Man can have nothing but what he strives for" reserves the right to acquire and maintain the reward of
labour by a person who has striven for it, and any other
person, who has not laboured for it, cannot have any portion
out of it.

The Qur'án guarantees the basic requirements of man-
kind. When God created Adam in the Garden, He said,
"There is therein (enough provision) for thee not to go
hungry nor to go naked, nor to suffer from thirst, nor from
the sun's heat". So we find that man's basic necessities such
as food, clothing, shelter and health are the responsibility
of the State, which, according to Islamic political philosophy,
acts as the vicegerent of God.

About the right to work, we have the following incident
from the life of the Prophet of Islam when he was the head
of the State. A man came to him and asked him to help him
out of his difficulties, as he was out of work. The Prophet
told his companions to bring him a blade of an axe and a
piece of wood. He himself shaped a handle out of the piece
of wood and fitted it to the blade and gave the axe to the
man, asking him to go to a forest, hew the wood and sell
it in the market. He also asked him to report to him his
progress after some days. Various principles can be deduced
from this incident. This incident leads us to the principle
that the unemployed have a right against the State. The
man in the above incident, realizing this principle, approached
the head of the State, who was the Prophet himself, and
this right was recognized when the Prophet provided the
unemployed man with the means of earning his livelihood.

17 The Qur'án, 41 : 10.
18 Ibid., 53 : 39.
19 Ibid., 20 : 118, 119.
p. 5.
The duty of the State, as seen in this incident, did not end with the recognition of the right of the unemployed. The State realized that it was its duty to find work for the unemployed without delay, so that they might not be left to the inclemencies of want and idleness. This incident also leads us to the principle that the State must cater for the welfare of the worker. The Prophet was not content with finding a job for the unemployed man. The Prophet asked him to keep him (the Prophet) informed of his progress in his new job so that he might help him again, if needed. From this incident the Imam Ghazali also deduced a principle that it was the duty of the State to provide tools to the worker, which the worker needed for his trade. The principles deduced from this incident, when applied to the present-day States, will make them the top-most Welfare States. The workers will have their jobs secure and they will not have to face the demon of unemployment and its after-effects in a true Islamic State.

As regards free choice of profession, the Qur’án says: “Let there be amongst you Traffic and Trade by mutual goodwill.”21 Traffic and trade by mutual goodwill implies (1) freedom of enterprise or the right to compete, and (2) two-sided competition between the forces of supply and demand as a means of determining prices. This verse, therefore, prohibits the arbitrary fixation of prices of goods by any outside agency. But the prices of basic necessities, such as food, clothing, building materials and medicines, are not affected by this verse, as basic necessities are the worry of the State, the State being the Vicegerent of God — according to Islamic political thought. An Islamic State, therefore, keeps these things under State trading to enable it to subsidize the prices of basic necessities in times of scarcity and famine and to raise prices, when it feels that inflationary conditions are present in the country. This step, incidentally, enables the State to get rid of the Central Bank rate of interest as a weapon for currency control.

As regards Trade Unionism in the modern States, we have to deduce its principles from the broad principles of Islam only, as there was no large-scale industrial production in the early days of Islam. The industrial age started twelve

21 The Qur’án, 4:29.
centuries after the advent of Islam. An Islamic State, being responsible for the food, clothing, shelter and the health of its subjects, would have the wages of labour fixed in such a way that no workman would remain deficient in the provision of these basic necessities, and, if any industry is incapable of paying decent living wages to its labour, the industry would have to go out of the market or the consumers would have to pay more. Industry cannot run nor can the consumers have the benefit of cheaper prices at the expense of the decent living wage of the labour force in a particular industry. In the words of the Qur’án, “God Almighty has honoured the sons of Adam,” and it does not behove any industry to degrade the sons of Adam by paying them starvation wages and throwing them to the ravages of want and misery. The machinery of the Islamic State sets itself in motion to prevent unfair wages to the workmen, because otherwise their unsatisfied basic wants become the liability of the State and the State Exchequer is unnecessarily burdened. But, after this irreducible minimum has been guaranteed to the labour force, the field is left open to each worker to show his capability and efficiency and capture the coveted positions of responsibility, so that the progress of the world may not stop. Verse 71 of chapter 16 of the Qur’án says, “God has bestowed His gifts of sustenance more freely on some of you than on others; those more favoured are not going to throw back their gifts to those whom their right hands possess, so as to be equal in that respect. Will they then deny the favours of God.” These gifts of sustenance when seen in conjunction with verse 39 of chapter 53 observed earlier that “Man can have nothing but what he strives for”, are his capabilities to earn more than his fellow beings and the person having more capabilities is to make use of these extra capabilities, so that the progress of the world may keep its forward march. But it may once again be stressed that this can happen only after a decent living wage has been guaranteed to the generality of the labour force, and not at the expense of their living wage.

We now try to discuss what sort of Constitution Pakistan should have in the light of the above observations, keeping

22 The Qur’án, 17:70.
in view the history of the Pakistan movement, her raison d’être, the genius of her people and her geographic structure.

Pakistan came into being because the leaders felt that Islam was in danger in pre-partition India. Had Islam been a religion of the individual, there was no danger to it because an individual can commune with his Creator in private in any State. Islam is the religion of the society and, in order to get the full results of the application of the principles of Islam to a human society, there must be a fully sovereign Islamic community, having the sanctions of a State, to implement the Islamic Laws. The Muslims of India must have a separate homeland, where they can live according to the precepts and traditions of Islam, and where every man, woman and child would have Islamic Social Justice. The leaders of the opposite school of thought were saying that, as the principles of Islam are eternal and universal, hence the salvation of the people of the whole world lies in acting upon these principles. If they did not act upon them, they would face the miseries of trade depression, unemployment, war, loss of freedom of the individual and his disrespect, and the world would perforce adopt the Islamic principles, like prohibition of interest, enforcement of Zakat, abolition of landlordism, public utility works, freedom of trade, freedom of profession, restriction of monopoly, a decent wage for the worker, State trading of the items of basic necessities and social security, and that experience would show that these measures can produce optimum results only when all the nations are knit together in a world-wide brotherhood, instead of being split up by mutual rivalries and diverse pulls, and they could not be convinced of the partition of a geographically balanced country (balanced with respect to the distribution of natural resources) into three parts.

But the people of the former school of thought were influential, and, on their exhortation, the Muslims of the pre-partition India subscribed to the view of a separate country. They had to pay a heavy price for it. Half a million Muslims were butchered, fifty thousand Muslim girls were abducted and forty million Muslims were left at the mercy of a revengeful power under perpetual threat of extermination. In 1951, four years after the establishment
of Pakistan, when James A. Michener interviewed Miss Jinnah in connection with his book, *Voice of Asia*, published the same year, she said, "I remember when the top leader of the Muslim religion came to my brother and said, 'Quaid-i-‘Azam, you have accomplished what not even the Prophet and the Qur’án could achieve. You have united the Muslim loyalties in the person of one man.' Quaid-i-‘Azam was like that" (p. 300).

Thus Pakistan banged against the map of the world on the morning of 14th August, 1947, and the greatest Muslim State and the fifth largest State of the world with respect to population came into existence. The leaders of Pakistan, in the flush of victory, forgot to assess whether this new-born State was economically feasible. The major portion of the total national income of Pakistan depends upon agriculture, and the water for her agriculture is provided by her rivers. Two rivers, the Chenab and the Jhelum, start from Kashmir, which is under the occupation of India. The Ravi flows from Kangra, which is situated in India. The headworks of canals from the Sutlej, the Beas and the Ravi are also in India. India can reduce the irrigation water of West Pakistan at any time she likes by constructing dams on these rivers and by stopping the waters of these canals, and thus can ruin the whole economy of West Pakistan. In view of this danger, and even when this danger is removed by some solution of the problems of Kashmir and canal waters, the rivers of West Pakistan, the Jhelum and the Chenab, and, when proceeding further they fall into the Indus, also the river Indus, are situated in such a way that, when a dam is erected for the purpose of feeding the canals at one place, the waters of these rivers become insufficient at other places for the same purpose. Hence, unless the whole region of West Pakistan is considered as one continuous hydraulic unit for the purposes of agricultural development, the administrative provinces of West Pakistan would begin to quarrel with one another and the overall development and the overall production of this region would suffer.

It is said that the constitution of a country is the genius of its people and that the spirit of the people is reflected in the constitution of their country. The Qur’án says, "The
believers are but a single brotherhood.”23 Again the Qur’án says, “And hold fast, all together, by the rope which God (stretches out for you), and be not divided among yourselves; and remember with gratitude God’s favour on you; for ye were enemies and He joined your hearts in love, so that by His Grace, ye became brethren.”24 Further, “Be not like those who are divided amongst themselves and fall into disputations,”25 “And verily, this Brotherhood of yours is a single Brotherhood, and I am your Lord and Cherisher: therefore fear Me (and no other),”26 point to the injunction that all Muslims are a single brotherhood, so that the Prophet said in his last address (the address at Mecca), “Ye people, hearken to my words and understand them. Know that all Muslims are brothers of one another. Ye are one brotherhood.” If we see these injunctions in the light of the dictum that the constitution of a country reflects the genius and spirit of the people of that country, we inevitably arrive at the conclusion that the constitution of Pakistan should be Unitary. Does the blueprint of the constitution of Pakistan, given in the Basic Principles Committee report published these days, reflect the spirit of unity of the nation? The answer is “No”. The country is divided into still more fragments. There are created nine units in West Pakistan, instead of the existing four or five. How is it that, in view of the ideal of maximum production in the agricultural economy of West Pakistan and the injunction about the single Brotherhood of Muslims, West Pakistan, instead of being amalgamated into one unit or one administrative province, has been divided into nine provinces? The reason is apparent. There are too many leaders, too many politicians; many more than can be accommodated in the present set-up of four units. They have to be provided with jobs, not ordinary jobs but jobs having limelight and weight attached to them, and such jobs can be created only if more units are created. West Pakistan has roughly a population of thirty-five million. There are four units already working. Four Governors, four legislatures, four sets of Cabinet

23 The Qur’án, 49:10.
24 Ibid., 3:103.
25 Ibid., 3:105.
26 Ibid., 23:52.
Ministers, four sets of Parliamentary Secretaries, four Speakers, four Deputy Speakers; in short, four full-fledged tin gods with full paraphernalia and retinue of attendants and accessories. In addition to these four demi-gods, there are three States with all the pomp and glory of legislatures and Cabinet attendants. Can Pakistan afford all this luxury of tin gods and their retinue? Definitely not.

After the recent recession in the export trade of Pakistan and the halfway patched-up solution to tide it over, the revenues of the State are bound to drop. The Government, in spite of all its shrieking and slogans, has not been able to provide the basic amenities, like education, health, housing and a fair return to the toiling mass. How can it provide these primary needs with such a top-heavy administration being conducted in the seven units of West Pakistan? Do they expect the people to live on slogans, provincialism and the pure air of Pakistan?

It is in the interest of the State and the masses that all these luxuries of provincial governments be done away with, and a unitary system be evolved for Pakistan. But, looking to the distance of more than a thousand miles between the two wings, the only allowance you can make is a strong Federation with two units. The seats in the Federal House to be on the basis of the population of the two wings and not on the basis of parity.

Some people are nervous about the majority of the Eastern Wing, and they fear that East Pakistan will carry the day in every legislative activity. Their fear is not well-founded in an Islamic State. In an Islamic State, as submitted earlier, we have a very much restricted legislative field, as basic laws are already there in the Qur’án and the Hadith. Then, if finances allow, a stop-valve can be placed in the shape of second legislature, having equal representation for both East and West Pakistan. Also it cannot be said that, as a general rule, East Pakistan will vote en bloc on each piece of legislation. Moreover, the difference between the population of East and West Pakistan is nominal and votes will be more or less equally divided when West Pakistan is considered as a whole unit. There is also a chance that the population in West Pakistan may outstrip that of East Pakistan, as East Pakistan has almost reached
a saturation point and there is such a vast uninhabited area still existing in West Pakistan.

(In the following two paragraphs mention about the electorate system and quota system was made afterwards.)

You can solve your problem of the electorate system as well if you adhere to the above principle that, in an Islamic State, the field for legislation is restricted. When you implement the fundamental principles of Islam, viz.:

1. Abolition of landlordism,
2. Prohibition of interest,
3. Enforcement of Zakat as a State tax,
4. Freedom of trade and restriction on monopoly, and when you give enforceable status to the fundamental human rights, viz.:

1. Right to own property,
2. Right to social security and State provision of basic necessities, like food, clothing, housing, medical care,
3. Right to work and right to choice of work,
4. A decent wage compatible with an honourable life, then, even if you bring all non-Muslims to run this Constitution, the results achieved would be the same as if it was being run by Muslims. Also, you need not quarrel that the system of electorate should be joint or separate or that there should be reservation of seats for minorities and that they be given weightage as well. You need only pure democracy, then, and nothing else. The reason is that the legislature created under such a Constitution cannot fiddle with the fundamental laws and the fundamental human rights, and the standard of life of the common people in one part of the country is equal to the standard of life of the common people in the other part of the country, and there is a guarantee in the Constitution for this standard to be respectable, consonant with the resources of the country. After this guarantee, the phobia of the domination of the majority or the intrigues of the minority becomes meaningless. But the argument ends up at the same point, that, in this way, the politicians do not get a chance of showing their acrobatics and of grinding their axe by creating rifts in the ranks of the people. Pure democracy demands that, at the time of
conferring the franchise you cannot divide a nation on the basis of region or religion. Islam wants to see the whole of mankind as one nation. When you introduce an Islamic Constitution into a country, it means that you make the fundamental laws of Islam and the fundamental rights of man enforceable there. After this, there is no difference between a Muslim and a non-Muslim in so far as running the Governmental institutions of that country are concerned. The Qur’án is very explicit on this point: “Mankind was one single nation, and God sent Messengers with glad tidings and warnings; and with them He sent the Book in truth, to judge between people in matters wherein they differed; but the people of the Book, after the Clear Signs came to them, did not differ among themselves, except through selfish contumacy. God by His Grace guided the Believers to the Truth, concerning that wherein they differed, for God guides whom He wills to a path that is straight.”

Now, when you have discovered the straight path, that is, when you have introduced the Islamic Constitution and have made the fundamental laws of Islam and fundamental rights of man enforceable, then the system of separate electorate or reservation of seats means nothing except selfish contumacy, as seen in the verse quoted above. Other quotations about the whole of mankind being one nation are: “If thy Lord had so willed, He could have made mankind One People: but they will not cease to dispute”; “If God so willed, He could make you all One People: but He leaves straying whom He pleases, and He guides whom He pleases: but ye shall certainly be called to account for all your actions”; “O mankind, We created you from a single (pair) of a male and a female, and made you into nations and tribes that you may know each other (not that ye may despise each other).”

After this, you even need not reserve a quota in services for the people of a certain region. You possess a Constitution in which the fundamental laws and the fundamental human rights are fixed, and to implement this Constitution

27 The Qur’án, 2:213.
28 Ibid., 11:118.
29 Ibid., 16:93.
you can get the ablest men through competitions on the basis of merit and not on the basis of regional quota. Because we have seen earlier that a man can have nothing but what he strives for,31 and by fixing a quota for the people of a certain region without their merit you would be flouting the above verse. The reason is that, in a country where an Islamic Constitution is in force, the common man of one region is having the same standard of life as the common man of other regions, and education is included in his fundamental rights to develop his capabilities, as, according to the Qur'án, "O my Lord, advance me in knowledge,"32 it is God Who advances men in knowledge, and an Islamic State, being His vicegerent, takes upon itself to advance people in knowledge and educate them. With these amenities at his command anybody who strives can win the laurels in a competition, and there is no need for reserving his quota.

We find from the above discussion that Islam lays stress on the right of self-determination of the individual by guaranteeing his fundamental rights, thus enabling his innate capabilities to develop and helping him to become a useful member, and an asset, to society at large. Islam denies this right of self-determination to a community or a group, because it leads to mutual rivalries and rifts among nations, which would negate the very purpose of Islam — the purpose of knitting the whole of mankind into one brotherhood. Moreover, when you concede this right to one group, there spring up in that group such sub-groups who demand their right of self-determination, and the process will never end.

Now we quote below an extract from an article, "Thoughts on our Constitutional Problem," published in the August, 1952 issue of the Pakistan Law Review, Karachi, which is a logical and realistic analysis of this problem of Pakistan.

"Pakistan was nowhere on the political horizon when the question of the provinces was decided in 1935 by an Act of the British Parliament. That Act, which is still operative in Pakistan, was shaped with a view to meeting

31 The Qur'án, 53:39.
32 Ibid., 20:14.
the special situation that existed because of the Hindu-Muslim question. At that time there was no thought that this question would be decided by partition. To meet the situation, a federation was recommended for the centre and provinces were given a very great measure of autonomy. This was calculated to pacify the Muslims to some extent, for while the centre could not but be overwhelmingly Hindu, in at least six provinces like Punjab, Sind, Frontier, Assam, Bengal and Baluchistan, they could, with their majority, have an effective say in the affairs of their provinces. Barring a few important subjects like finance, defence, foreign affairs and communications, all others were transferred to the provinces. That was the British way of solving the Hindu-Muslim question.

"Through the Pakistan movement, the Hindu-Muslim issue was sought to be decided by a simple partition of the country. Thus the autonomous position of the provinces in the old India was due entirely to consideration, namely Hindu-Muslim balance, which no longer exists, after the achievement of Pakistan. Thus the Hindu-Muslim tension was at the root of provincial autonomy, which is not a problem of Pakistan. The question of the relationship between the provinces and the centre is therefore to be viewed in a wholly different light. Now the only consideration is to ensure the best administration of the country.

"The position of East Bengal, no doubt, calls for special consideration. The distance which separates that part of Pakistan from the West is a vital matter and will have to be dealt with carefully. Perhaps the best thing would be to provide a special position for East Bengal in the constitution with greater powers for it than are given to other provinces in Western Pakistan. On this side, as far as possible, the country should be treated as one unit. It would therefore call for a good deal of curtailment of the provincial powers which are being enjoyed today under the 1935 Act. The permanence of the old position would simply mean that the new dispensation of Pakistan has not had any impact. Ultimately Pakistan should be visualized as composed of two units — East and West.

"The stability of a régime for which we have pleaded earlier involves centralism. It is necessary for another
important reason. Since Pakistan is created to inculcate a new outlook, it is only right and proper that the country must be guided by a unified leadership and should not pull in its various provincial directions. Thus the constitution of Pakistan could neither be wholly central in that the very physical factor of distance between the two regions of Pakistan calls for greater autonomy for East Bengal, nor wholly federal in that the requirements of a stable State poised to forge a new Islamic polity demand full powers to the centre to do the job which the creation of Pakistan has put before it.”

After this we quote an article captioned, “One Unit for West Pakistan and the Economic Development of Pakistan”, which was read on the occasion of the Indo-Pakistan Islam League Convention, held in Jehangir Park, Karachi, by the Joint Secretary of the Party on 25th September, 1955, before a gathering of one hundred thousand people. At that time the Bill of One Unit for West Pakistan was under discussion in the Constituent Assembly. After its passage, it came into force on 3rd October, 1955, as the Establishment of West Pakistan Act, 1955.

“Revered ‘Allama,\textsuperscript{33} Syed ‘Abid Husain\textsuperscript{34} and Gentle-
men, you remember that the late Constituent Assembly of Pakistan was to pass the Constitution Bill by 25th Decem-
ber last year. According to the draft of that Bill the territory of West Pakistan was divided into nine Provinces, which, along with the Eastern Wing, were to form a Federal type of Government. This draft Constitution was based on the Basic Principles Committee Report, which was published on 23rd December, 1952, and on the preparation of which millions of rupees were spent. When the report came before the public, they made a strong protest against it. The revered ‘Allama Mashriqi wrote a comprehensive comment on it. Another man distributed copies of an article captioned, ‘An Islamic Constitution and Pakistan,’ to the members of the late Constituent Assembly and also sent them to almost all the daily papers of the country for publication. One or two papers published this article as well. The greatest

\textsuperscript{33} The ‘Allama Inayat Ullah Khan al-Mashriqi, founder, Indo-
Pakistan Islam League.

\textsuperscript{34} Former Minister of Education, Central Government of Pakistan.
objection against the report was that, if the Constitution was framed on its recommendations, then the country and the nation would be split up into Provinces and provincial feelings would grow so strong that the solidarity of the country would be in danger. In fact, this charter of provincialism, which was wrongly named as the Basic Principles Committee Report, was the result of the master strokes of those political jugglers who wanted to split the nation into Provinces in order to create their own offices. The more the number of Provinces, the greater the number of legislatures and cabinets and the more plentiful the offices of political demi-gods, and the safer their political future. These political jugglers were power-drunk and deaf to any sincere advice. So they went on preparing the Constitution on the basis of that report. There were rifts and bickerings among them, and, in the language of the scholars of Urdu, they were serving gravy in their shoes, but the news of their inside bouts was always blanketed. However, there was a stink in the atmosphere and any sensible person could sense how one conceited highbrow was trying to down the other conceited highbrow by taking up the cudgels on behalf of the country and the nation. No doubt, there were some sincere elderly personalities besides these political jugglers, and they were conscious of their game. At last, on the historic day of 24th October, 1954, a brave administrator dissolved the previous Constituent Assembly of conspirators with the moral and active support of his sincere comrades, and the ominous conspiracy which was to materialize on 25th December, and which was to give a legal and constitutional status to the disruption of the nation, was prevented from disintegrating the country into warring camps.

"It is an occasion of great thankfulness to God Almighty that the forces of disruption have been defeated and the present Constituent Assembly is discussing the Bill for the unification of West Pakistan. It is hoped that the above Bill will shortly get through and become an Act. It would not be out of place to say in this respect that just as the men at the helm of affairs placed the future generations in perpetual hell by accepting the formula of Pakistan minus Kashmir, similarly, if the One Unit Bill could not create One Unit in the real sense of the term, then this Bill would not be able to achieve those constructive and ideological
results for the achievement of which this auspicious step is being taken. To create a diarchy in Karachi or to give a special status to some regions of Pakistan would point to the fact that, till now, we have not developed that brotherhood and cohesion which is enjoined in the Qur'án, 'The believers are but a single brotherhood'. The spirit of Islam demands that there should be a Unitary form of Government in an Islamic country and that there should be no place for regional autonomy. It is said thus in the Qur'án, 'And hold fast, all together, by the rope which God (stretches out for you), and be not divided among yourselves; remember with gratitude God's favour on you; for ye were enemies and He joined your hearts in love, so that by His Grace ye became brethren.' An almost identical meaning is expressed in verse 105 of the same chapter, 'Be not like those who are divided among themselves and fall into disputations after receiving clear signs'.

"But the geographic skeleton of Pakistan is such that one part is separated from the other by a distance of more than one thousand miles. Hence you can allow regional autonomy to each part up to an extent necessary on account of this geographic separation. To demand or to concede a greater regional autonomy than is a geographic necessity is equivalent to creating a rift in an Islamic country. One *lingua franca* for both parts of the country can be the best unifying force in order to tide over this geographic separation. If the sentimental attachment to Urdu or Bengali creates a rift, then do not bring the question of language to the surface at the present moment. Leave its decision to time. You are not facing any disadvantage without a decision on this question. National unity is more important than language, and it is the function of an Islamic Constitution to create this unity among the people of both the parts — the unity of a sort which is above kinship, wealth, commerce or dwellings, as said in the Qur'án, 'Say: If it be that your fathers, your sons, your brothers, your mates, or your kindred, the wealth that ye have gained, the commerce in which ye fear a decline, or the dwellings in which ye delight, are dearer to you than God, or His Apostle,\[35\] The Qur'án, 49 : 10.\[36\] *Ibid.,* 3 : 103.
or the striving in His cause, then wait until God brings about His decision: and God guides not the rebellious."  

"So, when God and His Apostle are dearer than all kinship, wealth, commerce and dwellings, then why create disruption in the nation by raising the bogies of language, culture, history and geography? Only allow that much regional autonomy which geography compels you to allow, and make your centre strong.

"The theory of a strong centre has been accepted in the Constitutions of the world very fervently for the last quarter of a century. This theory is the result of the economic depression, which was at its worst from 1929 to 1933 after the First World War. The question of a strong centre does not arise in countries like Britain, France, New Zealand or Japan, which have Unitary forms of Government, as there are no regional or provincial Governments in these countries. The whole country is ruled by one Government. Well-known countries of the Federal form of Government are: America, Australia, Canada, Germany, Russia, China and India.

"America, especially, used to be a country where regional autonomy was jealously guarded. But the economic depression of 1929-33 forced her to adopt throughout the country Central Laws, known as the New Deal legislation of the time of President Roosevelt, like Public Works Administration Act, 1933, Works Progress Administration Act, 1935, Federal Housing Administration Act, 1934, and the regional autonomy had to be kept at bay and not worked up to such an extent that the problem of economic depression, recession and unemployment, which can be solved under central planning only, be not solved at all. The Employment Act, 1946, of the Federal Government, under which the Government affords employment opportunities 'for those able, willing and seeking to work', is a link of the same theory that the centre should be strong in order to fight economic depression.

"Similarly, in Australia, a Social Services Scheme, passed in 1947, was endorsed to be implemented on a federal basis and provincial autonomy was ignored.

37 The Qur'an, 9:24.
"The Federal Constitution of Canada is such from the very beginning that provincial autonomy is non-effective as the Federal Government can veto a provincial legislation.

"The Central Government of Germany was quite despotic during the régime of Hitler and regional autonomy was almost non-existent. Hitler wanted to prepare the country for war, and, for this purpose, to raise the production to a maximum. When production increases in a country, it is up to that country to utilize the increased production either for preparation for war or for raising the standard of life of the people. Hitler chose the former alternative. But he could increase the production of the country only after he had made the centre the strongest.

"Prima facie, there is a Federal Government in Russia. But the ruling party there, the Communist Party, is so powerful that not only the regions but also the individuals are under the central command. Russia was an under-developed country. She has raised the standard of living of her masses to a sufficiently high level in the shortest period. There may be any philosophy of life in Russia but it cannot be gainsaid that she raised her production and therefore her standard of living only on account of the strong power of her Centre. The same remarks apply to China.

"Although India has a Federal type of Government, yet her Constitution empowers the President to finish with regional autonomy after declaring a state of emergency. It is to be seen whether the President of India attaches such importance to the problems of unemployment and economic depression that he interferes with the provincial autonomy in order to seek a solution to these. However, an amendment has been made in the Constitution of India that the Government can requisition any property without paying compensation, and during the currency of the First Five Year Plan, there has been so much concentration of economic power in the hands of the Central Government that it is now being called the Big Government.

"The inevitable result that we get after this brief survey is that, if you want to remove economic depression and unemployment, or if you want to develop an under-developed country, then make your Centre strong. Islam enunciated the following principles besides a strong Centre to remove
AND THE ECONOMICS OF ISLAM

economic depression: Prohibition of interest, prohibition of landlordism, enforcement of Zakat, public works, State guarantee of the basic necessities of life, like food, clothing, dwellings, health, education and open enterprise for all other trades without any control. These principles can be implemented only when the Centre is the strongest. The top economists of the world have accepted the same principles for economic prosperity after centuries of research and the Governments of the world have accepted the theory of a strong Centre for implementing these principles. It does not behove an Islamic State, which claims to have been established to verify and vindicate the principles of Islam, to play up the feelings of regional autonomy and thus be a target of mockery. Islam had come to obliterate hunger, nakedness, disease, ignorance and regional jealousies. The country which is infested with hunger, nakedness, disease, ignorance and regional jealousies cannot be said to have anything to do with Islam. There it cannot be Islam that reigns supreme but something else."

We think it appropriate to give below a summary of the resolution about the Constitution of Pakistan passed at a gathering of 20,000 people at a session of the Indo-Pakistan Islam League Convention held at Hyderabad (West Pakistan) on 11th to 13th February, 1956.

It was demanded in the resolution that clauses relating to the promotion of social and economic well-being of the people in the Draft Constitution (Article 29 of the passed Constitution) viz.: (a) Prevention of the concentration of wealth and the means of production and distribution in the hands of a few to the detriment of the interest of the common man, (b) provision of facilities of work and livelihood, (c) provision of social security, (d) provision of the basic necessities of life, such as food, clothing, housing, education and medical relief to all persons, permanently in case of infirmity and temporarily in case of sickness and unemployment, (e) reduction of disparity in the emoluments of persons in the various classes of services, (f) the elimination of interest from the body economic of Pakistan, be made enforceable and operative clauses of the Constitution, instead of their being only as Directive Principles. The abolition of landlordism and the enforcement of Zakat were
undemocratic clauses of the Constitution like detention under safety laws, parity of representation in the Central Legislature and the services of the country be removed from the Constitution and recruitment to services be carried out on the basis of efficiency in order to save the administration from deterioration.

It is regrettable that no heed was paid to this resolution in the Constitution of Pakistan, which was passed on 29th February, 1956, which got the assent of the Governor-General on 2nd March, 1956, and which was enforced on 23rd March, 1956.

This article is not complete in any sense. We have only tried to show in this article that an Islamic Constitution can be deduced from the sources of Islamic Law and we also demanded in this resolution. It was also urged that have tried to deduce some important principles. Our main emphasis has been on the social and economic rights of man.

At the end we give below for the convenience of our friends the Universal Declaration of Human Rights, as adopted by the General Assembly of the United Nations on 10th December, 1948.

UNIVERSAL DECLARATION OF HUMAN RIGHTS

Preamble

Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world,

Whereas disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind, and the advent of a world in which human beings shall enjoy freedom of speech and belief and freedom from fear and want has been proclaimed as the highest aspiration of the common people,

Whereas it is essential, if man is not to be compelled to have recourse, as a last resort, to rebellion against tyranny and oppression, that human rights should be protected by the rule of law,
Whereas it is essential to promote the development of friendly relations between nations,

Whereas the peoples of the United Nations have in the Charter reaffirmed their faith in fundamental human rights, in the dignity and worth of the human person and in the equal rights of men and women and have determined to promote social progress and better standards of life in larger freedom,

Whereas Member States have pledged themselves to achieve, in co-operation with the United Nations, the promotion of universal respect for and observance of human rights and fundamental freedoms,

Whereas a common understanding of these rights and freedoms is of the greatest importance for the full realization of this pledge.

Now, Therefore,

THE GENERAL ASSEMBLY

proclaims

THIS UNIVERSAL DECLARATION OF HUMAN RIGHTS as a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction.

Article 1. All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.

Article 2. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.
Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty.

Article 3. Everyone has the right to life, liberty and security of person.

Article 4. No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

Article 5. No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

Article 6. Everyone has the right to recognition everywhere as a person before the law.

Article 7. All are equal before the law and are entitled without any discrimination to equal protection of the law. All are entitled to equal protection against any discrimination in violation of this Declaration and against any incitement to such discrimination.

Article 8. Everyone has the right to an effective remedy by the competent national tribunals for acts violating the fundamental rights granted him by the constitution or by law.

Article 9. No one shall be subjected to arbitrary arrest, detention or exile.

Article 10. Everyone is entitled in full equality to a fair and public hearing by an independent and impartial tribunal, in the determination of his rights and obligations and of any criminal charge against him.

Article 11. (1) Everyone charged with a penal offence has the right to be presumed innocent until proved guilty according to law in a public trial at which he has had all the guarantees necessary for his defence.

(2) No one shall be held guilty of any penal offence on account of any act or omission which did not constitute a penal offence, under national or international law, at the time when it was committed. Nor shall a heavier penalty be imposed than the one that was applicable at the time the penal offence was committed.
Article 12. No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to the protection of the law against such interference or attacks.

Article 13. (1) Everyone has the right to freedom of movement and residence within the borders of each State.

(2) Everyone has the right to leave any country, including his own, and to return to his country.

Article 14. (1) Everyone has the right to seek and to enjoy in other countries asylum from persecution.

(2) This right may not be invoked in the case of prosecutions genuinely arising from non-political crimes or from acts contrary to the purposes and principles of the United Nations.

Article 15. (1) Everyone has the right to a nationality.

(2) No one shall be arbitrarily deprived of his nationality nor denied the right to change his nationality.

Article 16. (1) Men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution.

(2) Marriage shall be entered into only with the free and full consent of the intending spouses.

(3) The family is the natural and fundamental group unit of society and is entitled to protection by society and the State.

Article 17. (1) Everyone has the right to own property alone as well as in association with others.

(2) No one shall be arbitrarily deprived of his property.

Article 18. Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or belief in teaching, practice, worship and observance.

Article 19. Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.
Article 20. (1) Everyone has the right to freedom of peaceful assembly and association.

(2) No one may be compelled to belong to an association.

Article 21. (1) Everyone has the right to take part in the government of his country, directly or through freely chosen representatives.

(2) Everyone has the right of equal access to public service in his country.

(3) The will of the people shall be the basis of the authority of government; this will shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage and shall be held by secret vote or by equivalent free voting procedures.

Article 22. Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 23. (1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

(2) Everyone, without any discrimination, has the right to equal pay for equal work.

(3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

(4) Everyone has the right to form and to join trade unions for the protection of his interests.

Article 24. Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25. (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widow-
hood, old age or other lack of livelihood in circumstances beyond his control.

(2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Article 26. (1) Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.

(2) Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.

(3) Parents have a prior right to choose the kind of education that shall be given to their children.

Article 27. (1) Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.

(2) Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

Article 28. Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.

Article 29. (1) Everyone has duties to the community in which alone the free and full development of his personality is possible.

(2) In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.

(3) These rights and freedoms may in no case be exercised contrary to the purposes and principles of the United Nations.
**Article 30.** Nothing in this Declaration may be interpreted as implying for any State, group or person any right to engage in any activity or to perform any act aimed at the destruction of any of the rights and freedoms set forth herein.

On 7th October, 1958, Martial Law was enforced throughout Pakistan. The Constitution was abrogated and the Central Parliament and Provincial Legislative Assemblies were dissolved. On 28th October, 1958, the Presidential form of Government was proclaimed in place of the Parliamentary form.

A Commission would be set up to frame the new Constitution. The draft of the new Constitution would be presented to the nation for approval through a Referendum.

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**THE WORLD IS ADOPTING THE QUR'ANIC IDEA OF THE WHOLE MANKIND BEING ONE NATION**

On page 21 we have quoted some verses from the Qur'án about the whole of mankind being one nation. The statesmen of the present age are thinking in these terms. A One World Government Organization has come into being and its branches are working in all countries. Many countries are merging into one another. In February, 1958, Syria and Egypt merged themselves into one country which was named the United Arab Republic, with a Unitary form of Government. In March, 1958, the Yemen also joined it, thus laying the foundation of a Federal Union — the United Arab States.

In the next chapter we shall see that six European countries — France, West Germany, Italy, Belgium, the Netherlands and Luxemburg — are forming an economic union among themselves under a Common Market plan. This is a prelude to a political union. The statesmen are seeing in this union an outline of the United States of Europe, in which all the European countries will unite and adopt a Federal form of Government. In August, 1958, the American Congress voted Alaska as the 49th State of the U.S.A., which was accepted by the people of Alaska through a
referendum. In February, 1959, the American House of Representatives voted the Hawaii Islands as the 50th State of the U.S.A. Similarly, negotiations are under way to unite other territories, like the Islands of Puerto Rico and others with the Federal Union of the United States of America.

The British Empire has changed into a Commonwealth — a brotherhood of nations — which consists of Britain and her former colonies, like Australia, New Zealand, Canada, India, Pakistan, Ceylon, Malaya, Rhodesia, West Indies, etc. Thus, for the first time, Empire Day, falling on 24th May, 1959, was celebrated as Commonwealth Day. The Commonwealth countries have concessional rates of tariff among themselves under the Imperial Preference agreement; they function as a single area, called the Sterling Area, and use the Pound Sterling as a common unit of accounting while trading with the rest of the world: also the economically developed member countries, like Britain, Canada, Australia and New Zealand, give financial and technical aid to the under-developed members, like India, Pakistan, Ceylon, and to non-members as well, like the Philippines and Indonesia, under a plan known as the Colombo Plan.

In November, 1958, two countries of Africa, Ghana and Guinea, proclaimed a union of their countries. In January, 1959, four other countries of Africa — the State of Senegal, the Sudanese Republic, the Voltaic Republic and the Republic of Dahomey — agreed to form themselves into a Federal Union which was named the Federation of Mali. The statesmen are as well seeing in these Federal unions the outline of the United States of Africa, under which all countries of Africa will unite in a Federal form of Government. In February, 1959, the Prime Ministers of Britain, Greece and Turkey signed an agreement under which the partition of Cyprus was withheld. This agreement was signed after a four-year civil war between the Greek and Turk Cypriots. The Government of Pakistan warmly welcomed the agreement. The partition of a country engaged in a heinous civil war was stopped by virtue of this agreement. This agreement was indicative of the attitude of unity and homogeneity
in the present-day world, which is the ideal and the purpose of Islam as seen above.*

* Continued on page 231.

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CHAPTER II

COMMERCIAL POLICY FOR PAKISTAN

(This article was written in July, 1953, in response to a notification by the Pakistan Economic Association, and was read at the Pakistan Economic Association Conference held at Karachi University in December, 1953. It was published in two instalments in March and April, 1954 issues of The Voice of Islam, Karachi, and in a complete form in May, 1954 issue of Pakistan Economic Journal. Having been myself in trade and industry for a pretty long time, I was flabbergasted with the attitude of the politician and the bureaucrat towards these independent and respectable professions. Trade and industry were thought to be quick channels for making money, and politicians and bureaucrats would either themselves make a dip into them through their relatives and friends or would keep the trader and the industrialist under their thumb by their power of licence-issuing, with the result that the latter had either to act as their agents and stooges or go without their means of livelihood. The major reason for this state of affairs was that war-time controls and restrictions were still on when Pakistan came to be established, and the general impression among the public and the Government was that licensing was the only method for trade and industry. The plain lesson learnt during the war that controls and permits are a failure in a profit-motive economy and that they were only war-time expedients was lost on the Government. During the war time, it was found that the Government, if it should intervene in some parts of the economy, must intervene the whole hog and for that it should segregate the sectors in which it should intervene fully. These sectors may be armaments production for defence purposes or public works, public utilities and State trading of items of basic necessities, such as foodstuffs, clothing, building materials, medicines and books for civilian purposes. Only then the latter services and goods can be provided to consumers at reasonable prices. Half-measures like controlling the prices or controlling the factors that go to determine the prices like wages or rates of foreign exchange cannot do the trick. Simple controls create corruption and favouritism. This article was a layman’s attempt so far as knowledge of economic theory was concerned. While writing this article, I kept in view the elementary Islamic precepts of the responsibility of the State to provide the basic
necessities of life to the people, the freedom of trade in items other than those of the basic necessities and the prohibition of interest in the economy of the country. Later on, I found that the rulers of Pakistan were taking these precepts with a pinch of salt. I had dealt with the first precept in my article on an Islamic Constitution, and to substantiate the other two I had to write two further articles, viz., “Negative Rate of Interest in Islam and the Modern Theory of Full Employment,” and “The Law of Supply and Demand in Islam and its Working in the Present-Day Economic Structure”. But the article on the Negative Rate of Interest seemed to me to be incomplete unless it was supplemented by another article on the abolition of landlordism, as the conclusions from that article led to the thesis that Interest and Landlordism are alternative obstacles in an economy in so far as its development or the elimination of its cycles of depressions and booms are concerned. So I attempted the article on the abolition of landlordism as well some time after.

One Rupee = 1/6d.
One crore = ten million.

Pakistan began her career as an independent sovereign country in August, 1947, with the following assets and liabilities.

1. She was allotted £165 million as her share of Sterling balances. This much foreign exchange she got at the outset as a reserve. Converted into rupees at the then prevailing rate, it amounts to Rs. 220 crores. Pakistan was also given Rs. 75 crores as initial cash balances by India, and then she was to receive a second allocation of Rs. 55 crores. But out of the second allocation, India paid Rs. 50 crores only. So Pakistan received a total of Rs. 125 crores as cash balances from India. In terms of goods, Pakistan got a few military planes, some naval ships, and had to receive from India a huge quantity of defence stores as her share. But India did not hand over these defence stores, except a very negligible quantity. Then Pakistan received railways, irrigation systems, post and telegraph departments and Karachi Harbour, as going concerns, working in her territory.

2. On the liabilities side, Pakistan undertook to pay to India Rs. 400 crores as her share of Government of India Loans floated and subscribed before partition. India was to be responsible for the full payment of pre-partition Government of India Loans to the subscribers and Pakistan had to pay Rs. 400 crores to India as her share of this joint pre-partition liability. This sum of Rs. 400 crores was to be paid
to India in fifty equal yearly instalments of Rs. 8 crores each, payment to begin four years after partition. Pakistan was also made liable to the extent of 17½% for uncovered debts, such as pensions, etc. This liability was to be worked out in detail by a joint Indo-Pakistan Committee, known as the Application Committee. Pakistan also assumed responsibility for the payment of Post Office Savings Certificates and Post Office Savings Accounts on a territorial basis, and so did India in her territory. Settlement of claims between East Pakistan and West Bengal was left to be worked out in due course.

3. Leaving aside the military stores which India did not hand over, we find that the assets and liabilities of Pakistan balance each other (if we give a reasonable value to the railways, irrigation systems, post and telegraph systems and Karachi Harbour, which Pakistan inherited), with this difference, that, while the assets of Pakistan were either cash in the shape of Sterling balances and cash balances, or profit-bearing investments in the shape of railways, irrigation systems, and post and telegraph systems, the major portion of her liabilities, Rs. 400 crores, was to be paid to India in 54 years. According to all canons of justice, the value of the military stores withheld by India is to be deducted from this sum of Rs. 400 crores. Although this point of deduction of the value of military stores has not yet been decided, this point is bound to arise in future negotiations between Pakistan and India.

4. So Pakistan had to stand up from her bootstraps, thank God, with no debit balance, no debt to her own nationals, and with a commercial advantage that a major portion of her assets, Rs. 220 crores (£165 million), was in the shape of Sterling currency. Another point for gratification was the rapidity with which the vacuum in the commerce at Karachi port was filled up. Sufficient stocks of merchandise were lying in the shops or pledged with the Banks and, when the merchant class refugees from India came to Karachi, they bought the businesses of evacuees along with shops and stocks at fabulous prices. There was dislocation and vacuum, no doubt, in the interior of the country right up to Peshawar, and up-country merchants, new in their trades,
used to come to Karachi personally to buy their stuff and then carried it with them. They made good profits, even in the small quantities of wares that they used to carry with them so as to defray their railway fares, travelling expenses and then to have a decent net margin. Who were their customers for cigarettes, matchboxes, Beeris, soaps, oils, spices? Refugees from India, crossing the border at Lahore and scattering right up to Peshawar. In about three months’ time the pent-up demand subsided, the upstart up-country merchants, who had in the meantime accumulated some stocks at their respective places, lost almost all they had made previously by quick profits, and this hysteric trade settled down to normal business. The reason for depression in this hysteric trade was that the refugees entering West Pakistan had in the meantime finished the sale proceeds of their ornaments which they might have saved from the clutches of their persecutors on the other side of the border. These ornaments they could easily sell in West Pakistan at the buyer’s price and buyers found a ready market at Karachi, from where the gold and silver, got after melting these ornaments, was flown to Bombay, and this formed a basis of exchange for Beeris, cigarettes, matchboxes and other consumer goods available in Bombay.

5. In the course of these three months, Government departments at Karachi got their bearings and began to deal out Import Licences. There was no settled basis on which Import Licences could be granted, and whoever had the influence, or clamoured the loudest as the champion for the cause of the party in power, could get the licence, the ticket to prosperity.

On the export side, the cotton crop had been gathered and was ready for sale. Previous merchants having left the country, nobody was coming forward to buy cotton from the tillers of the soil in the interior of the country. The agents of newly set up exporters, and the agents of the allottees of ginning factories, were offering one-third of the price ruling last season (unginned cotton at an average was sold at Rs. 25/- per maund in 1946 and at Rs. 8/- per maund in 1947). The tillers had to sell, and the allottees of ginning factories and the newly set up cotton exporters made fortunes. And who were the allottees of ginning factories,
and who were the licence-fed cotton exporters? “Influential” men and monopolists of patriotism in their own terms of thinking.

6. The export trade of hides, skins and wool did not suffer a dislocation as the people handling this trade were all Muslims. There was a little overcrowding, as some people handling this trade on the Indian side had come over to Pakistan, but soon they squeezed themselves in and got fixed up.

7. The export trade of sports goods from Sialkot did suffer a setback, as the majority of the people handling the export of these items were Hindus. This trade is still an orphan, with the result that the workmen and mechanics in the trade, who are all Muslims, are jobless and waiting for somebody to make use of their skill. Recently some of them had gone to India on temporary permits to work under their old Hindu employers.

8. In East Pakistan there was not much difficulty as the people in whose hands the trade was had not migrated. The trade there went on normally with the difference that an agreement was made with India for the sale of jute to India for her own consumption and for export through Calcutta by Indian exporters, for whom the jute merchants in East Pakistan acted as buying agents. The Commerce Minister of Pakistan who made this agreement was immediately transferred to a diplomatic post, and the agreement made by him was acted upon to the letter.

9. Pakistan had a favourable Balance of Trade in 1947-48. The value of exports was more than double that of the imports, and there were initial Sterling Balances with Pakistan as well. So, after June, 1948, almost the whole import trade from the Sterling Currency Area was made open. For an average trader this marked an era of prosperity. Goods imported into Pakistan were in excess of her needs and there were shortages in India. The forces of supply and demand could not be resisted, in spite of the border police and border army, and imported goods began to move to India, both from West Pakistan and East Pakistan, with
profits to the traders, profits to the middlemen and profits to the Government of Pakistan, because the Government had already collected the Customs duty on these goods at the port of arrival. Similarly, imported goods moved to Afghanistan in spite of the border barriers, and Pakistan traders, Pakistan middlemen and the Pakistan Government profited. Things moved on happily until September, 1949. I can give one instance, of cycles. The average annual consumption of cycles in the whole of Pakistan (East and West) is estimated at 70,000 pieces. During 1948-49, the import of cycles was to the extent of more than 200,000 pieces, and cycles were still selling at a profit of 25 to 30%. Where did the extra double quantity of the annual average consumption of cycles go? It went where it could sell at a profit. The law of supply and demand was vindicated, and it found its own ways to deal with the border difficulties. Similar was the case with all other imported goods.

10. In September, 1949, Pakistan refused to devalue her currency. It was a momentous decision. It showed the sovereignty of Pakistan. It was a great political advantage. Pakistan was at once in the limelight in the world press. The countries who, until September, 1949, thought that Pakistan was a part of India (as letters received from other countries used to be addressed as “So and So, Karachi, Pakistan, India”) were disillusioned and they stood corrected on account of this independent step taken by Pakistan. They were stirred into belief that Pakistan was a sovereign independent country.

11. Non-devaluation proved to be an economic advantage some time after the non-devaluation decision. But this advantage could not be conceived at the time of taking the decision, because the advantage accrued from stock-piling schemes of the Western countries, consequent upon the Korean War, and these schemes were nowhere in the air when the decision of non-devaluation was taken. Immediate effects of non-devaluation were that prices of cotton and jute began to drop. A short time afterwards, cotton prices stabilized and cotton began to move out. But jute prices crashed, because the main buyer of a particular low-grade jute was India, and India, purely on sentimental grounds,
was opposing the non-devaluation decision of Pakistan. Pakistan’s balance of trade with India was always a surplus one, and the Pakistan rupee should always have been more in demand in India than the Indian rupee in Pakistan, and hence the Pakistan rupee, on economic grounds, should have been dearer in the Indian money market. But should it have been as much dearer as Pakistan fixed it, viz., Rs. 100/-/- Pakistani equal to Rs. 144/-/- Indian? This was a question depending again on economic forces. The result of the opposition on the part of India to the non-devaluation decision of Pakistan was that the commercial relations between Pakistan and India broke. India refused to lift Pakistan’s jute, and the prices of jute began to fall. In order to check the falling prices of jute, the Government fixed the prices of jute at a level 28% below the prices obtaining previous to non-devaluation under a Price Support Scheme, although Pakistan currency was 44% dearer, according to the new Exchange Rate, as compared with Indian and Sterling Currencies.

12. A strange fact out of tune with the decision of non-devaluation was that, with the fall of prices of exportable commodities like cotton and jute, the prices of imported goods did not fall at that time. Because along with the non-devaluation decision, consumer goods were at once placed under import licences, and whatever reduction there should have been in the prices of imported consumer goods was devoured by the import licence holders, and import licences were again a ticket to prosperity and a right of the chosen and influential few. Pakistan had plenty of Sterling balances, and these temporary difficulties of change-over, consequent upon the non-devaluation decision, did not cow her down. The State Bank of Pakistan, acting as a banker to the Central Government, had the assets of the Central Government in its hands, and these assets were in the form of Sterling balances and Indian rupee balances. The State Bank of Pakistan had used these balances as a cover against the Government of Pakistan Currency Notes in circulation in Pakistan. With the non-devaluation decision the value of these balances fell in terms of Pakistan rupees, and in the Budget speech in March, 1950, the then Finance Minister had to provide, out of that year’s Budget,
Rs. 54 crores under Capital Outlay on currency to enable the State Bank to make good the loss on account of short-fall in currency reserves and other reserves. While making this provision, the Finance Minister remarked that there had been no real reduction in these services, expressed either in terms of Sterling and Indian rupee or in terms of purchasing power in Sterling and other depreciated currencies. True, but Rs. 54 crores had been blocked on account of the non-devaluation decision, and, but for this decision and consequential blocking up of Rs. 54 crores, the average Pakistani could dream to have a little better school for his child, or a little better hospital for his or his family’s illness, or a little better road for plying his commerce and trade or for his pleasure trip, or a healthy little colony for his residential quarters. It can be said that Rs. 54 crores is a Capital Outlay. What is the charm in providing non-productive Capital Outlay to the tune of Rs. 54 crores to a nation whose nationals need the immediate basic necessities without which their very existence in the world is meaningless to them? If it had been an irrigation scheme or a house-building project it could be called Capital Outlay in the real sense.

13. Things drifted on till June, 1950, cotton and jute bearing the brunt of non-devaluation and import licence holders devouring the difference in the value of old and new exchange rates over and above their profits. After about three months came the Korean War boom. Prices of cotton shot up. To keep the prices down, the Government increased the Export Duty on cotton from Rs. 60/- to Rs. 180/- per bale of 4 maunds on 23rd October, 1950, and to Rs. 300/- per bale on 24th November, 1950. The cotton crop had already moved out of the hands of the farmers and any increase in the price of cotton would have benefited the ginners, merchants and exporters only. This increase in the export duty of cotton was a wise decision of the Government to reap indirectly the profit which otherwise would have accrued to the cotton trade. The Government made Rs. 25 crores by export duty on cotton. But the merchants had their share of profits, too, as the export duty did not totally wipe out the rise in prices. Prices of jute had also risen and the Jute Board, financing the jute price Support Scheme, made a profit of Rs. 1 crore. Foreign exchange earnings of Pakistan increased tremendously as a result of
bigger value of exports during 1950-51 to Rs. 205 crores from Rs. 88 crores in 1949-50. Imports during the year 1950-51, including private and Government accounts, were of the value of Rs. 146 crores as from May, 1950, cotton textiles costing Rs. 1/8/- per yard, C.I.F. Pakistan ports had been brought under open trade (O.G.L.¹). Even this step did not help to bring down the prices of cotton textiles, because by the time the cotton cloth under O.G.L. reached Pakistan markets in July, 1950, the Korean War had begun to affect prices in the manufacturing countries also. In October, 1950, Japan, the biggest supplier of cotton textiles, was buying cotton from Pakistan after paying Export Duty at the rate of Rs. 180/- per bale, and in November, 1950, at the rate of Rs. 300/- per bale (because the Pakistan exporter was adding this much duty to the rate while offering cotton to foreign buyers).

The primary producer in Pakistan had parted with his cotton at the time when the prices of cotton had not risen, but he was buying cloth at a higher rate at the time when the prices of cotton had risen. The only consolation was that the difference in the price of cotton at the time when he had sold it and at the time when he was buying the cloth was not wholly pocketed by the cotton exporter but by the Government in the shape of Export Duty. We, therefore, see that it was the average consumer in Pakistan who was paying the Export Duty on cotton in the shape of higher prices for his cloth. The advantage of the time lag between the time when the importer in Pakistan placed his indent for cloth and when he received his goods was being reaped by the importer, as the price of cotton was gradually and continually moving upward from the time the cotton cloth costing Rs. 1/8/- per yard C.I.F. was put under O.G.L. In 1947, the cotton grower had parted with his cotton at ridiculously low prices and the advantage went to the merchant and exporter. In 1950, he also parted with his cotton at a low price (in the sense that he was paying disproportionately more for his cloth a few months later), and the advantage went to the Government.

14. In 1951-52, commercial policies of Pakistan were more or less the same as in 1950-51, except that imports were

¹ Open General Licence.
more in value than the exports which amounted to Rs. 200 crores. The cotton grower received the full benefit of higher prices in 1951. As imports were liberal, prices of imported goods began to fall from the month of July, 1951. After the cotton growers had very nearly sold their cotton up to early winter of 1951, the news of the Korean peace began to trickle in. Prices of cotton and jute began to fall. Cotton exporters and merchants were trapped in this time as they had already bought cotton at higher prices from the growers. Jute prices also fell but there was the Jute Board to buy at fixed prices and the loss, if any, was to be borne by the Jute Board. With the fall in the prices of cotton, the prices of cotton cloth also began to fall. A dispassionate observer could sense that cotton merchants, ginners and exporters, who had fleeced the primary producers in 1947, and cloth importers who had been fleecing the consumers since September, 1949 (when the Government took the non-devaluation decision), would settle their accounts then and would feel a little lighter by losing in a sportsman-like spirit a fraction of what they had accumulated by their business acumen and business traits. An important point to be noted in Pakistan is that the consumers of cloth are practically those people who produce cotton and jute, because Pakistan's population being 85% agricultural, agriculturists form the rank and file of consumers. We therefore see that agriculturists (the common men of Pakistan) were fleeced in 1947 when their cotton was bought at one-third the economic price and the same common men were fleeced when they were buying dearer cloth in spite of the non-devaluation of the Pakistan rupee. But when their turn came to settle the scores, the Government stepped in. The Customs Duty on cotton textiles was raised from 30 to 60%, by one stroke of the pen. There were sufficient stocks lying in the country, there was little likelihood of any further cloth being imported in the near future on account of the prevailing crash and existing stocks, and hence there was no immediate benefit to the Exchequer from this enhanced duty, but it was enhanced to pull the chestnuts out of the fire for traders at the cost of the common man. Similarly, to save the cotton traders, the Cotton Board was established early in 1952. The Board's function was to buy different varieties of cotton at different fixed prices in as much quantity as was offered to it. Recently, the accounts of the
Cotton Board have been compiled, and there is found a loss of Rs. 5 crores, with one lakh bales of cotton still remaining to be lifted by the buyers. The Jute Board was already functioning. It is estimated to lose Rs. 9 crores. So in the Budget Estimates of 1953-54 a sum of Rs. 14 crores was written off by the Finance Minister as a dead loss.

15. Seeing the dwindling reserves of Foreign Exchange, the Government stopped the import of cotton textiles in August, 1952, and some time after stopped all imports. The result was that prices of consumer goods began to rise. To stop this, the Government has evolved a Price Control Scheme for some essential items. Cotton cloth is still not included in these items. There was another reason also for stopping the imports. The Government had by then found out that Pakistan was precariously short of wheat and they might need Foreign Exchange for importing the same. An appeal was sent to many countries. Canada and Australia have supplied some wheat under the Colombo Plan. America has agreed to supply one million tons (worth Rs. 24 crores) as a grant, but the sale proceeds of this wheat can be spent only with the approval of America. It has also been stipulated that wheat may be supplied free of cost to those persons in Pakistan who cannot afford to pay for it. The value of exports in 1952-53 has fallen to Rs. 150 crores.

16. This is a brief tinkering with the previous commercial policies of Pakistan. These policies have failed. Pakistan was favourably placed from a business point of view on her emergence. After nearly six years’ working, she is in a tight corner. As seen earlier in para. 9, Pakistan’s prosperous period from the commercial angle was from June, 1948, to September, 1949, when Sterling Area trade was all open, when the imported goods even passed to India and Afghanistan, i.e., when the law of supply and demand worked, though in a restricted form. But even in its restricted form, it overcame the border barriers. The year 1950 and the first half of 1951 were also prosperous, but this period is outside the pale of our study as this prosperity is linked up with the Korean War.
17. Now, in evolving a commercial policy for Pakistan, we have to keep in view that Pakistan is an Islamic country. We have to eliminate interest from her body-economic. We have to deal out Islamic social justice to her masses, and we have to let the law of supply and demand have a free play in her economic structure. Pakistan may become self-sufficient in cotton cloth in another two years' time. She may become self-sufficient in food even earlier. She may begin to convert all her jute into jute manufactures. She may become self-sufficient in finished leather. But still she will have to export surplus cotton, surplus tea, jute manufactures instead of jute, hides and skins left surplus after feeding the tanning industry, wool which has a special use in the foreign carpet industry only. She will also have to import iron and steel, coal, building materials, railway materials, irrigation machinery, aircraft, steamships, harbour equipment, industrial machinery, drugs and medicines, paper (till such time as paper factories in Pakistan can meet the full demand of the country), books, scientific apparatus, chemicals, petrol, motor cars, buses, motor cycles, cycles, and a host of other articles. Pakistan, as she stands, cannot afford to be completely self-sufficient. There is another very important consideration. Customs duties and Sales Tax have contributed 67% towards the total revenue receipts of the Central Budget in 1950-51, and 1951-52, and about 60% in 1952-53. In 1953-54, they are expected to contribute 40% to the central revenue receipts. This gradual fall has been due to the gradual recession in the export and import trade of Pakistan. So foreign trade has to be kept up for the sake of its major contribution to the Central Exchequer as well, till such time as other sources of revenue are tapped. In this connection I may mention how the vested interests are torpedoing the Estate Duty Bill. Estate Duty was proposed at the same time when the Sales Tax was appropriated by the Central Government. The Sales Tax, which is ultimately borne by the common man, is being collected with full vigour, while Estate Duty, which was to be borne by the vested interests, is in cold storage. The Estate Duty Act in its truncated form came into force on 3rd July, 1953, because assets invested in industrial undertakings have been exempted from Estate Duty. Afterwards
agricultural property in West Pakistan was also exempted from Estate Duty.

18. The Prime Minister, Mr. Muhammad ‘Ali, addressing a joint meeting of the Pakistan Society and East India Association in London on 9th June, 1953, remarked: “We are determined to put our economy on a stabler footing and make it independent, so far as is possible, of the forces which we cannot control. Political freedom without economic independence is, to my mind, meaningless.” I beg to differ here. Pakistan can by all means put her economy on a stabler footing, but she cannot make it independent of the forces she cannot control. She is deficient in iron and steel, petrol and coal, and she has still to produce every kind of machinery and equipment, drugs and chemicals, and so many other things. She has cotton, jute, hides, skins and wool, left surplus for export after feeding her factories. Her destiny lies in her commerce with the outside world, and, to pursue commerce, she cannot sit isolated, high and dry. She has to grapple with outside forces, find her place in world trade and keep on adjusting with the changing commercial tones and trends. Then her commercial community, by correspondence with the outside world and by their personal contacts, help discover Pakistan to the other nations. They act as little ambassadors of their country and carry the message of Pakistan and her Islamic ideology to the nations they trade with. Business men from other countries visit Pakistan and help her earn foreign exchange. (As a matter of fact other countries try their hardest to attract foreign visitors in order to earn foreign exchange, and Pakistan should also make a move in this direction. The hotel charges in Pakistan are simply out of all proportion, and should be brought in line with hotel charges in other countries for the sake of attracting foreign visitors and making them repeat their visits. Similarly, the beauty spots of Pakistan should be developed and well advertised.) A politically free nation has still to be commercially, and therefore economically, dependent on other nations, unless it is commercially self-sufficient like the Americans, as they have in their country practically everything — wheat, cotton, iron and steel, petrol, hides and skins and wool. But they still have to buy rubber, jute, mica, chrome, dry fruit, as they
have none of these; and hides, skins and wool as they have not sufficient of these. They also float oil and petrol companies in the Middle East to fulfil their additional needs for oil and to trade in oil.

19. We therefore see how indispensable it is for Pakistan to be a commercial nation — commerce in the sense of imports and exports; imports of those items which are not found in the country and which are vitally necessary for her existence, as iron, steel, coal and petroleum products; and exports of those items which remain surplus after fulfilling the needs of the country, as cotton or cotton manufactures, jute or jute manufactures, tea, hides and skins or leather manufactures, wool or woollen carpets, and imports and exports both for collecting her revenues in the shape of Customs duties till such time as more permanent sources of revenue are tapped after breaking the resistance of the vested interests.

20. Now you cannot have imports unless you make exports: only an exporting Pakistan can be an importing Pakistan. It is an unrelenting law of economics that the imports and exports of a country tend to equalize in the long run. Hence the whole secret of a successful commercial policy for Pakistan lies in her ability to export. The whole engine of energies of the Commerce Department should be directed in full steam towards more and more exports, and all hurdles in the way of exports should be removed. What are the hurdles in the way of exports?

(a) Pakistani exporters have a reputation in the overseas markets of not supplying the goods according to the sample or the specification and quality contracted to be supplied. Active Government cooperation is required in implementing the gradation and standardization schemes for her exports.

(b) Export duties are hampering the export trade. Before the last war, the German Government used to pay subsidies to the extent of 25% on all exports. In Britain, even now, there is no Purchase Tax (their Purchase Tax corresponds to our Sales Tax) on exported goods, while the same goods, when
they are sold inside the country, are subject to a Purchase Tax of 30% on an average on consumer goods and 200% on luxury goods. So British exports get an indirect subsidy of 30 to 200%. With Pakistan, the position is different. Pakistan's export and import duties combined form the mainstay of the Public Exchequer. The schedule of import duties is drawn up keeping in view the industrial requirements of the country. Similarly, the schedule of export duties is drawn up keeping in view the relative importance of each exportable commodity of Pakistan in world markets. Except for the year 1950-51, import duties have contributed more to the Exchequer than the export duties. A relatively less increase in the overall schedule of import duties will compensate a greater decrease in the overall schedule of export duties. We take a concrete example. In 1952-53, export duties amounted to Rs. 21 crores nearly and import duties amounted to Rs. 42 crores nearly. It means export duties were one half of the import duties. If all export duties are decreased, say by 40%, we shall need to increase import duties by 20% to make up the deficiency in the total. It would not hamper the industrial development of the country. Import duty on capital goods has been abolished since April, 1952, and I have taken the above figures of import and export duties for the year from April, 1952, to March, 1953. This period has been a normal trade period after the impact of the Korean War was over. Imports, including the imports on Government account during this period, have been almost equal to the exports, and this equality in imports and exports is a goal which an economically sound country aims at. This is another reason for taking this year as a basis.

(c) The imports and exports of a country equalize only if the currency of that country is left free to find its own value in the international money market. Pakistan has put an arbitrary value on her currency, which is fairly high, as compared with its intrinsic exchange value in respect of other currencies. This
inflated value of her currency is hampering her exports. Why not let the Pakistan rupee find its own value as determined by the operation of the law of supply and demand in her foreign trade and in her balance of payments? But then you will have to make export and import trade open. There is no harm in making exports open. You have export duties, and naturally a foreign buyer who buys cotton or jute buys at a higher rate than a cotton yarn or jute twine manufacturer in Pakistan. On the import side there are necessities and there are luxuries. Increase the Customs duty on luxuries still more. In Britain luxuries are subject to a Purchase Tax of 200%. Even now the Import Licences issued by the Government for luxuries are being sold at a premium of at least 50%. The consumer of luxuries still buys the luxuries. Why should not the Government pocket this 50% in the shape of an increase of Customs duty on luxuries to this extent? About necessities, for a country like Pakistan, food, cheap cloth, medicines, writing and printing paper and ordinary building materials are necessities. There is State trading in staple foods and sugar already. With more attention paid to agriculture, Pakistan can be self-sufficient in food next year. Even then food business should remain a State affair. Pakistan will be self-sufficient in cheap cloth in two years according to Government estimates. The cheap cloth business should also be taken over immediately by the Government. Similarly, the medicines business, the writing and printing paper business and the ordinary building materials business should be run by the State. All these trades should remain a State monopoly for all time to come. Private trade in these bare necessities has been given an ample chance, and every time it has traded on the misery of the common man. Price controls do not work. They did not work in the last war. You cannot fight economic forces with the threat of a civil servant or the strength of a strong Minister. Then the welfare of the common man is the primary
worry of an Islamic State. State trading in these items may contribute something to the State Exchequer, and, in times of emergency, the State may even subsidise these commodities when it finds these commodities soaring out of the hands of the common man. The British Government were giving a subsidy to every kind of foodstuff under the last Labour régime. As a matter of fact the Ministry of Food in Britain were importing all foodstuffs and delivering it to the wholesalers at even half the cost price. Similarly, the State Governments of India have taken over the business of publishing text-books for schools. Public housing has been a feature of British and American economies, particularly since the Great Depression of 1929-33. The rest of the imported items should be left entirely free to be bought from the world markets where they are available cheapest as compared with quality. Every country wanting to sell to Pakistan will have to buy from Pakistan, and the exports of Pakistan will be stepped up. One important question remains to be solved. How would the Government of Pakistan get foreign exchange for its development plans for many years to come and for State trading for two or three years? (As Pakistan is supposed to be self-sufficient in food in one year, in cheap cloth in two years, in paper in two years, to a great extent in cement in two to three years, the only things she will have to import for a longer time under State trading are steel for building purposes and medicines.) There can be two methods. Either the Pakistan Government through the State Bank should reserve a certain percentage of foreign exchange earned by foreign exchange banks through exports or the Pakistan Government should collect import duty on imports in terms of foreign exchange. In my view, the second alternative is the better. The ratio of Government imports to the private imports has been 10% in 1947-48, 7% in 1948-49, 6.5% in 1949-50, 11.6% in 1950-51, and 8% in 1951-52. The average Customs duty on
imports in Pakistan is 35%, as borne out by the speech of the Commerce Minister during the general debate on the Budget for 1953-54. Let us say that the import necessities of the Government will increase by State trading in the bare necessities and the Government will also hasten up its development programme. So we give the full Customs duty to the Government in the shape of foreign exchange. Suppose in one year Pakistan’s exports are worth Rs. 100/-. According to the foreign trade law of equilibrium her imports will also be of the value of Rs. 100/-. But an importer, while placing an order with foreign suppliers, will think that he will have to pay 35% (I am taking an average case) as Customs duty to the Government of Pakistan in the shape of foreign exchange. So he will book an extra 35% foreign exchange with his banker at the time of placing the order or will keep it in view that he will have to arrange for this 35% extra when his goods arrive. Naturally, private imports will be restricted to the extent of 35% and the private importer will place an order for Rs. 74/-, so that, after adding 35% on Rs. 74/-, he gets the figure of Rs. 100/-, up to which the exchange was available with him when he placed his order. Rs. 74/- worth of foreign exchange he pays to the foreign supplier, Rs. 26/- worth of foreign exchange he gives to the State Bank of Pakistan as Customs duty. The State Bank can also keep to itself all the foreign exchange got by the Pakistan Government as loans from other Governments. All foreign exchange earned through exports will be handled by private banks. They will have their daily rates for foreign currencies determined by the equilibrium law of economic forces. The profit they will make out of this foreign exchange business will compensate them for the loss which they will suffer by the elimination of interest in commercial dealings in an Islamic State. It will also prompt them to finance exporters without interest, as when the exporter negotiates his bill through the bank, the bank gets foreign exchange, which he will sell
to the importer at a profit. Before the last war, the Japanese yen had a fluctuating rate of exchange. In India, when merchants retired Japanese bills of exchange, they paid different rates for yen on different days, and still Japanese goods were in serious competition with British goods. Sterling had a fixed rate of exchange, but the consideration was extra-commercial. The Sterling Area countries are now aiming at making Sterling freely convertible. The Pakistan Finance Minister, while presenting the 1952-53 Budget, remarked that the Commonwealth Finance Ministers’ Conference, held some time before, had agreed that a lasting solution of the Sterling Area’s problems could only be found when the world-wide trade of the Sterling Area is on a substantially higher level, when Sterling is freely convertible in all the currencies of the world and its position need no longer be supported by restricting imports. The same remarks apply to the Pakistan rupee.

Collecting Customs duty in the shape of foreign exchange by the State Bank will be better than keeping a percentage in the exchange earned by exports, because, if Customs duty is not collected in terms of foreign exchange, and is collected in terms of Pakistan rupees, it will be difficult for Customs appraisers to convert foreign currency every day into Pakistan rupees at the daily fluctuating rate. So they can just verify if the goods imported are the same as mentioned in the invoice and give the importer a voucher to pay so much foreign currency into the State Bank or Customs Treasury, which can act as an agent to the State Bank for this purpose only. It will also not make the daily revenue of the Government fluctuate with the change in the exchange rate. The State Bank can go on collecting foreign exchange, making it available to the Government for the purposes of its development plans and State trading, and, when at the end of the year, it finds any amount of foreign exchange surplus, it can sell it on the open market. This collection of Customs duty in terms of foreign exchange is better than reserving a share in the foreign exchange earned through exports in this respect, also, that it will be a sort
of check on imports. As against an export of Rs. 100/- worth of foreign exchange and Pakistan private import trade having Rs. 74/- worth of foreign exchange at its disposal, it will import all sorts of consumer goods and the consumer goods will arrange their priority themselves by the law of supply and demand and time and place utility. The need for issuing import licences will be obviated. Spoon-fed merchants will yield place to merchants with drive and initiative. Chances of corruption and nepotism will vanish. The import licence system has also created provincialism in the country. Interested parties create the bogey of provincial quotas to serve their own ends. With the abolition of this system, the idea of Pakistan with a strong Central Government, reflecting the spirit of her raison d'être above provincial and selfish considerations, will take root. It will also attract foreign capital, because any time a foreign merchant feels it worthwhile to export to Pakistan any goods, he will supply them on credit, or the foreign bank through which he sends his documents will provide him the foreign exchange through its office in the foreign country and will wait to transfer this much foreign exchange to its office in the foreign country till the rate of exchange is favourable for it to do so. Consumer goods imported in this way can also be exported to India, Afghanistan, Persia, or any country by private trade, if it is profitable to do so, as the Pakistan Government has already collected Customs duty and Sales Tax (Revenue) on these goods and has collected Customs duty in the shape of foreign exchange. I am not referring to "transit" goods for Afghanistan, because Customs duty on transit goods is refundable. I would prefer to have Customs duty on transit goods collected in terms of foreign currency as well, because, any time an Afghan merchant feels that it is profitable to sell his imported goods in Pakistan, he will be at liberty to sell, only Customs duty will not be refunded to him and that Customs duty the Pakistan Government has already collected in foreign currency.

If there is a tendency towards high prices in luxury goods, consumers' co-operative stores should be encouraged to develop to meet this tendency. The question of high prices of bare necessities does not arise, as necessities will be already under State trading as mentioned above. Before partition, Karachi Port used to cater for Afghanistan and
Iran in addition to India’s own needs. There is no reason why it should not cater now for Afghanistan, Iran, India, in addition to Pakistan’s own needs. More commerce, more prosperity. Karachi has a natural advantage to cater for other countries as a port. Why not make use of it? Similarly, Chittagong can cater for India and Burma. No trade barriers except for the bare necessities of Pakistan, and bare necessities are a State affair in an Islamic country. The ‘Allama Ghulam Ahmad Parwez, in some of his treatises in Urdu, has beautifully and convincingly advocated the “Nizami-Rabubiyyat” — the system of cherishing and sustaining mankind — as the cornerstone of an Islamic State. America has justified it by stipulating the free distribution of wheat to those people in Pakistan who cannot afford to pay for it. Bare necessities, like food, clothing, health, education and housing, must not be left to the vagaries of private trade and profit motive. They must be State affairs, and the essential and major commodities connected with these bare necessities, as staple food, cheap clothing, medicines, writing and printing paper and ordinary building materials, must be brought under State trading. Leave the other consumer goods free to react to the economic forces till such time as any other commodity assumes such an importance that it deserves to be taken care of by the State and earns its right for inclusion in the items reserved for State trading. This provision of State trading in bare necessities must be made in the Constitution of Pakistan to safeguard against the weather-cockery of the political parties.

21. Some changes will have to be made in the currency policy of Pakistan, if the Pakistan rupee is to be left to find its own value in the international money market. First, we have to provide against violent fluctuations in the exchange rate. That can be done by creating a Pakistan Exchange Equalization Account on the lines of the British Exchange Equalization Account existing in Britain. Similar accounts exist in France and America. Whenever the rate of foreign exchange seems to move up, these Exchange Equalization Accounts enter the money market and bring the rate down to reasonable limits. Pakistan is a member of the International Monetary Fund and one of the functions of the International Monetary Fund is to help stabilize the currency
rates of member countries. Pakistan can approach this Fund for a reserve of foreign exchange to help create this Account. Pakistan rupees will lie credited in the Equalization Accounts of other member countries in lieu of their currencies having been credited in the Exchange Equalization Account of Pakistan. This would be mutual. When the Pakistan rupee fluctuates violently in their countries, they can use their Exchange Equalization Accounts, and vice versa Pakistan can use her Exchange Equalization Account against violent foreign exchange fluctuations in her market. But this phenomenon is very rare. The economic forces will themselves keep the foreign exchange rates within limits because, as the demand for a particular foreign currency rises in Pakistan, its value will rise and ultimately it will be uneconomic to buy it. Exchange Equalization Accounts are a remedy in emergent cases. The Government of Pakistan will have to use maximum fiduciary system for her internal currency, if it wants to eliminate interest from her currency system. This obviates the necessity of selling or purchasing interest-bearing securities for the purpose of stabilizing prices. Under this system, the State Bank will have authority to issue currency up to a certain limit. When prices are falling, the Government can start some nation-building activities and put more money in the market. When prices are rising, the Government will tax those classes of people who can most easily bear the burden, and thus withdraw money from the market. This will solve the unemployment problem, too, to a great extent. Lastly, the currency and allied financial policies should be outside the ambit of politics. The financial and currency controllers should enjoy the privilege of the High Court Judges, and politicians should not be allowed to meddle with their policies for the sake of party or self-glorification. A high-power planning board contemplated recently by the Pakistan Government is a step in the right direction. Let us hope for the best from this Board.

ADDENDUM

As the above article was written six years ago, it would be proper if it is read with the following additions in the paragraphs mentioned below.
Paragraph 10. After six years of unnecessary botheration, Pakistan devalued her currency on 31st July, 1955, from Sh. 2/2 per rupee to the pre-September, 1949 figure of Sh. 1/6 per rupee. In the meantime, her export potentiality has suffered so much that in open non-official markets her rupee is selling at a discount of 30%, as compared with her present devalued rate of Sh. 1/6 even. Perhaps the remedy is a floating rate of exchange, as will be seen in the article, “The Law of Supply and Demand in Islam and its Working in the Present-Day Economic Structure”.

Paragraph 15. Pakistan’s exports during 1953-54 were of the value of Rs. 128 crores, and there was a favourable balance of trade of Rs. 13 crores on account of strict import licencing. In 1954-55, the value of exports was Rs. 122 crores and a favourable balance of Rs. 9 crores on account of the same reason. In 1955-56, the value of exports was Rs. 170 crores, and in 1956-57, it was Rs. 162 crores. In 1957-58, the value of exports was Rs. 151 crores. In future years it is expected that the value of exports would go up to Rs. 200 crores per year. The increase in the value of exports is due to accounting at the devalued rate of exchange, while the volume of exports has risen due to the devaluation of the Pakistan rupee. Until the middle of 1954, agricultural products, like cotton, jute, wool, tea, hides and skins, have been forming 97% of the value of exports from Pakistan, cotton contributing 50% and jute 40%. Textile imports in Pakistan in her early period were of the order of Rs. 55 crores per year. But, by the middle of 1954, the home production of coarse cotton cloth per year was 45 crore yards (about 5½ yards per head, or one half of the average consumption), and she was marching towards self-sufficiency in this item. At the end of 1956, she had almost achieved the target of 2,000,000 spindles and 28,000 looms (double the figure of what they were in September, 1954, while, at the time of the establishment of Pakistan in 1947, the figures were: spindles 173,000, and looms 4,824). By the middle of 1954, she was consuming one half of her cotton production of 1,600,000 bales and was, therefore, losing one half of the foreign exchange earnings from cotton. A grow-more-cotton drive was launched to step up the production of cotton to 2,500,000 bales, but the target could not be achieved, owing to floods in both wings in 1955 and 1956, which not only
hampered cotton and jute production but made the country deficient in foodstuffs. Wheat and rice had again to be imported from overseas, mostly under American Aid. The production of jute is about 6,000,000 bales per year, and about 1,000,000 bales are consumed by jute mills set up till June, 1955, in the Eastern Wing. The number of jute looms is 6,000. Jute goods production is 121,000 tons. Home consumption is 46,000 tons. Export of jute manufactures is therefore 75,000 tons, valued at Rs. 100 million. Agricultural products, therefore, formed 90% of the value of exports in 1955-56, and industrial products formed 10%.

Paragraph 16. A Customs union with India, Afghanistan and Iran for the Western Wing and with India and Burma for the Eastern Wing is a desirable objective in the present age of internationalism, which, incidentally, is the ideal of Islam as well, as seen in the last article on an Islamic Constitution, because Islam wants to see all mankind knit as a single nation. The Benelux (Belgium, Netherlands and Luxemburg) is a Customs union among three nations. An economic union between Belgium and Luxemburg (the Belgo-Luxemburg Economic Union) was operating since 1922. There were no Customs barriers between the two countries, the Union's Customs receipts were divided between them in proportion to their population. The third country, the Netherlands, agreed to join during World War II, when all the three Governments were in exile. The formal agreement was entered into in 1948, and the three Governments agreed to abolish Customs duties on trade among themselves and to adopt a common tariff so far as trading with other countries was concerned. They have also a proposal to unify their excise taxes.

A recent experiment in Customs union is going to be tried under the "Common Market Plan" for Europe. The countries included in the plan at present are France, West Germany, Italy and the Benelux Union countries of Belgium, the Netherlands and Luxemburg. The plan was signed by the representatives of the participating countries in the first week of April, 1957, at a session held in Rome. It came into effect on 1st January, 1959.

The Plan calls for:

(1) Creating a common market of 160,000,000 people.
(2) The gradual elimination of tariffs among the six nations over a period of 15 years. On 1st January, 1959, they cut tariffs among themselves by 10%.

(3) Permitting free movement of labour.

(4) Permitting free movement of capital.

(5) Equalizing corporation income taxes and working conditions of the labour. France, which has the most expensive social security system, demands that other nations should also bring their social welfare systems to her level.

Britain has proposed another European Plan called the "Free Trade Area". It would comprise the above six Common Market nations, the three Scandinavian nations of Sweden, Denmark and Norway, and Britain, Austria and Switzerland. Other nations, like Greece, Portugal, Iceland, Ireland and Finland, which are members of the OEEC (Organization for European Economic Co-operation), will be free to join the Area. The Free Trade Area

(1) will be a market consisting of 260,000,000 people — a market bigger than either the United States of America or the Union of Soviet Socialist Republics of Russia;

(2) will allow manufactured goods to move free of Customs duties among the member countries;

(3) will have no common tariffs against outsiders, so as to allow Britain to give "Imperial Preference" to Commonwealth countries, which export 90% of their agricultural products to Britain and which import 50% of her manufactures (Time Weekly, 28th January, 1957, and 8th April, 1957).*

Paragraph 18. Regional Tourist Advisory Committees for Karachi, Dacca, Lahore and Peshawar were formed by the Government in early 1956. How far they have succeeded in attracting tourists is still an official secret. An article in the daily Dawn, Karachi, of 15th April, 1956, gave the figures that over 1,200,000 American tourists were to go abroad during 1956, and were expected to spend $2,000,000,000. The same article revealed that India receives 40,000 foreign tourists every year, of whom 17,000 are from the United States.

* Continued on page 231.
Paragraph 20 (a). A wool grading scheme was introduced by the Government in the second quarter of 1954, under the Agricultural Produce (Grading and Marketing) Act of 1937. Similar schemes in other export commodities can help re-establish the credit of Pakistani exporters in overseas markets. A good suggestion for export promotion is export credit insurance, which has been very ably put by Mr. Viqar Ahmad in his article, "Need for Export Credit Insurance", published in the daily Dawn, Karachi. He wants the exporter to be insured by the Government against the risks of war, civil disturbances, currency fluctuations, insolvency of the buyer, default or delay in payment due to changes in import licensing policy of the buying country or cancellation of an import licence. Britain was the first country to formulate an Export Credit Guarantee Scheme under the Export Credit Guarantee Department, established soon after the First World War. The scheme covers 85% of the loss incurred through failure of payment by the buyer. Invisible exports, such as consultants’ or other professional fees, royalties and film earnings, are also insured by the ECGD. A similar scheme is under way in India, and, to safeguard the credit of India in overseas markets, the Indian plan provides for payment of compensation to the overseas buyer for default in quality or quantity on the part of the Indian exporter. The scheme also envisages overseas market surveys and sharing with the exporter of the expenses of advertising and sample distributing in the overseas markets. In West Germany a State-run scheme, called HERMES, protects exporters against any default by their overseas customers. On 16th December, 1958, the Government of Pakistan set up an Advisory Committee to examine the question of introducing an export credit guarantee scheme.*

Paragraph 20 (b). Export duty on long staple cotton was fixed at Rs. 90/- per bale and on Desi cotton at Rs. 60/- per bale, in September, 1953. On 23rd August, 1955, duty on long staple cotton was raised to Rs. 135/- per bale and on Desi cotton it remained unchanged at Rs. 60/- per bale. On the same date, duty on long staple jute was raised to Rs. 4/- per bale from the existing Rs. 3/- per bale, and on jute cutting it remained unchanged at Re. 1/- per bale. On 23rd August, 1956, export duty on long staple cotton was reduced to Rs. 115/- from Rs. 135/- per bale, and on Desi cotton

* Continued on page 232.
was raised to Rs. 80/- from Rs. 60/- per bale. On the same
date duty on jute cuttings was raised to Rs. 10/- per bale.
The reason was that export of jute had been made open to
all areas and the prices of jute rose immediately. The
Government also wanted to share in this increase of prices
by raising the export duty. Previously, the export of jute
was open to the Dollar Area only, and for other areas it
was under licence. On 1st November, 1958, export duty on
old crop Desi and Comilla cotton was fixed at Rs. 50/-
per bale. On 24th July, 1959, export duty on these varieties
was reduced to Rs. 40/- per bale and that on long staple
varieties was reduced to Rs. 75/- from Rs. 115/- per bale.*

Paragraph 20 (c). Some more material on the equi-
lrium rate of exchange has been presented in the article
“Law of Supply and Demand in Islam and its Working
in the Present-Day Economic Structure”.

Material on the desirability of a Customs union among
Pakistan, India, Afghanistan, Iran and Burma has been given
in this addendum under paragraph 16 above.

Import licences are now selling at a premium of 200%
at an average, and there have been more but moderate
instances of these being used as a means of political bribery.

A White Paper on Foreign Aid was issued on 19th
December, 1956, giving the following details of the aid
received by Pakistan till the end of June, 1956.

<table>
<thead>
<tr>
<th>Source</th>
<th>West Pakistan</th>
<th>East Pakistan</th>
<th>Common Purpose</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.C.A. (U.S.A.) ..........</td>
<td>136.15</td>
<td>105.19</td>
<td>222.74</td>
<td>464.08</td>
</tr>
<tr>
<td>Australia</td>
<td>18.57</td>
<td>.27</td>
<td>11.22</td>
<td>30.06</td>
</tr>
<tr>
<td>Canada</td>
<td>31.08</td>
<td>7.83</td>
<td>16.12</td>
<td>55.03</td>
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<tr>
<td>New Zealand</td>
<td>3.92</td>
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<td>.25</td>
<td>4.17</td>
</tr>
<tr>
<td>U.K. (Loan)</td>
<td>—</td>
<td>—</td>
<td>29.68</td>
<td>29.68</td>
</tr>
<tr>
<td>Ford Foundation</td>
<td>2.05</td>
<td>.46</td>
<td>4.72</td>
<td>7.23</td>
</tr>
<tr>
<td>World Bank (Loans)</td>
<td>45.85</td>
<td>4.20</td>
<td>27.20</td>
<td>77.25</td>
</tr>
<tr>
<td>Other Countries</td>
<td>.25</td>
<td>—</td>
<td>.03</td>
<td>.28</td>
</tr>
<tr>
<td>U.N. and its Special-</td>
<td>—</td>
<td>—</td>
<td>7.78</td>
<td>7.78</td>
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<tr>
<td>ized Agencies</td>
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<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>237.87</strong></td>
<td><strong>117.95</strong></td>
<td><strong>319.74</strong></td>
<td><strong>675.56</strong></td>
</tr>
</tbody>
</table>

* Continued on page 232.
Out of the total amount of $675.56 million Foreign Aid, approximately one-sixth has been used for emergency relief which did not directly help development. But in the absence of this aid the country’s own foreign exchange resources would have had to be used for the import of food grains and, correspondingly, there would have been reduction in the investment on development. By and large, Foreign Aid has been used on direct development purposes in most sectors of the economy of the country, including the social sphere.

The rate of development expenditure from internal and external resources has been progressively stepped up. Production has generally kept pace with increased developmental activity. The actual receipt of Foreign Aid and loans, excluding relief assistance, has contributed about 20% of the developmental outlay over the years 1951 to 1956. The value of further Foreign Aid that Pakistan received till 31st March, 1958, amounted to $201 million, or Rs. 96 crores. Its details are: U.S.A., $152.9 million; Canada, $29.3 million; Ford Foundation, $4.7 million; New Zealand, $.87 million; Australia, $12.23 million; U.N. and its Specialized Agencies, $1 million. The major portion of this Aid (about Rs. 80 crores) was again utilized for the import of food grains. Besides the above Aid the World Bank had sanctioned two more loans totalling $35.2 million till 31st March, 1958. The World Bank sanctioned another loan of $14 million in April, 1958.

During April, 1958, to June, 1959, Pakistan received further Foreign Aid to the tune of $415.91 million, comprising: U.S.A., $391.69 million; Canada, $17.95 million; United Kingdom, $2.96 million; Ford Foundation, $2.38 million; Sweden, $.41 million; U.N. and its Specialized Agencies, $.52 million. Out of this aid a sum of about Rs. 30 crores ($60 million) was again spent on the import of food grains.

Paragraph 21. More material on interest-less currency system, unemployment and depression is given in the article, “Negative Rate of Interest in Islam and the Modern Theory of Full Employment”.

The population of Pakistan is about 80,000,000. Her annual National Income is estimated at Rs. 20 billion, so
that \textit{per capita} income is about Rs. 250/- or $50 \textit{per year}. The Central Revenue Budget of Pakistan for 1957-58, is Rs. 1,390 million, while Provincial Revenue Budgets for West Pakistan and East Pakistan are Rs. 630 million and Rs. 382 million for the same year. Her Capital Budget for 1957-58, is Rs. 1,605 million, including Rs. 300 million to be got by deficit financing and Rs. 421 million from Foreign Aid. In 1956-57, deficit financing was of the order of Rs. 150 million. It was later found out that in 1957-58, deficit financing was of the order of Rs. 67.93 million. In 1958-59, deficit financing was to the tune of Rs. 325 million. In the Budget of 1959-60, this practice was stopped because the then Finance Minister was a believer in the classical economic theory instead of the Keynesian.

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CHAPTER III

NEGATIVE RATE OF INTEREST IN ISLAM AND THE MODERN THEORY OF FULL EMPLOYMENT

(This article was written in July, 1954, and was published in two instalments in September and October, 1954 issues of The Voice of Islam, Karachi. A summary of the article given at the end was read at the annual Conference of the Pakistan Economic Association, held at Peshawar University in January, 1955. An Urdu translation of the article was published in The Karachi University Magazine for the year 1957. The article was later published in two instalments in June and July, 1961 issues of The Islamic Review, Woking, England.)

1. "Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: ‘Trade is like usury’, but God hath permitted trade and forbidden usury. Those who, after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (the offence) are companions of the Fire: they will abide therein (for ever). God will deprive usury of all blessings, but will give increase for deeds of charity; for He loveth not creatures ungrateful and wicked."¹

2. "O ye who believe, fear God, and give up what remains of your demand for usury, if you are indeed believers. If ye do it not, take notice of war from God and His apostle: but if ye turn back, ye shall have your capital sums: deal not unjustly, and ye shall not be dealt with unjustly. If the debtor is in a

difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew.”

3. The above is a translation of verses 275, 276, 278, 279 and 280 of the Sura al-Baqra of the Qur’án. These are clear injunctions against usury or interest. About two years ago there was an editorial in a leading English daily of Karachi on some house building finance corporation, and there it was asserted that a 6% rate of interest is un-Islamic, while a 3% rate of interest is Islamic.

4. The verdict of the highest authority in Islam, i.e., the Qur’án, is as has been quoted above, and this is a clear injunction against interest in unambiguous angular terms. No amount of legal chicanery or journalistic expediency can alter the above injunction. It cannot be argued that Islam forbids usury at an excessive rate of interest and not at a reasonable rate of interest as such. The words of the Qur’án are clear:

“But if ye turn back, ye shall have your capital sums: deal not unjustly and ye shall not be dealt with unjustly. If the debtor is in a difficulty, grant him time till it is easy for him to repay (the capital sum). But if ye remit it by way of charity, that is best for you if ye only knew.”

Here it is enjoined that if you turn back from charging usury you shall have your capital sums (and not capital sums plus interest at a reasonable rate) and it is further recommended to remit the capital sum even, if the debtor is in a difficulty. Hence the question of charging a reasonable rate of interest does not arise at all.

5. Now when Islam says one thing and the indoctrinator of Islam forces just the opposite down the throat of the people of the Islamic Republic of Pakistan, the credulous unsophisticated Pakistani is confused. The average Pakistani had burnt his boats and surrendered his thinking also to the

2 The Qur’án, 2: 278-280.
indoctrinator. But when the indoctrinator goes so far as to pervert the plain and simple truths of Islam, the average Pakistani cannot swallow this sermon. The result is frustration and loss of the values for which Pakistan was created and which claimed such a tremendous amount of sacrifice from the mass of the nation; and when a nation is made to lose its ideal and its values the result is too horrible to conceive.

6. There have been many non-monetary theories and justifications for interest. It has been considered to be: (i) the reward for abstinence or of waiting; (ii) the result of the productivity of capital; or (iii) the fruit of nature's generosity to a moneyed man.

7. As regards interest being the reward for abstinence or of waiting, it is evident that one man's saving is another man's consumption if the former lends it to the latter. Why should the latter borrow it? Either he is unemployed, underemployed or a spendthrift. The problem at once changes from an economic problem to a social problem. Society has to provide him with employment or social security (if he is old or infirm) or to cure him of his extravagant habits by banning interest so that the former may lose the temptation to lend to the latter.

8. As regards interest being the result of the productivity of capital, which means that capital has the power of producing more value than could be produced without it, the objection is raised: Why pay interest when a borrower suffers loss in his business? When once you veer round to this viewpoint the whole philosophy of the Islamic system of investment (Muzarabah), which allows financing an enterprise on a profit and loss-sharing basis, stands vindicated. The idea of Muzarabah, or equity investment, is taken from the Qur'an, where it is used in the sense of "seeking (for trade or work)."

9. As regards interest being the fruit of nature's generosity to a moneyed man, it is true that, during the life period of

3 The Qur'an, 2: 273.
a man, interest seems very attractive to him. Sometimes even a borrower who has to pay interest through the nose does not revolt against the interest system, hoping that one day his stars may change and he may become a lender and also share this fruit of nature's generosity. But, if we take a long-range view beyond the life period of an average man, we find that there has been a continuous rise of prices in each century except the nineteenth century, which was a century of the Industrial Revolution, of the steam engine, of machine spindles, of automatic looms, of internal combustion devices and of electrical inventions and discoveries. The result was mass production and low prices. Setting aside this century on account of this digressive movement, there has been a steady rise of prices in each century. When prices rise the value of money falls, the creditors lose in the capital value calculated in terms of goods and services, and the debtors are at an advantage because they have to pay interest and capital in terms of money the value of which has fallen. Geoffrey Crowther remarks:

"The average of prices in almost every century has been higher than in the preceding century. The chief exception to this generalization is probably the nineteenth century, and if (as we have suggested) a gradual and imperceptible fall in the value of money is necessary to enable the world to slip out of its self-imposed chains of usury, we can add that the nineteenth century was able to avoid this form of communal default only because it was a century of quite unprecedented growth in wealth and population. If the 'real' burden of past indebtedness did not fall in the nineteenth century, the real ability to bear it undoubtedly increased."  

This also shows that the advantages of inventions and discoveries of science accruing to mankind through mass production, low prices and greater comfort, are nullified a great deal by the after-effects of interest. He states further:

"The world has found a gently rising price level necessary to keep the steadily mounting money debt from becoming a burden."

4 Geoffrey Crowther, An Outline of Money, p. 98.
5 Ibid., p. 178.
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So we find that when nature is generous to a man and the man takes an undue advantage of this generosity by lending his money on interest, nature rectifies his avarice by decreasing the capital value of his money in the shape of rising prices. This may not be felt in his lifetime, but the process goes on subtly "to enable the world to slip out of its self-imposed chains of usury".

10. There are two monetary theories of interest, viz.:

(i) Loanable Funds Theory; and,
(ii) Liquidity Preference Theory.


"Everyone is aware that the accumulation of wealth is held in check, and the rate of interest so far sustained, by the preference which the great mass of humanity have for present over deferred gratification, or, in other words, by their unwillingness to wait."

He thinks that because the people do not save, there is no capital formation, and not enough funds are available for loan-for-investment purposes, hence the progress of the world is retarded for lack of investment, and whatever funds are available for loan-for-investment purposes, they are too meagre and hence the rate of interest is high. In the great depression of 1929-33, a device to increase the loanable funds was used by manipulating the Central Bank rate of interest, both in England and in America. The rate of interest was deliberately lowered by the Central Banks of both the countries so that the business men might feel tempted to borrow money and invest it in business. In other words, the loanable funds were increased or the credit was expanded in both the countries. But this increase in the supply of loanable funds failed to tempt the business men to borrow at a low rate of interest, invest, and thus help tide over the

depression. This inertia of the business men gave Keynes food for thought and helped him propound the Liquidity Preference Theory of interest.

12. He said that during a depression period the expectations of the business men are very gloomy. It is a period of falling prices. The expected rate of profit (which he called the Marginal Efficiency of Capital, and which he defined as a ratio between the prospective yield of a capital asset and the cost of producing that asset) is very low in this period. Then the investment of capital is always linked with some sort of risk. Hence the Marginal Efficiency of Capital or the expected rate of profit should always be higher than the prevailing rate of interest in order to tempt the business man to invest his own capital or to borrow capital from others for investment purposes. Supposing the prevailing rate of interest is 3% per annum, the expected rate of profit or the Marginal Efficiency of Capital must be more than 3% per annum in order to tempt the business man to invest, because there is always a risk attached with investment. Suppose the business man is tempted to invest if the expected rate of profit or the Marginal Efficiency of Capital is 5% per annum. We see that 2% per annum (difference between 5% and 3%) is the value that the business man attaches to the risk in order to tempt him to invest. Suppose in the depression period the Marginal Efficiency of Capital or the expected rate of profit falls to 3% per annum: 2% per annum is the value of risk as seen above. The rate of interest must fall to 1% (difference between the Marginal Efficiency of Capital, 3%, and the value of risk, 2%) in order to tempt the business man to invest his capital — his own or borrowed. Now suppose the expected rate of profit or the Marginal Efficiency of Capital falls to 1%. The value of risk is 2% as formerly and hence the rate of interest must fall to minus 1% per annum (difference between the Marginal Efficiency of Capital, 1%, and the value of risk, 2%) in order to tempt the business man to invest his capital. But there cannot be a minus rate of interest. Why should a man lend and pay interest instead of receiving interest? So he would prefer to keep his money liquid cash with him. This is liquidity preference, and the theory based on liquidity preference of the individual is the Liquidity Preference Theory of interest.
13. During a depression period there is another reason why an individual should keep his cash liquid with him. The prices are falling in the depression period. One Rupee (approx. Sh. 1/6d.) buying four seers (approx. 8 lb.) of wheat today will buy five seers (approx. 10 lb.) of wheat a year later. So the profit to the individual if he keeps his money liquid with him is 25% (for the sake of example), which is much more than any thinkable rate of profit during a depression period. Hence the individual would not invest for this reason also, because his liquid money is increasing in value lying in his vaults. Keynes, therefore, recommended Gesell's proposal for a stamped money which would depreciate over a period of time, in order to force the people to invest instead of hoarding or keeping liquid their money.

14. More than thirteen hundred years ago Islam had levied a Zakat of 2½% on cash holdings, gold, silver, jewellery and commercial merchandise to force the people to invest in capital goods, as there was no Zakat on the tools of an artisan, on the plough of a farmer or on the houses meant for residential or letting purposes. There was no capital machinery in those days; hence only the tools of an artisan were exempted. Today all heavy machinery, shares in industrial concerns and agricultural implements can be exempted from Zakat by Ijihad of the religious authorities, but the preference shares (both cumulative and non-cumulative) of industrial concerns may be banned, as preference shares carry a guaranteed rate of profit which amounts to interest. Industrialization, agricultural mechanization and house-building activities will be stepped up, if Zakat is enforced in full force.

15. Keynes also argued that the people would begin to buy agricultural land and begin to live on its rent, if the expected rate of profit or the Marginal Efficiency of Capital falls to a low level. Islam prevented this by the nationalization of land and by the abolition of any intermediary between the tiller and the State. It is gratifying that Pakistan has recognized the principle of the abolition of landlordism in East Pakistan and has implemented this principle there. It is not understandable why its implementation is being delayed in West Pakistan.
16. The collection of Zakat, if it is not to defeat its purpose, should be on a Governmental basis. It is a tax on wealth, that is not invested in industry or house-building or the mechanization of agriculture. Interest is considered a temptation for investment, if the rate of interest is lowered, as argued by the classical economists, but Zakat is a penalty (a negative rate of interest) if the wealth is not invested. Zakat is again levied on the earnings of investment or the rent of houses if the same are not re-invested. Zakat is a tax, but Zakat collections can be spent on social security measures only.

17. We have covered enough ground to quote a passage from the above-referred book, *The General Theory of Employment, Interest and Money*, by Lord Keynes, the greatest economist of this century. He writes:

"That the world, after several millenia of steady individual saving, is so poor as it is in accumulated capital assets, is to be explained in my opinion, neither by the improvident propensities of mankind, nor even by the destruction of war, but by the high liquidity premiums formerly attaching to the ownership of land and now attaching to money."

We have seen how Islam penalizes this liquidity preference of gold, silver, jewellery, cash and commercial goods by imposing Zakat, and how the liquidity premium of land is prevented by the abolition of landlordism, because the tiller of the land is directly responsible to the State for the payment of the revenue amounting to one-tenth of the annual produce or its equivalent, and there is no scope for a moneyed man to buy land and live on its rent. A modern French economist, Pierre Masse, in an article, "Risk and the Rate of Interest," remarks, after proving by mathematical equations: "To sum up, it is legitimate to say that private ownership of land stands in the way of a very low perpetual rate of interest, used in its ordinary sense. By and large, it acts similarly on the other rates of interest, without, however, making it absolutely impossible for these to dwindle to nothing."

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18. The problem arises how would banks function if interest were to be eliminated from the economic structure of a country. First, let us see how the banks run their business. What is the *modus operandi* of a banker? What is his hat trick? The banker, after centuries of experience, has realized that all the people who come to deposit their money with him do not withdraw it at one and the same time, and in England, if he keeps about 8% of the total money deposited with him in the form of liquid cash, he can safely meet the demand of the withdrawing depositors. The balance, 92%, of the deposits he invests in Government Securities or lends to his customers at a handsome rate of interest and lives luxuriously and aristocratically. He has imposing buildings in the busy streets of London and branches all over the country. This 8% he calls Reserve Ratio, i.e., if the ratio of his cash reserve to the total deposits is 8% and 92% has been advanced to the borrowers for the purpose of earning interest, he is quite safe because he knows by his experience that his depositors need about 8% for their immediate needs, and if at any time there is demand for more money he has some near liquid assets, like Bills of Exchange, Treasury Bills and Government Securities, which he can easily change into liquid cash by discounting them, and thus can meet the increased demand. He is, therefore, a creator of money to the extent of 92% of the total money deposited by the public with him. In America this reserve ratio is fixed by law and varies from 6 to 20%. In Pakistan, also, it is fixed by law and varies from 2 to 5%. Some economists have objected to this money-creating power of the banks and have advocated nationalization of commercial banks, because, when the Governments create money, they create it for the public benefit, but, when the commercial banks create money, they create it for their own profit. After all, the banks lend to business men who either trade with or invest this borrowed money. If the depositor knows that he will have to pay 2½% *Zakat* on his idle money in the bank, he will not deposit his money in the bank, but will himself invest the money in an industrial undertaking or a commercial enterprise. If he buys the shares of an industrial undertaking, he may be exempted from *Zakat* because the
purpose of *Zakat* is to direct the money to investment, as seen (in para. 14) above. If he buys the shares of a commercial enterprise, he will be liable to *Zakat*. The choice will be his.

19. This power of the banks to create money or to expand credit, as it is called, has given rise to many vices. Lured by the income of interest in a period of slightly rising prices, they go on lending to business men, not for investment purposes but for trading purposes. The result is hoarding and a greater rise in prices. When they feel that the prices have risen appreciably or that they have lent too much, they demand their money back from the business men, who hurry to sell their stocks. The result is a crash in the prices of commercial goods. The demand for commercial goods slackens. The manufacturers curtail their output. The result is unemployment, less purchasing power and greater fall in prices. The manufacturers stop purchasing new machinery. The machinery manufacturers curtail their output as well; there ensues unemployment in machinery manufacturing concerns also. The crisis deepens and there is all-round pessimism. Business men are unable to pay back their borrowings to the banks. Banks go into liquidation and there is full-scale depression. Some such spectre was facing the world in 1929, which continued till 1933, and this state of affairs gave Keynes enough material for his Liquidity Preference Theory of Interest as seen (in para. 12) above. This alternation of boom and depression in the capitalistic economy is called a business cycle, and it cannot be eliminated as long as the power of money creation or credit expansion is in the hands of private institutions, like commercial banks. Sometimes the depression is so deep and the expectations of the business men so gloomy that humanity has to fight a global war, like World War II, to brighten up the expectations of the business men.

"Indeed, it is not too much to say that a boom is a period when bad investments are made, and a crisis is the period when they are found out. It has been argued with some force that the creation of bank credit makes it easier to make bad investments, for it
prolongs the period during which a bad investment can proceed undiscovered.""

20. This power of money creation is sometimes abused by the banks. They have their pet customers, who enjoy unlimited borrowing facilities. These pets create monopolies in commodity markets, commodity exchanges, stock and share markets, and hinder the price structure from adjusting itself to the economic forces. These pets also form themselves into pressure groups in politics and pollute the political life of a country.

21. The above were some of the reasons that the power of money creation or credit expansion should have been taken out of the hands of commercial banks. But the commercial banks, as a class of their own, were a very powerful pressure group in the political life of each country, and the economists who advocated nationalization of commercial banks were just ignored. Then came the Second World War. The Governments of the belligerent countries themselves needed money to finance the war. They created the money by having currency notes printed to the value of astronomical figures by the Central Banks against interest-bearing Government Securities as cover for this war-created money. The following table compiled by M. H. DeKock gives figures (in millions) of notes in circulation in different countries at the end of 1929, 1938, 1943 and 1944:

<table>
<thead>
<tr>
<th>Country</th>
<th>End of 1929</th>
<th>End of 1938</th>
<th>End of 1943</th>
<th>End of 1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>2,729</td>
<td>4,892</td>
<td>19,430</td>
<td>24,150</td>
</tr>
<tr>
<td>U.K.</td>
<td>394</td>
<td>533</td>
<td>1,120</td>
<td>1,239</td>
</tr>
<tr>
<td>Germany</td>
<td>5,479</td>
<td>8,111</td>
<td>33,683</td>
<td>53,000</td>
</tr>
<tr>
<td>France</td>
<td>67,769</td>
<td>108,532</td>
<td>500,386</td>
<td>572,510</td>
</tr>
<tr>
<td>Canada</td>
<td>187</td>
<td>270</td>
<td>916</td>
<td>1,069</td>
</tr>
<tr>
<td>Australia</td>
<td>42</td>
<td>49</td>
<td>164</td>
<td>204</td>
</tr>
<tr>
<td>South Africa</td>
<td>9</td>
<td>19</td>
<td>51</td>
<td>60</td>
</tr>
<tr>
<td>Sweden</td>
<td>569</td>
<td>1,061</td>
<td>2,100</td>
<td>2,492</td>
</tr>
<tr>
<td>Switzerland</td>
<td>999</td>
<td>1,751</td>
<td>3,048</td>
<td>3,548</td>
</tr>
<tr>
<td>Argentina</td>
<td>1,247</td>
<td>1,118</td>
<td>1,886</td>
<td>2,354</td>
</tr>
<tr>
<td>Chile</td>
<td>352</td>
<td>795</td>
<td>2,268</td>
<td>2,598&quot;&quot;10</td>
</tr>
</tbody>
</table>

10 M. H. DeKock, Central Banking, 2nd edition, 1952, p. 44.
22. In the above table we find that the increase of notes in circulation from the end of 1929 to the end of 1938 has been about 90% for all countries except the United Kingdom, Canada, Australia and Argentina. In the United Kingdom it has been about 35%. The first half of this period (1929-33) was the period of great depression. During the depression period, in addition to this increase in note circulation, Central Bank rates were also lowered in the United Kingdom and the United States of America to make the credit cheaper, but as seen (in para. 11) above the business men were not coming forward to take advantage of the cheap money policy on account of their liquidity preference being high in the depression period. War seemed to be the only remedy to pull the business men out of their depression complex. The period from the end of 1938 to the end of 1944 is roughly the war period. At the end of 1944, the amount of notes in circulation in the U.S.A. was 900% of the amount at the end of 1929; in the U.K. it was 300%; in Germany, 960%; in France, 850%; in Canada, 570%; in Australia, 500%; in South Africa, 670%; in Sweden, 440%; in Switzerland, 360%; in Argentina, 190%; and in Chile, 740%. The increase in note circulation in neutral countries was due to the favourable balances of trade with the belligerent countries. In the belligerent countries a great portion of war expenditure was also financed by War Loans. These loans attracted tremendous amounts of notes in circulation to the Government treasuries. Had it not been for these loans, the notes in circulation in belligerent countries at the end of the war would have been much more than the amounts shown in the table. The Public Debt in England in 1946 stood at £24,500,000,000, and in America at $258,000,000,000.

23. With so much money in circulation the usual method of controlling the money supply — the manipulation of the Central Bank Rate — has become ineffective. DeKock remarks in *Central Banking*:

"The final factor in the decline of discount-rate policy has been the existence, since about 1933, of liquid monetary conditions in almost every country and under practically all kinds of circumstances. The causes
hereof can be briefly recapitulated as follows: firstly, the increase in the volume of money resulting from the revaluation of gold reserves in almost all countries more or less in accordance with the depreciation of their currencies relative to the former gold parities, or from the higher prices (in terms of such depreciated currencies) paid for newly-mined gold the output of which has, in addition, been considerably increased in consequence of such higher prices. Secondly, in the case of countries like the United States of America, Sweden, Switzerland, Portugal, India, Argentina and the Union of South Africa, net favourable balances of payments over the period under review taken as a whole; and thirdly, the direct or indirect creation of central bank credit for Government and other purposes as a matter of public policy before the war and as one of the means of financing the war. In the United States, in particular, all these causes operated together almost throughout the period in question, while, in Germany, it was only the last cause which prevailed as a fundamental factor virtually all the time. In Great Britain, all of them operated at one time or another, but it was only the last cause which exerted a more or less continuous influence on money market conditions."

At another place he writes:

"The prevalence of managed currency and the maintenance of cheap money as a matter of public policy caused many to agree with Keynes that the discount rate could now be regarded as an out-of-date instrument of control."

24. The boom phase of the liquidity preference theory of Keynes, given (in para. 12) above, was proved in 1945-47 in the United Kingdom, while the depression phase had already proved itself in the great depression of 1929-33, as seen in the same para. The prevailing Bank of England rate was 3% in 1945. The British Treasury authorities lowered it to 2½% in a "juggling" attempt. But it was the time that

11 M. H. DeKock, op. cit., p. 188.
12 Ibid., p. 190.
the Second World War had just finished. There were shortages of every kind, which afforded an excellent opportunity for investment. In Keynesian language, Marginal Efficiency of Capital (expected rate of profit) was high. Business men were prepared to invest their own capital and also were ready to borrow at high rates of interest in consonance with the high Marginal Efficiency. Business men were also holding Government Securities. If the Bank of England had raised its discount rate, the people would not have discounted their securities for fear of loss, and might have gone to commercial banks for loans. But the Bank of England lowered its rate of discount to 2\(\frac{1}{2}\)\% instead. The result was that the people holding securities began to discount or sell them. The sale proceeds of these securities they could invest, because it was a boom period and Marginal Efficiency of Capital was high. The Bank of England had to pump more than 900 million pounds Sterling into the money market in little more than a year. The market sentiment did not subside and at last the Bank of England had to retreat. The Bank rate rose to 3\% again, and even went higher. It was a failure of the Bank rate policy, on the one hand, and a triumph of the Liquidity Preference Theory of Keynes, on the other. R. S. Sayers in his book, *Modern Banking*, states:

"It was not the case, in 1945-7, that the authorities were hastening a fall in interest rates that would have come anyway; and the conviction that official policy was inconsistent with the underlying economic forces was responsible for the huge creation of money in an attempt that, in the end, had to fail or bring the whole monetary system into disrepute."\(^{13}\)

Keynes, looking to the expanding money supply, had predicted in his above-referred book in 1936 (page 220 of *General Theory*) that the rate of interest would approach zero in the next thirty years. On account of the destruction of the last World War some economists say that this period will have to be longer, as it would now take more time before physical capital becomes sufficiently abundant.\(^{14}\) But

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Professor Hansen, of Harvard University, says that interest cannot be got rid of with the present monetary practices and institutions, because, for every expansion of currency, interest-bearing Government Securities have to be issued to the same amount. We shall come to this point later in para. 26.

25. Creation of money on such a large scale by the Governments of all the big countries has created a problem for the commercial banks. Business men are not coming to them to borrow money, and it has become difficult for them to meet their expenses. R. S. Sayers, already quoted above, remarks:

"During the present century, and especially since 1920, an important feature of banking statistics has been a downward trend (allowing for the changed value of money) in bank advances. This movement has such far-reaching implications that it calls for special discussion. It is serious not only in England but also in the United States and in Canada, where it has been very pronounced. Other banking systems are said to be suffering more or less similar experiences."15

Then he goes on to say:

"The demand for bank advances has, I believe, been subject to secular decline for five reasons: industrial integration, the relative decline of industries particularly dependent on bank credit, the growth of specialist credit institutions and the development of stock markets, and the increase in cash payments in retail trade."16

All these five reasons are an offshoot of the excessive notes in circulation in the market. He further remarks:

"As the total of advances declines, the total income of the banks must tend to decline too. If net profits are to be preserved in the face of this pressure, one of four things must happen: total assets must be increased, other highly profitable assets must be found, outgoings must be reduced, or bank charges must be raised."17

16 Ibid., p. 241.
17 Ibid., p. 245.
Sayers is advocating in the first instance that total assets must be increased. By assets he means the Government Securities and Government Loans. Because business men are not coming to banks to borrow, the banks should subscribe to Government Loans and, if there are not sufficient Government Loans, "other highly profitable assets" must be found, i.e., the Governments should be forced through the pressure groups and pets to issue more loans, so that the banker may remain prosperous and the taxpayer may go to the dogs. The last two suggestions, "Outgoings must be reduced, or bank charges must be raised," are honest enough. The banker can reduce his expenses or can charge a little extra for his services, such as account keeping, bill collecting, safe vault providing, godown storing. A bank can make a very handsome profit in buying or selling foreign exchange in an open trade and convertible foreign exchange economy, which is the only solution for full employment on a world-wide scale and for the promotion of which the International Monetary Fund has been brought into existence.

The very expectation of profit in foreign exchange dealings can act as an incentive for a bank to finance the export and import trade of a country. As regards banks in the interior, they will have to enter into partnership arrangements with the merchants and industrialists, instead of living on interest incomes which already have dwindled, as seen in the beginning of this paragraph. But they can also charge for their services as account keeping, bill collecting, safe vault providing, godown storing, etc. As a bank has got surplus funds and the bank managers are experts in investments, they can invest these funds in diverse commercial and industrial institutions. If one institution goes under loss the bank can cancel the loss with the profit of other institutions. In this way the bank would generally (rather, almost always) earn profit on an average. This profit can be distributed to the depositors instead of the interest. The only difference would be that interest was a fixed rate of return, while the rate of this profit would vary each year.

26. Another great economist, Harrod, advocates the same service charges for covering the expenses of the banks if the rate of interest of Government Securities also falls to
zero. How can the rate of interest of Government Securities fall to zero? This can be answered if we see what a Government Security is. A Government Security is a promise of a Government to pay. What is a Currency Note? It is also a promise of a Government to pay. The only difference is that interest is attached to a Government Security, while no interest is attached to a Currency Note. When the commercial banks purchase Government Securities or Government Loan Bonds, they purchase with their extra created money, and this gives them an opportunity to earn interest for nothing. When insurance companies buy Government Bonds or Securities, they buy with the savings of the public, collected in the shape of insurance premiums. If the idea is to encourage saving, the idea is incomplete till the savings are invested, because savings without investment retard the economic progress of a country. "It is a theorem of the Keynesian system that, if each person tries to save more out of his income than previously was done, the community as a whole will not end up with a greater amount of savings." The reason is that gross National Income (Y) is equal to Consumption (C) plus Investment (I), and any saving done in consumption or investment lowers the national income. Moreover, when all the enlightened Governments of the world, such as those of the U.S.A., the U.K., Canada, Switzerland, Australia, are providing social security measures like old age pension, survivors' insurance and unemployment insurance, the insurance companies will lose their significance in the financial set-ups of these countries. The problem boils down to this, that by no canons of justice you want commercial banks to earn interest by a simple trick of Reserve Ratio and money creation and, if there are left some insurance companies in the field, they are lending to the Government the savings of the public. But savings, unless they are invested, retard the economic progress, as seen by the Keynesian theorem above. When a Government needs money for war or for development purposes, it either floats Loans or issues Government Securities and, so far as payment of interest by the Exchequer is concerned, it is the same for the taxpayer because the Exchequer pays

18 Harrod, Towards Dynamic Economics, p. 144.
interest out of the taxes collected and the major portion of the taxes comes out of the pockets of wage-earners as direct or indirect taxation. There is quite a grumbling about the enormity of Public Debts, both in America and in Britain. According to Hansen:

"These matters are quite overlooked by people who talk glibly about a continued reduction in the public debt, taking no cognizance whatever of the implications of such a policy with respect to the money supply. An expanding economy needs an increasing money supply (Professor Hansen estimates that with the present rate of growth of the American economy, the national income would reach 400 billion dollars by 1975. At present the national income is 200 billion dollars and the money supply is 100 billion dollars, excluding the time deposits. With this ratio of one to two, the money supply should reach 200 billion dollars by 1975. *Ibid.*, p. 195) and under current business financing practices, together with the prevailing monetary and banking institutions, this implies (as experience shows) an increase in the public debt."

We have arrived at the crucial point of the problem. Whenever you want to expand your economy in the sense of more national income and full employment you need more money supply. Under the present note issuing procedure the Government has to offer interest-bearing Government securities to the Central Bank to get more notes printed, and whenever the Central Bank feels that there are more notes in circulation than it deems necessary, the Central Bank sells these Government Securities to the commercial banks to withdraw these notes. The commercial banks pounce upon these interest-bearing securities, as their most profitable business of lending to business men has appreciably decreased, as seen in para. 25. Similarly, they pounce upon Government Loans. Life insurance companies, savings banks and private trust funds do not lag behind in subscribing to these securities and loans, as generations of easy living on interest incomes earned by the money of others has made them parasites and drones. Hansen further remarks:

"It is, of course, true that we could radically change our monetary institutions. We could resort to the old-fashioned but now outmoded method of printing paper money. The modern and more rational procedure to achieve the same end is to resort to Central Bank purchases of Government Securities. The Federal Reserve Banks (Central Banking System of America) could create reserve money (Federal Reserve Notes and member-bank balances) by increasing their holdings of Treasury bills (perhaps interest-free). This procedure has some advantages, and also many disadvantages, compared with the orthodox procedures used during the war, in which both the Federal Reserve Banks and the commercial banks participated in the purchase of Government Securities."21

Hansen wants interest-free Treasury Bills instead of interest-bearing Government Securities as a backing for printed currency notes. But he alludes to some disadvantages. The disadvantages will grow out of inflation. How would you recall the money from the market when you feel that there are inflationary conditions? Hansen replies to this in an earlier part of his above book by quoting from an article, Can we Check Inflation? by Jacob Viner in The Yale Review, Yale University Press, Winter, 1948, p. 211. The passage reads:

"In keeping with our constitutional traditions, a procedure must be found which enables the Executive to make quick decisions under prior authority from Congress. There is not space here to enlarge upon what might be the legislative ingredients of such a programme, but the items which I would most stress would be, provision for flexibility in tax-rates at the discretion of the President, but in conformity with a formula laid down by Congress, and an enlargement of the powers of Federal Reserve Authorities to regulate the volume of bank credit on an overall basis."22

In elucidating this point, Hansen, on page 181 of his above book, remarks: "Just as Congress has (within limits

21 Hansen, op. cit., p. 196.
22 Ibid., p. 182.
established by law) empowered the Executive to make adjustments in tariff rates, and just as Congress has in the Federal Reserve Act allocated to the monetary authority (within limits established by legislation) the power to raise and lower reserve ratios, so also it now becomes highly important, and indeed essential, to permit executive adjustment of the basic income tax rate within limits imposed by Congress.”

So we see that, when Currency Notes have been printed without the backing of interest-bearing Securities in pursuance of an expanding economy programme, like that of public works and full employment, the problem of withdrawing money from the market in case of inflationary tendencies is solved by giving to the Executive the powers of raising and lowering tariffs or raising or lowering the rates or the income limits for income tax purposes. In countries where there is a Parliamentary form of Government instead of the Presidential form, the view is that fiscal and monetary authorities should enjoy the status of High Court or Federal Court Judges, who will have full employment as their objective and will make adjustments in the fiscal and monetary policies in consonance with that objective so that the politicians may not meddle with their decisions, which will be based on the welfare of the people and not on the glorification of a particular party or a particular politician. Similarly, excise rates of the articles manufactured in the country can be raised or lowered. If you intend to tax a particular class of people, the tariff rates or excise rates of the items used by that class of people can be raised, or lowered in the opposite case. Then, instead of interest-bearing bonds, bonds in partial payment of wages and redeemable in future but bearing no interest can be given to the workers employed on public works. (We shall come to the subject of public works in the next para.) In an Islamic country, where food, clothing, health, education and housing are the worry of the State, and articles of food, clothing, medicines, books and building materials are under State trading, inflation can also be combated by manipulating the rates of these articles according to the prosperity or the depression at a particular moment of time. Hence we

23 Hansen, op. cit., p. 181.
have the weapons of tariffs, excise, income tax, future redeemable bonds, prices of food, clothing, medicines, books and building materials to control the money supply instead of the conventional weapons of Bank Rate and open market operation of interest-bearing bonds and securities. Only then can we defeat the demon of interest lying entrenched in the foundations of monetary and financial institutions, like Central Banks and Government Treasuries, where it has been made indispensable by its worshippers and propitiators, viz., commercial banks, life insurance companies, savings banks and private trust funds, who know the trick of using other people's money to enable them to roll in luxury. They have developed into vested interests. Their modus operandi is imperceptible and long drawn out — spread over centuries — and only a well-enlightened public opinion can beat them down.

27. As Keynes did not have the weapon of Zakat with him to step up industrial investment activities, he favoured Gesell's proposal for stamped money, which would depreciate over a period of time, as seen in para. 13. But this proposal was a bit unwieldy. He could not campaign for the abolition of landlordism on account of his political affiliations with the Liberal Party. So he advocated public works in the period of depression. As seen in para. 12, the expectations of a business man are very gloomy in a depression period. He does not invest his money, and this inertia or liquidity preference deepens the crisis and leads to unemployment, as observed in para. 19. Keynes said that in the depression period when the Government spends money on public works, the labourers thus engaged spend their incomes on consumption goods. The demand for consumption goods increases. Merchants place more orders on manufacturers. Manufacturers, unable to cope with the increased demand, expand their output by engaging more labour and place orders for more machinery. The machinery manufacturers produce more machines for which they also engage more labour. There is an overall increase in employment and hence in National Income. This multiple, which is the ratio of the change in National Income to the change in the initial investment (made by the Government in starting public works in this instance), he called Multiplier. But in order
that this ratio may remain constant, i.e., the National Income or the level of employment may remain steady at the new figure and may not fall, it is necessary that the savings made out of this increased National Income should be re-invested. Or there should be an induced investment to sustain the increase in consumption resulting from the initial investment.

In an Islamic society, where we have the whip of Zakat to direct the savings into investment, the re-investment or the induced investment is automatic. The ratio between the increase in consumption and the induced investment is called the Co-efficient of Acceleration. Economists have now proved by mathematical tables that a 100% increase in gross investment is necessary to sustain a 10% increase in consumption on account of increased National Income resulting from the initial increase in investment. They, therefore, advocate autonomous investment, i.e., investment by Government agency instead of by private agency, as private agency guided by their caprices and whims of profit motive cannot be depended upon to keep up the uniform rate of induced investment or re-investment. As regards initial investment, Keynes had segregated the sectors in which the Government agency should operate and these were the public works. Earlier in the history of mankind the Pharaohs had constructed the Pyramids, and, later, the Moguls had laid out gardens and built mausoleums. In between, Islam had a breathing-time during the caliphate of 'Umar, and 'Umar set up the irrigation department as a first step towards public works. He constructed dams and water reservoirs, dug up canals and distributaries, and established a department for public works. In Egypt, 120,000 labourers were working daily throughout the year, and all these expenses were borne by the Exchequer. Many canals were dug in the districts of Khozistan and Ahwaz, in consequence of which vast areas of arid land were irrigated. Similarly, a network of other canals was laid out.24

In addition to these irrigation canals, following other canals were dug up for drinking water and navigation purposes: the Abu Musa Canal, Mu'akkal Canal, Sa'd Canal (later completed in the time of Hajjaj), Amir al-Muminin

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24 Shibli Nu'mani, Al-Farooq, ed. 1953, p. 353.
Canal. A canal to connect the Red Sea and the Mediterranean was proposed during the time of 'Umar, but the plan was abandoned on account of political reasons. Had the plan been put through, the credit for Suez would have gone to 'Umar. Four thousand mosques were constructed, many fortresses, cantonments, barracks, guest-houses, inns and posts were built in the time of 'Umar. The construction of roads and bridges was not directly under 'Umar's Government, but they were maintained in the best possible way as the people in whose territories the roads were passing were made responsible for the maintenance of roads and bridges. Many cities were also founded during 'Umar's caliphate, e.g., Basra and Kufa. These cities were well planned with roads, mosques and Government buildings, and houses for the people were built by the Government. Other cities, like Fustat (Cairo), Mosul, Giza, were also founded during 'Umar's caliphate. All this was done in the domain of public works throughout the ten years’ caliphate of 'Umar at a time when modern scientific appliances and labour-saving devices were not available. These public works activities were continued during the twelve years' caliphate of 'Uthman, and the five years’ caliphate of 'Ali. Besides these activities, public pastures for grazing horses and camels were bought out of the Bait al-Mal (the Public Exchequer) funds in the time of the last two Caliphs.

28. Keynes’ ideas of public works were put into practice in his own lifetime in America to tide over the 1929-33 depression, and many “New Deal” legislations were passed by the Government of President Roosevelt. In the domain of public works, federal housing and public health, the Public Works Administration Act, 1933, and the Works Progress Administration Act, 1935, were passed. The results achieved were not very satisfactory, but Keynes’ argument was that the programme of public works and public housing and public health was not pursued on a scale large enough to combat the seriousness and the magnitude of the problem. Afterwards, the Second World War proved that

26 K. B. Ahsanullah. History of the Muslim World. ed. 1930. p. 60
depression and unemployment could be tackled by the intervention of the Government, if the intervention is on a high enough scale as during war-time; and, in response to the public demand, the Employment Act was passed by the American Congress in 1946. "affording useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production and purchasing power". As a result of public works and public enterprise programmes, the American Federal Government had owned seventy-five big corporations by 1948, viz., the Federal Farm Credit Administration Group (51 corporations), Federal Crop Insurance Corporation, Commodity Credit Corporation, Reconstruction Finance Corporation Group (2 corporations), Housing and House Finance Group (13 corporations), Inland Waterways Corporation, Export-Import Bank of Washington, Federal Deposit Insurance Corporation, Federal Prison Industries Corporation, Panama Railroad Company, Tennessee Valley Authority and Virgin Islands Company. Management of these corporations is conducted through a board of directors appointed by the President with the approval of the Senate, and the Congress receives the report of these corporations through the President.

In Germany, public works of the nature of building roads, draining swampse, clearing land and generating electricity, along with the intensive production of armaments, were the main measures taken to fight unemployment during 1933-39, under the guidance of Dr. Schacht. The number of unemployed in Germany was nearly 6 million in 1933, when these measures were first resorted to, and the rise of the Nazi Party and later developments leading to the Second World War were the natural consequences of this army of unemployed. In Sweden, public works were started to provide direct relief to a certain number of unemployed. But after July 1933, the policy of public works was thought to be less of a direct relief than an indirect way of developing consumption and investment in all sectors of the economy, because any increase in consumption or investment increases the National Income by the same amount.

29. It is disappointing that Keynes' ideas could not find support in his own country, England, because Hawthre
and other people who were Treasury officials did not want to throw overboard the traditional English banking institutions of the Bank Rate and the resort to Open Market operation of Government Securities to sustain the Bank Rate. In the preface to his book, *Currency and Credit*, Hawtrey writes in the last paragraph:

"When a Central Bank is the sole source of currency, it can cut the supply short by refusing to lend. But experience showed that a flat refusal to lend was too rigid a measure to be a suitable brake. Bank rate policy substituted for an absolute refusal a deterrent interest-charge, which could be nicely adjusted to the conditions of the moment."\(^{27}\)

This seems to be the pith of his whole book. He still feels that the Bank Rate is an effective weapon to contract currency or credit. At another place he says: "Contraction is as necessary as expansion. There is a perpetual danger of expansion going too far and requiring contraction on a disastrous scale to reverse it."\(^{28}\) But we have already seen in paras. 22 and 23 that so much currency is already circulating in the market that business men do not find it necessary to go to commercial banks for borrowing purposes. When business men do not go to commercial banks for borrowing, commercial banks do not go to the Central Bank for discounting Government Securities, and hence the Bank Rate weapon becomes ineffective. Therefore, contraction of currency in the present circumstances, or in the circumstances when national income grows still higher in pursuance of public works and full employment programmes, can only be brought about by the methods advocated by Professor Hansen, and enumerated in para. 26, viz., raising the income tax rate or lowering the income limit for income tax purposes, or raising the tariffs, or raising the excise, or raising a little the prices of foodstuffs, clothing, medicines, books, building materials, if they are under State trading (and subsidized, if the emergency at any particular moment of time demands it), as they should be in an Islamic society, or issuing future redeemable bonds to

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workers engaged on public works in partial payment of their wages. By these methods you eliminate interest, as, for the purpose of expansion of currency, interest-free Treasury Bonds are used as cover, and for the purpose of contraction of currency, the methods enumerated above are used instead of the Bank Rate policy. When you eliminate interest, public debts vanish and the grumbling of the wage-earner ceases, as he is no more taxed for the purpose of the payment of interest.

However, in spite of Keynes’ ideas not getting currency in England, the Conservative Government in 1944, issued a White Paper on Employment Policy, but, with the victory of the Labour Party in 1945, the electors proved that they had already gone far beyond the policies enunciated in the White Paper, although before the Labour victory, public enterprises like the Port of London Authority (established in 1908), the Forestry Commission and the Electricity Commission (1919), the British Broadcasting Corporation and the Electricity Board (1926), the Racecourse Control Board (1928), the London Passenger Transport Board (1933) and the British Overseas Airways Corporation (1939) were already functioning. Similar White Papers on Employment were issued by the Governments of Canada and Australia in 1945, and they incorporated public works and public housing in Canada and public works in Australia.

In Sweden also in 1945, public works and public housing were recommended as measures to combat unemployment. These are some of the examples how Keynes’ ideas infiltrated into the economic thinking of the world. Classical economists had thought that public works, such as roads and bridges, by lowering the cost of transport, would reduce the cost of the goods, bring them within the reach of the poorer sections of the community, and thus enrich the whole community by increasing its comforts, but Keynes proved that in addition, public works raise the National Income of the community and can create full employment conditions. When a country expands its currency in consequence of public works programmes, its balance of payments in the international trade is disturbed and its currency has to be devalued. But, to avoid competitive devaluations, we have the International Monetary Fund, which helps
countries tide over temporary difficulties in the balance of payments and allows devaluation, if the conditions of a country demand it. Keynes contributed a good deal of his energies in having an International Monetary Fund established, though his plan was not totally accepted by the Fund. He wanted to impose a penalty of 1% on creditors on the lines of the Islamic Zakat, but the creditor countries did not agree to it.

Another institution, the International Bank for Reconstruction and Development, was founded to help start development programmes on an international scale. The question arises, when the International Monetary Fund and the International Bank for Reconstruction and Development are international institutions, founded for the common purpose of promoting world trade and fighting unemployment on a world-wide scale, why bring in interest in these institutions? Perhaps the taxpayers of creditor countries would object. Because these taxpayers pay taxes to their own Governments and the interest on Public Debts and Government Securities of these Governments is paid out of these taxes, the taxpayers must insist that their Governments should charge interest from debtor countries, so that their burden may be lightened. But when interest is abolished in these very creditor countries and money is created against interest-free Treasury Bills, as pointed out by Professor Hansen, the taxpayers in these countries will not object. The money thus created and advanced to debtor countries is useless to debtor countries unless it is spent in the creditor countries and, when this money is spent in creditor countries, it has the same effect as that of Keynes’ Public Works, Multiplier and Acceleration in these countries, and hence they are not entitled to charge interest. Since 1934 the United States has received 14 billion dollars’ worth of gold from abroad on account of her favourable Balance of Payments. Three billion worth has been used as a cover for monetary expansion in the country, 11 billion worth is lying idle in her vaults. This amount is earning no interest. It can be called a loan without interest with gold as security.29 Why not a loan without interest, with goodwill and international understanding as security, through the International

29 Hansen, Monetary Theory and Fiscal Policy, pp. 207-208.
Monetary Fund and the International Bank for Reconstruction and Development, which is as good as public works in the creditor country, as both have the same effect so far as the creation of employment opportunities in the creditor country is concerned?

A report by a group of experts appointed by the Secretary-General of the United Nations, Measures for the Economic Development of Under-Developed Countries, published by United Nations Department of Economic Affairs, New York, 1951, p. 85, recommends an International Development Authority whose function should be to decide and administer the distribution of grants-in-aid (interest-free), to co-operate with under-developed countries in preparation and co-ordination of plans of economic development, to help in implementing development plans in the procurement of capital goods and technical personnel and to sanction grants for improvement of rural public works, for public health programmes and for education and for research. But no such International Development Authority has so far been established.

When the debtor country has its standard of living raised by virtue of this interest-free loan, the creditor country has a permanent customer and a repaying debtor. Hence, for a creditor country an interest-free loan or a programme of public works in its own territory are synonymous things so far as its objective of full employment is concerned. If the creditor country cannot make up its mind for this measure of interest-free loan which is outwardly advantageous to the debtor country but which indirectly benefits the creditor country as well, then the creditor country can make investments in the debtor country on a profit and loss-sharing basis, which is more honourable for both, but not less advantageous for any of them at the same time. Kenneth K. Kurihara at the end of his book, Monetary Theory and Public Policy, remarks:

“In so far as it is politically feasible, large foreign investment at generous terms finds its objective justification in institutional, technological and psychological

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difficulties which stand in the way of adjusting the propensity to save to the propensity to invest for continuous full employment.”

Similarly, Stephen Enke and Virgil Salera in their book, *International Economics*, remark under “International Investment”: “Given fluctuations in the balance of payments position of borrowing countries, any single level of fixed-debt service charge will represent a varying burden to the borrowing country. If a customary large surplus on current account suddenly becomes a small one, or becomes a deficit, the borrowing country will find itself in difficulty, and may have to default on its debt. It is to minimize cases of this sort, while at the same time maintaining a high level of international investment, that some writers have proposed that more investment take the form of the purchase of equity investments and fewer the purchase of foreign bonds. (Equities consist of participation in ownership, and earn dividends varying with yearly earnings, which are assumed to fluctuate in the same direction and to about the same extent as the borrowing country’s balance of payments.)”

30. Throughout this discussion we have seen that capitalist countries have been forced to adopt State Intervention policies, like public works and public housing programmes, to fight unemployment, which is a necessary evil of the classical school of economics. That school believed that when an individual, guided by the profit-and-loss motive, takes part in the economic activity of a community, the good of the individual coincides with the good of the community, and that there is a natural harmony between the two. Adam Smith called it spontaneity. But Keynes disproved it. He said when an individual saves, it may be good for him, but when the whole community begins to save out of the consumption or investment sectors, the total National Income, and therefore the total National Saving, falls, as seen by his income equation, Y=C plus I, in para. 26. Consump-

tion expenditures are more or less fixed in a community at a particular point of time, and so, whatever saving or hoarding is done, it is done in the Investment Sector.

To counteract this saving (and even to increase the investment if it is found necessary for the full employment purposes) Keynes advocated public investment in the shape of public works and public housing programmes. In Communist countries we hear that the authorities have allowed private property to individuals like houses and personal effects, and they have also introduced a tolerable disparity in wages as a reward for efficiency. When Capitalistic countries are moving towards partial State intervention and Communistic countries towards partial de-regimentation, perhaps they might meet at a common ground which may be a mean of the two, where both ideologies are justly balanced in the words of the Qur'án.33 The great historian of the present age, Arnold Toynbee, writing ten volumes of *A Study of History*, has reached the conclusion that, “if Russia has moved to ‘the right’ her neighbours have moved to ‘the left’ . . . the apparently irresistible encroachment of planning on the once unregimented economies of the democratic countries suggests that the social structure of all countries in the near future is likely to be both national and socialist. Not only do the Capitalist and Communist régimes seem likely to continue side by side; it may well be that Capitalism and Communism . . . are becoming different names for very much the same thing.”34

Modern economic theorists have conclusively proved, as seen in the beginning of this paragraph, that the total National Income of a community is equal to the expenditure that the community decides to bear towards consumption goods plus capital or investment goods. And the total National Income of a country measures the level of employment of that country. It may not be a repetition to say that Keynes advocated State intervention in the shape of public works when private capital is not coming forward for investment purposes, and is not relieving the unemployment distress. The money needed for public works could be

33 The Qur'án, 2:143.
created by the State itself against the covering of interest-free bonds and could be withdrawn from the market by methods enumerated in para. 29. The great merit of investment by State agency is that it is well planned and uniform and is thus able to sustain the Multiplier and Acceleration effects, bringing prosperity and employment to other sectors of economy as well. We have repeated directives and imperatives in the Qur'án about spending and more spending. "Those who spend (freely)," says the Qur'án, "whether in prosperity, or in adversity, who restrain anger, and pardon (all) men, for God loves those who do good." At another place it is mentioned:

"And what burden were it on them if they had faith in God and in the Last Day, and they spent out of what God had given them for sustenance? For God hath full knowledge of them."  

But this expenditure has not to go so far as to turn it into extravagance. As is mentioned in another chapter: "Verily spendthrifts are brothers of the evil ones; and the evil one is to his Lord (Himself) ungrateful." Here again a just balance between reasonable and extravagant spending on public works is to be struck, as in verse 143, chapter 2, referred to above.

As I write these lines, I have come across a news item that the Pakistan delegate at the U.N. Economic and Social Council at Geneva said on a full employment resolution that the draft proposals before the Council applied only to industrialized countries and not to under-developed countries, whom he considered unable to take the step. This is painful reading. Islam — by banning interest, by levying Zakat on uninvested money, jewellery or gold, by the abolition of landlordism and by its emphasis on spending and more spending (which took the form of public works during the caliphates of 'Umar, 'Uthman and 'Ali) — gave the world a solution for its knottiest problem, the problem of unemployment. The economic theory, after centuries of research and

35 The Qur'án, 3 : 134.
36 Ibid., 4 : 39.
37 Ibid., 17 : 27.
series of evolutions and revolutions, happened to overtake this solution in the late thirties of this century. Pakistan, which alleges to be the standard-bearer of Islam and a laboratory where the principles of Islam have to be tested and vindicated, is today refusing to apply those very principles to herself because they do not suit a certain indoctrinator once again. The common man of Pakistan is again confused. Dr. Iqbal had told him that God would exact from him the duty of leading the world. But today his indoctrinators are refusing to apply the principles of Islam to him even at the promptings of the world — the same world whom he was dreaming to lead by virtue of these very principles. His whole stock-in-trade, the consolation and pride of his life, is the universality and eternity of these principles. He cannot reconcile himself to the perversion of these principles in any field — constitutional, political or economic. Frustration may not overtake him again. One Islam is to be applied to the world at large and another Islam is to apply to him.

31. In his scheme for the International Monetary Fund, Keynes wanted to penalize the creditor country by imposing a charge of 1% per annum on its credit balances, as he reckoned the creditor country as much responsible for disturbing the equilibrium of international trade as the debtor country. The reason was that the creditor country might shut out the goods of the debtor country by raising tariff walls and, if the clause for penalty was there, it might lower its tariffs and thus help remove the international trade disequilibrium. Some such sort of trade disequilibrium or the terms of trade moving against the under-developed countries is alluded to in the Report by a group of experts appointed by the Secretary-General of the United Nations, entitled Measures for the Economic Development of Under-Developed Countries, referred to in para. 29 above. The report reads on p. 73, under the heading "Action by Developed Countries", as under:

"We cannot leave this subject without drawing attention to two ways in which some policies of some industrial countries unfairly hold up the development of the under-developed countries and depress their terms of trade. First, some industrial countries persist in subsidizing within their own boundaries the produc-
tion of some commodities which could be produced more cheaply by the under-developed countries. They thereby sometimes even create a glut of these commodities, and force under-developed countries to divert their resources into less profitable sectors, or even to leave them unemployed. The best known of these cases is the protection accorded to sugar beet in the United States of America and Europe. Other affected commodities are meat and wool. These objections do not, however, apply to subsidies, the purpose of which is to restrict production in developed countries or to hold some part of the domestic output off the market.

“Secondly, some industrial countries export also primary commodities which they produce in competition with the under-developed countries. In recent years, the United States of America, in particular, has pursued a policy of subsidizing the export of some such commodities. This reduces the opportunities of under-developed countries to expand in these fields, moves the terms of trade against them, and contributes to the disequilibrium of world trade.

“The practices discussed in the two preceding paragraphs limit economic development in the under-developed countries. They are also inequitable and the developed countries should be asked to discontinue them.”

Pakistan is grateful to America for her wheat gifts, but America can give a better chance for gratification by not under-selling Pakistan in cotton and not producing substitutes for Pakistan jute. U.N. experts have alluded to this sort of disequilibrium, and perhaps the U.N. and the U.S.A. will find a solution to it, as cotton and jute are the life-blood of Pakistan’s economy.

32. In the same report the U.N. experts remark further, on p. 74:

“One of the main difficulties and dangers to development programmes of under-developed countries is the risk that required capital goods may not be available in time at crucial stages in the execution of these programmes. This risk should be avoided; under-
developed countries should be provided with an equitable share of capital goods and other materials required for maintaining their programmes of economic development, and the necessary priorities should be allotted by the developed countries for this purpose. Considering the large productive capacities of the highly industrialized countries and the great importance to be attached to the uninterrupted progress of development programmes in the under-developed countries, we are of the opinion that it should be possible to find ways of adjusting the production and exports of the industrialized countries in such a manner as to avoid the risk of interruption of development programmes."

This is the opinion of U.N. experts. Let us hope and pray for its implementation.

33. So far no tangible steps have been taken by the U.N. to act upon the above report of U.N. experts. The terms of trade of under-developed countries are still unfavourable to them on account of the developed countries producing the same raw materials as the under-developed countries, or their substitutes. Capital goods are still not available to them. The International Development Authority has yet not seen the light of day.* Mr. Sumitro Djojohadikusumo, who was a member of the U.N. group of five experts to prepare a U.N. report, Commodity Trade and Economic Development, remarks in his article:

"As long as the external stability of under-developed countries is so precarious under the impact of sharply fluctuating terms of trade, it seems hard to visualize an expanding world economy in which full employment, economic stability and economic progress could all be accommodated.

"Let all democratic thinking people, both in the advanced countries and in the under-developed regions, have no illusions about the alternative. The problem is not: if voluntary savings are inadequate, if foreign aid or foreign investment do not come, if proper national policies based on enforced savings through taxation are not pursued — then development may not come.

* Continued on page 232.
“My point is that the line of reasoning should be carried further. If all those things do not take place, I am convinced that development will still be effectuated — but by way of the other alternative, as an ultimum remedium. Social forces in their dynamic vitality, already generated in the communities of under-developed areas, will then push development ahead through the alternative of enforced savings by forced labour and regimentation.

“In that case, development will be implemented at the expense of all the principles of human dignity and personal freedom. We may regret it and we may be determined to fight such a course of events — but let us have no illusions about the outcome.”

34. If the developed countries could create money to fight the 1929-33 depression and to finance the last World War to the extent that their currencies expanded by 900% to what they were at the end of 1929, why cannot the under-developed countries expand their currencies with interest-free Treasury Bonds as backing, to wage war on unemployment, poverty, disease and ignorance? As regards inflationary tendencies, we have Professor Hansen’s measures to check inflation as enumerated in para. 26 and para. 29, instead of the outmoded method of Bank Rate manipulation. Inflation comes about at a later stage of development, as to Keynes goes the credit also of proving that with the increase in the quantity of money, first the level of employment rises and when the full employment stage has been reached, only then do the prices rise. We can apply the measures of paras. 26 and 29 at that stage. The case for the stability of terms of trade and for the foreign aid and foreign investment can be argued on an international level, but it cannot be made an excuse for delaying internal measures of development and reform. The glaring case for reform in the under-developed countries is the institution of landlordism. It will not be out of place to quote another paragraph from the report by a group of U.N. experts on

Measures for the Economic Development of Under-Developed Countries already referred to. On page 21, the report reads:

"In many cases, even more radical reform is needed than legislation protecting tenants. In many under-developed countries the cultivators of the soil are exploited mercilessly by a landlord class which performs no useful social function. This class contrives to secure to itself the major part of any increase in agricultural yields, and is thus a millstone around the necks of the tenants, discouraging them from making improvements in agriculture and, in any case, leaving them too little income from which they might save to invest in the land. In such countries, land reform, abolishing this landlord class, is an urgent prerequisite of agricultural progress. Land reform is not, of course, the only prerequisite; capital must be made available to the farmers; extension work must be organized; the size of the unit of cultivation must be reconsidered, and so on. But land reform in these countries would be the first step necessary for releasing the productive energies of the people."

35. We have arrived at the following conclusions:

(a) The abolition of interest is an imperative in Islam;

(b) The abolition of interest as a measure for stepping up investment activities, and thus creating employment opportunities, cannot achieve its purpose until Zakat is enforced by law and landlordism is abolished. Because in the period of depression and falling prices, liquid cash gains in capital value in terms of purchasing power, and only the levy of Zakat can direct it to investment channels from the safe vaults. Moreover, if landlordism is not abolished the rent of land compensates for the interest, thus hindering the investment process.

(c) If after the abolition of interest, imposition of Zakat, and abolition of landlordism, the full employment stage is not reached, public works and public utilities, as State-run enterprises, are necessary. They create employment by themselves and also by their Multiplier and Acceleration effects.
(d) Money can be created for these State-run enterprises with interest-free Treasury Bonds as backing to avoid the burden of interest-bearing Government Securities and Government Debts on the taxpayers, who are, by and large, the wage-earners.

(e) Money can be withdrawn at the inflation stage by increasing income tax rates, by lowering exemption limits of incomes for tax purposes, by increasing tariffs, by increasing excise on locally manufactured goods, by raising the prices of foodstuffs, clothing, medicines, books and building materials (all these five items will already be under State trading in an Islamic country and already subsidised if necessary), and by issuing bonds redeemable in future to the workers engaged on public works in partial payment of their wages. Currency and fiscal controllers should have delegated legislation powers to make day-to-day adjustments in the currency expansion and counter-inflation measures. They should have full employment as their objective and should be clothed with judicial powers to make and enforce their decisions.

(f) In the developed countries, banks are already advised to live on service charges. Under open trade, which is the goal of international monetary institutions, banks can also earn a living by the sale and purchase of Foreign Exchange. In an Islamic country, they can enter into partnership arrangements as well with merchants and industrialists.

(g) Government-sponsored industrial concerns, in addition to private concerns, should remain floating their shares in the market to absorb the savings of the public.

(h) Social Security Acts are necessary to replace the insurance companies.

(i) Voluntary saving and austerity for the sake of capital formation and industrial investment have not much chance of success in under-developed countries even after the abolition of landlordism, as people are living in sub-human conditions and any increase in their incomes will first go towards consumption. One sector in which saving can be effected is top-heavy administration, and Pakistan is hoping to save ten crores of rupees annually by the amalgamation of the Provinces and States in West Pakistan, and welding them into one unit (the daily Times of Karachi, Karachi,
24th July, 1954). These ten crores, when invested annually in public works, will raise the National Income manifold by the Multiplier and Acceleration effects, and will also make up the deficiency of voluntary saving.

(j) For under-developed countries, besides these measures, it is necessary to get stability of terms of trade, meaning the stability of the prices of their export products as compared with the prices of their imports; and foreign capital investments and aids, which can be argued at international level only, as the above steps are for the mutual benefit of developed and under-developed countries if both value all that is dignified and respectable in a free, democratic, live-and-let-live world.

SUMMARY

(1-5) Verses 275, 276, 278, 279 and 280 of Chapter II (Sura al-Baqara) of the Qur’ān unequivocally forbid usury and no legal expert can legalize a lower rate of interest on the strength of his reasoning power. The directive in the above verses is to remit the debt if the debtor is in a difficulty and the deduction that Islam prohibits a higher rate of interest and allows lower rate of interest is a cheap expediency and is utterly contrary to the spirit of the above directive.

(6-9) Non-monetary justifications for interest are (i) that it is a reward for abstinence or of waiting, (ii) that it is the result of productivity of capital, or (iii) that it is the fruit of nature's generosity to a moneyed man. As regards its being a reward for abstinence or of waiting, it is clear that one man's saving is another man's consumption. Why should the latter borrow? Either he is unemployed, under-employed or a spendthrift. The problem changes from an economic problem to a social problem. Society should provide him with employment or social security or should cure him of his extravagant habits. As regards interest being the result of the productivity of capital, which means that capital has the power of producing more value than could be produced without it, the objection is raised, why pay interest when a borrower suffers loss in his business? Once you subscribe to this viewpoint, the whole philosophy of the Islamic economic system, which allows investment on a profit and loss sharing basis (Muzarabah), stands vindicated. As regards interest being the fruit of nature's generosity to a moneyed man, it is true that during the lifetime of the lender interest seems very attractive. But if we look beyond the life period of the lender we find that there has been a continuous rise of prices in each century except the 19th century. The 19th century was a century of Industrial Revolution, mass production and hence cheap prices. Therefore, this century is an exception to the above
general trend. Geoffery Crowther concludes from this that "a gradual and imperceptible fall in the value of money is necessary to enable the world to slip out of its self-imposed chains of usury". So we find that, when a man takes an undue advantage of the generosity of nature by lending his money on interest, nature rectifies his avarice by decreasing the capital value of his money in the shape of rising prices.

(10-17, 27, 28) Monetary theories of interest are two: (i) Loanable Funds Theory, and (ii) Liquidity Preference Theory. The classical economists up till the time of Marshall, who died in 1928, believed that the progress of the world was retarded because funds were not available for the purposes of loan-for-investment. In other words, there was no capital formation. And there was no capital formation because people did not save. But during the great depression of 1929-33, a device to increase the loanable funds was made use of by lowering the Central Bank rate of interest both in England and in America. Rate of interest was lowered so that business men might feel tempted to borrow the money and invest in business and thus relieve the mass unemployment prevailing on account of the great depression. But business men did not come forward to take advantage of the increase in loanable funds. This inertia on the part of the business men gave a clue to J. M. Keynes to propound his Liquidity Preference Theory of Interest, which he elaborated in his famous book, The General Theory of Employment, Interest and Money, published in 1936. He said that during a depression period the Marginal Efficiency of Capital (or the expected rate of profit on a given amount of capital) is very low. It falls so low that it becomes lower than the value of the risk which a business man always attaches to an investment enterprise. At that stage of depression the rate of interest must fall below zero to tempt the business man to risk his own money in investment or to tempt others to hand over their money to the business man for investment purposes.

But the rate of interest is never zero or negative in this world. It is never zero because any moneyed man can buy land and begin to live on its rent. During a depression period, as long as there is one single acre of land for sale in this world, there will be a tendency for the idle money to be invested therein because other avenues of investment will be closed on account of the marginal efficiency of capital or the expected rate of profit having fallen below the Risk Value. Moneyed people will compete with one another to raise the capital value of this piece of land, thus depressing the rate of return from this piece. They will equate the rate of return from land to the rate of interest on their money. It will be very low, but never zero. The investing public will also prefer to keep their money liquid cash with them during a depression period, because it is a period of falling prices and the capital value of money is increasing every day. This rate of increase in capital value is much greater than any thinkable rate of profit during a depression. Keynes, therefore, attributed retardation in human progress to two factors, viz.: Liquidity premium attached to land and liquidity preference attached to cash holding. Islam solves both these problems by forbidding the purchase of land for rent-receiving
purposes and by imposing Zakat of 2½% per annum on uninvested money. To further accelerate investment activities, gold, silver, jewellery and commercial goods even are liable to Zakat in Islam. Keynes did not campaign for the abolition of landlordism on account of his political affiliations with the Liberal Party. But he favoured Gasell's proposal of a stamped money which would depreciate over a period of time in order to force the people to invest instead of hoarding or keeping liquid their cash. This proposal was a bit unwieldy so Keynes advocated public works programmes in times of depression and unemployment. Islam first stresses the abolition of landlordism and the enforcement of Zakat and then, if full employment conditions are not created, enjoins the faithful to spend freely in adversity and in prosperity alike, in verse 134 of chapter 3 and verse 39 of chapter 4 of the Qur'an. In practice, when Islam had a breathing time during the Caliphate of 'Umar, he set up a separate department of public works, dug many canals, founded new cities, constructed dams and water reservoirs. In Egypt, 120,000 labourers were working daily on public works during his Caliphate. These public works programmes were continued during the time of 'Uthman and 'Ali. Since 1933, public works have assumed an indispensable role in the American economy in order to fight the menace of depression and unemployment. In the domain of public works, federal housing and public health, the Public Works Administration Act, 1933, and Works Progress Administration Act, 1935, were passed. Although results achieved were not very satisfactory, the Second World War proved that the unemployment problem can be solved by State intervention, if the intervention is on a large enough scale.

(18-26, 29-35) The problem arises how the banks would function if interest were to be abolished. But in these days, even without the statutory abolition of interest, banks are finding it difficult to survive on account of the liquid money conditions in the world at present. A glance at the table of the quantities of money in circulation in different countries at different times given on page 44 of Central Banking by M. H. De Kock, would show that notes in circulation at the end of 1944 in the case of America are 900% of what they were at the end of 1929. Similarly, there are increases in note circulation in every country. With so much money in circulation business men go to the public and float shares in the market instead of going to banks for borrowing. R. S. Sayers in his book, Modern Banking, counsels the bankers, on page 245, to concentrate on Government Securities when advances to business men have declined, to reduce expenses and to increase bank charges on account-keeping and godown space and safe deposit vault providing. But on page 195 of his book Monetary Theory and Fiscal Policy, Professor Hansen, of Harvard University, alludes to a radical change in the monetary institutions by issuing interest-free bonds as cover against currency notes instead of the Government Securities, as Government Securities are interest-bearing and the interest is paid from the Public Exchequer and hence is a burden on the ordinary taxpayer. Moreover, the objective of controlling the money supply of a country by bringing into competition the rate of interest
of Government Securities and the manipulated Central Bank rate is already lost on account of the huge currency in circulation in all countries. Business men do not go to banks for borrowing, but go to the public for selling their shares. With the Bank Rate losing its efficacy as a weapon for controlling money supply, Government Securities with interest attached also lose this purpose. Hence, banks will have to enter into partnership with the entrepreneurs in order to make their living. Under a system of open foreign trade, which is the objective of the International Monetary Fund and an ideal for attaining full employment conditions for the whole world, the banks can resort to the business of buying and selling foreign exchange.

In order to provide a substitute to the Bank Rate for controlling the money supply, Professor Hansen quotes from an article by Jacob Viner on page 182 of his above book, suggesting a delegated authority to the President for the raising or lowering of income tax rates. The American Congress has already delegated powers to the Executive to make adjustments in tariff rates. Similar powers can be given in adjusting Excise duties on manufactured articles. In an Islamic country, where the necessities of life, like food, cheap clothing, building materials, medicines and books, are under State trading, the money supply can be regulated by increasing or decreasing the rates of these items. An Islamic State is a vicegerent of God. One of the attributes of God is Rabb — the cherisher and sustainer of mankind. In order to acquit itself of its duty of cherishing and sustaining mankind, the Islamic State has got to keep these items under State trading so that it can subsidize them in case of emergency. While performing this function, it can incidentally regulate the money supply as well, as seen above. One more expedient to regulate the money supply is to issue bonds redeemable in the future, to workers engaged on public works, as part of their wages. Hence, we have so many above methods to regulate the money supply instead of the conventional Bank Rate method, which has already lost its efficacy. Under-developed countries can easily resort to deficit financing for their development programmes and then can regulate the money supply by the above methods. Deficit financing is the only method they can make use of, as there is no scope for capital formation by saving with the people already living in sub-human conditions in these countries. The British Financial Journal, The Financial Times, analysing the results of the Colombo Plan, said that the lesson that emerged from the Plan so far was that there was much less danger from inflation than was originally thought, so long as food production continued to increase (the daily Dawn, Karachi, 17th December, 1954). To help improve the foreign exchange earning position of under-developed countries, the industrialized countries should give them stable terms of trade by not producing the same goods which the under-developed countries are producing or their substitutes. For Pakistan, such goods are cotton and jute. The under-developed countries will also have to introduce land reform to help increase their agricultural produce — their only hope of earning foreign exchange till such time as they are industrialized. Egypt, India and
Burma have already done it. East Pakistan has also abolished landlordism. Let us hope for its early abolition in West Pakistan.

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CHAPTER IV

THE LAW OF SUPPLY AND DEMAND IN ISLAM AND ITS WORKING IN THE PRESENT-DAY ECONOMIC STRUCTURE

(This article was written in December, 1954, and was published in the January, 1955 issue of The Voice of Islam, Karachi.)

1. "Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: 'Trade is like usury'; but God hath permitted trade and forbidden usury. Those who, after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (the offence) are companions of the Fire: they will abide therein (for ever)."1

2. In this verse "God hath permitted trade and forbidden usury". The Arabic word for trade is ba‘i, and it connotes offer (ijab) on the part of seller and acceptance (qabul) on the part of buyer. The acts of offer and acceptance are voluntary and the fixation of prices by an outside authority is against the spirit of the above verse. The same spirit is emphasized at another place in the Qur’an, "But let there be amongst you, traffic and trade by mutual goodwill".2 Trade is allowed even during Pilgrimage.3 The acts of offer, however, on the part of the seller and acceptance on the part of the buyer are willingly done, are guided by the scarcity or abundance of a commodity in the market and

2 Ibid., 4 : 29.
3 Ibid., 2 : 198.
are subject to the forces of supply and demand; and hence the price of a commodity is determined at a level where the supply of a quantity of the commodity is equal to the demand for that much quantity of the commodity. This is the normal phenomenon which determines the price of an article at any moment of time. Economists call it "price in an exchange market", or "market value".

3. Charles C. Adams, writing on the great jurist of Islam, Abu Hanifa (80-150 A.H., namely 700-767 C.E.), remarks: "In the field of social economy, Abu Hanifa did not favour interfering with the law of supply and demand (qánun al-'ard wa'll talab). He did not permit the forcible fixing of prices. He believed people should have free control over their own goods to deal with them as they pleased. The fixing of prices is the right of the buyer. The ruler has no right to interfere, unless some public harm is connected with the matter. A monopoly of foodstuffs should not be permitted, if this would bring harm to the public."  

4. Abu Hanifa did not want the monopoly of foodstuffs, if it brought harm to the public. Foodstuffs were the major items of trade in those days and the welfare of the public was also connected with these items to a great extent, hence monopoly in these items was disallowed. It is worth considering if any monopoly was possible in those days in items other than foodstuffs. Life was simple and people were living in self-sufficient units, providing all their necessities by themselves. In times of scarcity, they could limit their necessities, but food, being the basic necessity at all times, nobody could forgo. So there was a chance of monopoly trading in foodstuffs only. Moreover, any interference with the profit motive of the entrepreneur in items other than foodstuffs at that stage of human progress would have thwarted enterprise and the spirit of research. The Prophet had prohibited the cornering of grain and the withholding it from sale during shortage, as related by Ma‘mar in the Sahih of Muslim by ‘Umar and by Ma‘az. Abu Hanifa, taking his cue from the commands of the Prophet, ruled that monopoly

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4 Muhammad Amin, Barrister-at-Law, Splendour of Islam.
5 Anwar Iqbal Qureshi, Islam and the Theory of Interest.
of any foodstuff should not be permitted. Abu Hanifa widened the scope of prohibition of monopoly from grain to all foodstuffs within one century of the death of the Prophet. With the growth of knowledge, resulting in scientific progress, mass production and within-reach prices, the basic necessities of man went on increasing. Today, his basic necessities include not only foodstuffs, but also clothing, shelter, medical care and education. The scope of prohibition of monopoly therefore stands widened and includes all items which go to make up the above basic necessities, and the monopoly of which should not be permitted. But, by the experience of the last seventy years of the economic working of the world, we find that big corporations, when left to themselves, instead of competing with each other and supplying their goods at cheaper rates, form themselves into mergers and trusts, or enter into private agreements and understandings on price, or resort to false advertising. The result is that they are able to charge monopoly prices and thus fleece consumers. The first country where anti-monopoly or anti-trust laws were passed was the U.S.A. We briefly survey their working in that country.

5. The device of trust was resorted to in the U.S.A. by the Standard Oil Co. in 1882. The reason was that there was a cut-throat competition in all industries brought about by cheap sea and railroad traffic. To save themselves from losses the Standard Oil Co. formed a trust agreement with about 40 companies, which gave control to a group of 9 trustees of 90 to 95% of the oil-refining capacity. This device secured for all the companies high prices and profits. Similarly, trusts were made in transport business and in the industries of cotton seed oil, sugar, lead, etc. Legal proceedings were taken against these trusts under a clause in the American Constitution which gave the Federal Government power to regulate commerce, because anti-trust laws were not existing at that time. Legal luminaries and law experts, fearing unfavourable decisions, took the plea that corporations could be given the right to purchase the shares of competing firms. Thus directors of one company could become the directors of the other company by purchasing its shares. This device was called holding company device or interlocking directorate. In the meantime, an Anti-Trust
Act, called the Sherman Act, was also passed by the American Congress. The trust movement was thus halted for a time. But in 1905, in the decision of a case against the American Sugar Refining Co., the Supreme Court held that manufacturing was not commerce. Thus the Sherman Act remained inactive for a decade. In 1914, Congress passed two more anti-monopoly Acts, viz., the Federal Trade Commission Act and the Clayton Act. The former Act prohibited unfair methods of competition, and the Clayton Act prohibited the acquisition of the shares of a competing firm where the effect of such acquisition is to substantially lessen competition between the firm whose shares are so acquired and the firm making the acquisition. But the business magnates, acting on the advice of law experts, resorted to the tactics of outright buying the assets of the competing firms, which was called the Merger. This device was encouraged by a decision in 1920, of the Supreme Court in a Government suit against the United States Steel Corporation, in which the Government had sought a court order dissolving the merger. The Supreme Court held that mere merger was no offence. So the merger activity continued until 1929, the beginning of the great depression, which put many mergers out of existence.

In 1933, the N.I.R.A. (National Industrial Recovery Act) was passed, which suspended some of the monopoly legislation in order to raise Depression prices. But it was held ultra vires of the Constitution by the Supreme Court in 1935, as it enforced restrictions on production for the purpose of maintaining prices. But stable prices, without preventing wages from falling, reduced purchasing power, which alone can balance production and consumption. In 1932, in spite of the setback of the depression, 200 large corporations controlled 50% of all corporate wealth of America, and they remained controlling that much percentage till 1937. This gave rise to great disparities in personal incomes, and at that time 1% of the total population of America were receiving as much income as 42% at the bottom of the list, 60% were receiving insufficient incomes and were unable to provide the basic necessities of life for themselves. The merger movement continued till 1945, when the Supreme Court, in the Aluminium Co. of America (ALCOA) case, looked to the economics of the case instead
of the legal hair-splitting and held that merger was a monopoly under the Sherman Act. But this view was reversed in the Columbia Steel case in 1948. The Supreme Court is at the crossroads at the present moment and its future line of decision cannot be forecast. Recently, the case of the American Fruit Co. of Guatemala has been brought before the Supreme Court under the Anti-Trust Laws, and its decision is worth watching. In February 1958, the American Fruit Co. agreed to a consent decree in the New Orleans Federal District Court that it would create a new competitor company allowing the latter 35% of its imports of fruit in 1957, so that the latter might compete with it. The Court did not apprehend any interlocking directorate, because 80% of the shareholders of the American Fruit Company were holding less than 100 shares each, and therefore the company was not a monopoly of a few directors. 6

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6. In Britain, the original attitude of common law was anti-monopolistic. But monopolies were granted in exceptional cases for the sole manufacture or sole importation of a specific commodity by the Crown by virtue of its prerogative as an arbiter of commerce. The object was to encourage the development of some new industry or some new trade. In 1602, the grant of a monopoly was challenged and was held illegal, as being against the common law. But the practice was revived by James I and, in 1624, Parliament had to pass the Statute of Monopolies declaring all monopolies void. This Statute was sometimes evaded by the Crown, but, after the passing of the Bill of Rights in 1689, the claim of the Crown to grant monopolies without reference to Parliament was finally renounced. Parliament has used its power to grant monopolies very sparingly. It has granted monopolies to railway transport companies or gas, electricity and water supplying companies, i.e., to public utility concerns. During the great depression of 1929-33, Parliament granted monopolies from a different consideration, believing that monopoly would give business stability to the commodities brought under monopoly. The examples of this kind of monopoly are the Cold Mines Act of 1930,

* Continued on page 233.
and the Agricultural Marketing Act of 1933. Similarly, contracts in restraint of trade had been held to be unenforceable by British Courts under the common law, as they created monopolies. But this view was reversed by the House of Lords in 1894 in the case of Nordenfelt vs. the Maxim Gun Co. (1894 A.C. 535), and the modern rule is that such monopoly-creating contracts are enforceable, provided the restraint is reasonable. Section 27 of the Indian Contract Act of 1872 provides that restraints of trade are unenforceable, except when a person sells his business to another along with goodwill and the restraint is for specified local limits which the Court deems reasonable or when partners agree to the above restraint on the dissolution of partnership. Another type of restraint of trade is dealt with under the Law of Torts. When two or more concerns in a trade combined to lower rates and thus tried to oust their competitors from business, this combination was held to be lawful and the competitors, when they went to the Court for damages under conspiracy, lost their case (The Mogul Steamship Co. vs. McGregor, Gow & Co., 1892, A.C. 25).

Similar suits for damages and injunctions under conspiracy failed when the defendants had acted lawfully, although maliciously (Allen vs. Flood, 1898, A.C. 1), or when the defendants had acted for the sole purpose of protecting their trade and were not actuated by any desire to injure the plaintiff (Sorrell vs. Smith, 1925, A.C. 700). After the First World War, there were shortages of every kind in Britain. Men had begun to return home after their overseas service. Business men were expecting prosperous trade in everything. They had worked on Advisory Committees during the war, and had met each other. The result was closer association and financial grouping on the part of the business men. Permanent combinations and trusts came into being. The result was high profits and high prices. The British Government appointed a committee on Trusts and its report was published in 1919. Profiteering Acts were passed in 1919 and 1920, but their object was only to see whether profiteering was taking place. They had one good result, that the Standing Committee on Trusts appointed sub-committees to inquire into and report on specific trades and industries, and valuable data was published for the
information of the public. Reports were published on extractive industries, like coal; structural materials, like clay products, bricks, tiles, cement, lime, building stone, slates; iron and steel industries; textile industries; chemical industries; foodstuff industries; banking and finance, etc. In their conclusions, the members of the Committee on Trusts stated:

"We are satisfied that trade associations and combines are rapidly increasing in this country, and may, within no distant period, exercise a paramount control over all important branches of British trade."

They stated four main directions along which the remedy could be sought. They were:

1. Encouragement of the co-operative movement, and they gave the example of national factories set up during the war, and said that if they could be continued in peace, they would serve as a check upon capitalist combinations.

2. Foreign imports also act as a check upon the profiteering activities of capitalist combinations.

3. Price control. (The experience of the Second World War proved that price control was not workable. It creates more problems than it claims to solve, the most tedious being the administrative problem, and hence, during the Second World War, Britain had to resort to State trading in foodstuffs along with price control. But price control or price fixing is necessary in nationalized industries, as there is no competition in these industries. Also their profit goes to the Public Exchequer.)

4. Nationalization and municipalization of basic industries (the Labour Government during their régime after the Second World War nationalized coal, transport and steel).

These recommendations were made in 1921, after the First World War, when Britain was desperately trying to regain and vindicate the supremacy of her commercial and financial institutions. But the great depression started in the late twenties, and the resultant economic thinking totally revolutionized the classical economic theories. Keynes was the product of this period of anguish and unem-

7 Morgan Rees, *Trusts in British Industry*. 
ployment. The thoughts of the nation were turned to alleviating unemployment rather than to alleviating monopoly conditions. The depression continued till the start of the Second World War in 1939. After the Second World War, the Monopolies and Restrictive Practices (Inquiry and Control) Act was passed in 1948. The Act provides for inquiry into the existence and effects of monopoly and restrictive conditions prevailing in commercial, industrial and export organizations and firms and also provides for punishment for preventing or restricting competition in connection with the production or supply of goods. The inquiry is sought to be conducted through the Monopolies and Restrictive Practices Commission appointed by the Board of Trade. The inquiry can be initiated by a request from (a) consumers, (b) organized workers, (c) trade, (d) industry, (e) agriculture, (f) local authorities, (g) professional workers, or at the desire of the Board of Trade itself. In making the inquiry and drawing up its report the Commission is bound to keep in view the need to achieve the production, treatment and distribution of goods by the most efficient and economical means, and the need to organize industry and trade in such a way that their efficiency is progressively increased, new enterprise is encouraged, technical improvements are developed, existing markets are expanded and new markets are opened up. It is a victory of the Law of Supply and Demand that this Act was passed by the Labour Government in spite of the fact that the Labour Party had incorporated into their Constitution, as far back as in 1918, their objective of common ownership of the means of production as a basis for the most equitable distribution of the fruits of the labour of the workers.* The first ruling in British industrial history was given by the Monopolies and Restrictive Practices Commission on 26th January, 1959, on the Lancashire Yarn Spinners’ Association. The Commission ruled that a 10-year-old price ring existed in the above Association and that the ring was contrary to public interests and had resulted in the waste of national resources. A number of yarn mills were to close down as a result of that ruling. The British Press generally accepted the ruling as necessary, in spite of the fact that it was to create unemployment as the inefficient firms were to close down. The Commission

* Continued on page 233.
was scheduled to rule on similar price fixing rings in at least seven other industries.  

In 1952, the British Productivity Council appointed British productivity teams to visit the U.S.A. and recommend the lessons to be learnt from American industrial practice. These teams made a report in September, 1954, entitled, "Industrial Engineering". The job of the teams was to find out how and why American industry is so much quicker than British industry, and "to investigate the dynamic and aggressive American approach to improvement of methods of manufacture and to continuous reduction of operating costs". The British teams found that, of all the factors which go to make this American approach effective, the competitiveness of American economy was the primary factor. The teams agreed that this competitiveness was increased by American anti-trust legislation. Hence the teams believed that Britain should strengthen considerably her anti-monopoly legislation and extend its range. It is noteworthy that efficiency in American industry is due to the presence in the Statute Book of anti-monopoly laws. In actual working, we have seen in the last paragraph how they are being given diverse interpretations at different times by the same court.

7. In Germany, the policy of the Government towards monopolies has been different from that in America. In Germany, the policy has been of encouraging monopolies and controlling their actions. In the early periods, contracts in restraint of trade were enforceable in Germany, while they were unenforceable in Britain and America. Moreover, trusts, mergers, holding companies and interlocking directorates have been common in Germany, but their actions were subject to an independent agency called a cartel, set up for the purposes of fixing prices, fixing outputs and fixing geographical areas to be served by the members of the cartel. Germany, instead of weakening these cartels, has made them stronger. For the purposes of war it was easier to deal with an organized industry in the shape of cartels. Moreover, the company law of Germany has been

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different from that of Britain and America and, under German law, it was difficult for the promoters to commit frauds on the investing public. After the First World War of 1914-18, during the era of National Socialism, Acts were passed for reorganization and national control of electricity supply, coal, caustic potash and iron and steel. Another legislation, called the Cartel Decree, was passed in 1923, to safeguard against the abuse of the economic power of the cartels. The Decree laid down certain requirements regarding cartel contracts, gave some powers to the Minister of Economic Affairs and created a Cartel Court. In 1933, more powers were given to the Minister for Economic Affairs with a view to meet the great Depression.

By 1936, the number of cartels and syndicates had risen to about 3,000 in Germany. In the meantime, to meet the requirements of the Nazi régime, six National Groups for the whole German industry were set up. These National Groups were sub-divided into trade groups and these trade groups into sections and sub-sections. Every firm had to register with these branches of the National Groups. In July, 1936, the Minister for Economic Affairs issued an order asking the persons running the cartels to dissociate from the machinery of the Groups. But this did not prevent the mixture of private monopoly of cartels with the public monopoly of Groups. During the Second World War, in order to bring the industries of the conquered countries into the German cartel structure, the Nazis evolved a super-cartel system to conform to the needs of the shooting war. Professor Philip C. Newman of Karachi University, in his article, "Authoritarianism and Market Controls," remarks in the last but one paragraph:

"It is entirely possible that centralization of power and authority had already proceeded so far in these organizations that, had Germany won, the industries which they controlled might be considered nationalized in effect, even if formal control by private capital continued to exist."\(^{10}\)

Despite this, the West German Government is one of the world's richest industrial property holders. This Government controls 314 industrial concerns — worth well over

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\(^{10}\) The Pakistan Economic Journal, Karachi, December, 1953.
one billion dollars. After the war the British and American authorities tried to decentralize the super-cartel system. Their attempts to bring about the competitive system in German industry through American type anti-cartel and anti-trust measures met with great success, and West Germany, acting on the system of free enterprise and competitiveness, under the guidance of her Economics Minister, Ludwig Erhard, made such economic progress and her balance of trade improved so much that she began advancing loans to the under-developed countries. But Professor Newman concludes that the less powerful, traditional German cartel system might revive in Germany after the Allied control is removed. This is a hazardous guess. Recent trends in German industry are towards re-emergence of mergers, rather than towards cartels: Alfred Krupp had pledged to the Allies that he would sell his coal and steel companies in order to bring about more competitiveness. But, in January, 1959, he got permission from the European Coal and Steel Community to buy another steel firm, Bochumer Verein. There is a strong belief that the Allies might decide to release Krupp from his pledge. At present Krupp and seven other firms — Dortmund-Horder Hutten-union, Phoenix Rheinrohr, Mannesmann, Hoesch Werke, Klockner-Werke, August Thyssen-Hutte, Huttenwerk Oberhousen — control 75% of West German's steel production and 40% of German coal. August Thyssen-Hutte is trying to merge with Phoenix Rheinrohr. This merger would be bigger than Krupp-Bochumer Verein. Mannesmann recently merged its subsidiaries into the main firm. The trend towards mergers is noticeable in autos and banking as well. Friedrich Flick, a pre-war steel magnate who was forced to sell many of his companies by the Allied Control authorities after World War II in order to produce competitive effect, has built a new monopoly in automobiles. He bought a controlling share in Daimler-Benz, merged it with the big Auto-Union and made it Germany's biggest auto manufacturer. In September, 1958, the Commerzbank, one of the three big banks, merged its independent units to form a unified bank. The other two, Deutsche and Dresdner banks, had already done so two years ago. The West German Chancellor, Konrad Adenauer, said that there was a great future danger that a handful of economic structures would
control the German economy to such an extent that the Government would be forced to take drastic steps against them. But the opposition to mergers is weak. The German firms say that they are forced to merge because anti-cartel laws forbid them to make price and production agreements. The very purpose of anti-cartel laws was to prevent price and production agreements in order to create competitive conditions in German economy, and to evade these laws the German firms are pulling the competitive system up from the roots and are resorting to mergers.  

In Japan a few prominent families were controlling huge cartels like Mitsubishi, Mitsui and Sumitomo since the era of Emperor Matsuhiro (1868-1912), the era of the beginning of the industrial progress of Japan, and which is also called the Meiji (Enlightened Government) era. Only the above three cartels were controlling 35% of Japan’s total commercial and industrial business. Cartels were called Zaibatsu. After the Second World War the American occupation authorities split the cartels into hundreds of small firms and the Government of Japan adopted anti-trust laws. But in July 1958, the cartels were again in control of all major industries except steel.  

Cartels have proved to be the starting point for war economy in Germany and Japan. In fact, they are so in every country. Private cartels, mergers, trusts, holding companies and interlocking directorate devices give rise to economic war in the shape of tariffs, subsidies, import restrictions, exchange controls, and lead to decreased demand, unemployment, search for markets, desire for colonies, international hatred and a shooting war. Professor Newman’s conclusion about the re-emergence of the cartel system in Germany is therefore significant, especially after the lesson of the two world wars, while this system has already re-emerged in Japan and German economy is moving towards mergers instead.

8. Enactments on the lines of the anti-monopoly laws of America exist in other countries, e.g., Canada, New Zealand, South Africa and France. In Canada, any six

persons can make a representation to the court for investigation into any attempt for monopoly or restriction of competition (Combines Investigation Act, 1910). In New Zealand it is unlawful to allow rebate to a customer on the express or implied condition that the customer receiving the rebate will deal exclusively with the seller. In South Africa similar restraint in the meat trade is prohibited under the Meat Trade Act of 1907. In France, for a long time such a law in existence was the Le Chapelier Law of June, 1791, which forbade concocting together citizens of the same calling and profession. Recently, the decree of 9th August 1953, “on the maintenance or re-establishment of industrial and commercial competition,” was passed to allow free competition by preventing the lowering of selling prices with an ulterior motive of ousting the competitors.* In the enactments of these countries and the anti-monopoly laws of America, we find human efforts to rehabilitate the law of supply and demand when it has been derailed from its path by the unbridled profit motive of the capitalistic system resulting in trusts, mergers, holding companies or interlocking directorate devices, price agreements and false advertising. Similar efforts are found in the Havana Charter of 1948 of the International Trade Organization directing the member nations to prevent business practices which restrain competition, limit access to markets or foster monopolistic control (Article 46).

9. A special field in which the law of supply and demand has vindicated itself is the theory of the value of a currency in the foreign exchange market for international trade. When the currencies of the inter-trading countries were on the gold standard, the value or the exchange rate of one currency in terms of the other was the ratio of the gold content of each currency after allowing the cost of transport of the gold content from one country to the other. Ricardo (1772-1823), an English economist, propounded the theory of comparative costs as being the reason for international trade in commodities and thus determining the rate of exchange between inter-trading countries as well. As Ricardo thought labour to be the source of all value, his theory is also known as “labour cost” theory. After the First World War, economists found that the Ricardian

* Continued on page 233.
theory could not explain a great number of observed facts. So they scrapped it. Ohlin, a Swedish economist, and Taussig and Angell, the American economists, wrote against the Ricardian theory in their books published in the late 1920’s, and the theory evolved was, “Purchasing Power Parity Theory,” for determining the rate of exchange between the currencies of inter-trading countries. It is asserted that the rate at which currencies exchange against each other should normally be that rate which causes each when converted into the other to purchase the same quantity of goods in the land of the currency into which it has been converted as it purchases at home. These economists argued that labour is not the only factor of production and that countries export and import because some foreign-made products are dearer or cheaper than home-made products. They went further, and said that cheapness of production is not the only consideration for a producer in one country to produce goods. There must be demand in the other country for the produced goods. Pareto, an Italian economist, had formulated a theory of the equilibrium of international prices in 1896, in his book, Course d’economic politique. At the same time, Edgeworth, an English economist, had said in his article, “Pure Theory of International Values,” that the basic principle of International Trade is to be found in Jevon’s Theory of Exchange, and Marshall’s Theory of Equilibrium between the forces of supply and demand, a theory at the centre of most of the problems of Economics. This Theory of Equilibrium made its inroad into the doctrines of International Trade of British and American economists, until Edwin Cannan, in his Presidential Address of the Royal Economic Society of Great Britain, declared in 1933, that the principal error from Ricardo’s time till that day had been to construct a separate theory for international trade different from the theory of trade in a single country. So after that, the Rate of Exchange was considered to be dependent upon the supply of, and demand for, the currency of a particular country, or upon its Balance of Payments position. The Theory of trade in a single country, evolved by Jevons and Marshall, had proved that the Law of Supply and Demand or the competitive market determined the prices of commodities at a certain point of time. In 1933, the same view was accepted about the Rate of Exchange of
different currencies. It was one more triumph of the Law of Supply and Demand in the economic structure of the world.

10. During the Second World War the belligerent countries had to impose Exchange Control on account of the disequilibrium in their Balances of Payments position brought about by the war effort, and they had to fix the Rates of Exchange of their currencies. It is deplorable that exchange control is still existing, although nine years have passed since the cessation of hostilities. The reason is that the world has not recovered from the destructive effects of the war, and the balances of payments of the belligerent countries are still not favourable or in equilibrium. To bring about stability in the Rates of Exchange and to do away with the Exchange Control System, an international institution, called the International Monetary Fund, was established in 1945, after the cessation of war. It was felt that currencies could not be made convertible on account of dollar shortage, and dollar shortage could not be got over on account of the high tariff rates in America. Other countries could not earn dollars by exporting their goods to America, as these goods were subject to high customs duty, levied by the American Government. A commission, called the Randall Commission, was appointed by the American Government to suggest ways and means to President Eisenhower by the adoption of which the American Government might help other countries tide over their dollar shortages. The Commission gave its suggestions in March, 1954. Some of the main suggestions were:


(b) Extension by three years of the President’s authority to negotiate agreements with other countries for reciprocal lowering of tariffs.

(c) Repeal of legislation obliging use of American ships for consignments under foreign aid programme.

(d) Encouragement of increased private investment abroad through tax relief and diplomatic support.

(e) Discouragement of price fixing of farm products.
(f) Reducing instability of world’s raw material prices by means other than stock piling and international commodity agreements.

(g) Refusal of tariff concessions on products made by foreign workers receiving sub-standard wages.

(h) Encouragement of tourism.

(i) Gradual and controlled approach to full convertibility of sterling and other currencies with assistance from the International Monetary Fund and the Federal Reserve System in the United States.

11. The idea of convertibility of the currencies of different countries of the world has gained a further impetus in the ninth review session of GATT (General Agreement on Tariffs and Trade), recently held in Geneva. Mr. Wilgracess, Chairman of GATT, told the delegates on 29th October, 1954, "We are within sight of the convertibility of the currencies of a number of countries which play an important part in world trade. Convertibility will make possible the smooth functioning of a system of multilateral trade and payments. There will no longer be justification for the maintenance of import restrictions on the scale to which we have been accustomed since the war." He urged the delegates to agree to the following points: (1) The need for competition. (2) That it was more effective to cure an unbalance in trade by increasing exports than by reducing imports. (3) Continued discrimination in trade was harmful to the country, for unemployment was more effectively dealt with by expanding demand than restricting exports.13

Mr. Wyndham White, Secretary-General of GATT, stated on 1st November, 1954, that restoration of currency convertibility and a system of multilateral trade without discrimination or artificial barriers would become possible in the near future.14 The Pakistan delegate said on 12th November, 1954, that no Government should use quantitative restrictions recklessly, as he did not regard these restrictions as a permanent measure, and that they were bound to diminish and eventually disappear. But he advocated the

right of these restrictions for under-developed countries. He gave no reasons for it. He thought quantitative restrictions were better than raising of tariffs even, in some circumstances. He again gave no reason for it. If we look into the industrialization policy of the Government of Pakistan, which they are implementing by the quantitative restrictions of imports, we find that the common man is being continuously robbed on account of the high prices charged by the industrialists. Quantitative restrictions of imports have given a sheltered market to the industrialists and have almost eliminated foreign competition. If the tariff duties had been raised (which are already quite high; customs duty in the case of cotton textiles is 60% of the landed cost), foreign supplies would have stayed in the Pakistan market to compete with the locally manufactured goods in respect of quality. In respect of price, the industrialists would have been at an advantage to the extent of the rate of customs duty, as compared with the foreign suppliers. The industrialists could have a chance to charge extra prices up to the rate of customs duty and no more. In order to avoid foreign exchange difficulty in the long run, the under-developed countries should start to set up industries one by one. First, they can start with one industry, say textiles, for which they produce their own raw material. The Government can give protection to this industry. When, after setting up more and more factories, competitive market conditions have been produced in this industry, i.e., when supply is approximately equal to demand, the Government can withdraw encouragement from this industry and select the second industry for protection, and so on. Instead of starting all the industries at one and the same time and then not finding enough foreign exchange to import spare parts for the installed factories, it is better to keep an order of priority of industries and to start them in accordance with that order.

12. The same views about free international exchange were expressed at the opening session on 24th September, 1954, in Washington of a six-day meeting of the Governors of the International Monetary Fund and the World Bank. Mr.

John Van de Kieft, the Dutch Finance Minister, who presided over the first session, said that one of the most important developments of recent years was a growing awareness that mistaken internal fiscal and monetary policies were at the root of unbalanced international trade. But he warned that approach to convertibility must be a gradual one. Mr. George Humphrey, the Treasury Secretary of the U.S.A., said that the U.S.A. had taken, and would continue to take, its part in trying to remove trade barriers, and it was worth noting that his country had already reduced tariffs under its reciprocal trade programme, so that only 45% of the total value of imports of last year were subject to any duties. He added that currency convertibility had become a nearer prospect.\textsuperscript{16} Mr. Abdul Qadir, Governor of the State Bank of Pakistan, addressing the meeting on 27th September, 1954, said, "Speaking for my country, I can confidently state that we regard achievement of non-discriminatory trade and free payment as important objectives of our policy. Indeed, we recognize that the real income will be maximized only when we return to the multilateralism after an enforced departure from it during the period when the country is passing through the most difficult stage in its process of development."\textsuperscript{17} *Pakistan Zindabad.*

13. Identical views were expressed by Mr. Franz Pick, publisher of *Pick’s World Currency Report*, while speaking at a luncheon meeting on 20th October, 1954, of the Export Managers’ Club of New York. He said that the world is now on the road to currency convertibility and that it is now entering the era of currency reconstruction once again after 14 years of currency destruction. He added, "We are also moving towards more foreign trade, towards easier conditions and money transfer and, certainly also towards more competition.* The common man in Pakistan is looking forward to it, as he finds that his trade has become the handmaid of bureaucracy and corruption on account of a thousand and one controls, as Exchange Control, Import Control, Export Control, Price Control, Dis-

\textsuperscript{16} The daily *Dawn*, Karachi, 25th September, 1954.
\textsuperscript{17} The daily *Times of Karachi*, Karachi, 1st October, 1954.

*Continued on page 233.*
distribution Control, movement control and, above all, the bureaucrat's white collar and palm grease control.

14. One sphere in which the law of supply and demand has been misused is the Forward Market. In this market, artificial conditions are created by two sets of operators — the bulls and the bears. The bulls always try to keep the market high by making fictitious purchases, the purpose of which is never to take delivery of the goods, while the bears always try to keep the market low by making artificial sales, the purpose of which is never to deliver the goods. These are *prima facie* wagering contracts and are unenforceable under Section 30 of the Indian Contract Act. The same section legalizes horse racing. Under English common law, a wager was deemed to be a valid contract, until the passage of the Gambling Act in 1845, which made these contracts void and unenforceable. But in the case of the speculative market of forward trading, judges in India have given the rulings that, to make a contract a wager, there must be a common intention to bet, that under no circumstances was delivery of the goods to be demanded or given (Tod vs. Lakhmidas, 1892, 16 Bom. 441). The judges have gone still further, that the mere fact that the seller did not intend to deliver the goods, even if this fact is known to the buyer, does not invalidate the contract unless there is a bargain or understanding between the buyer and the seller that delivery is not to be demanded (Sukhdevdas vs. Govindas, 1928, 51 Mad. 96, P.C.). These rulings have turned plain acts of wagering into valid contracts.

15. It is argued by the defenders of forward trading that some of the operators have a specialized knowledge about the market conditions of commodities and shares and, when they enter the market, clever buyers cannot dupe the ignorant sellers by their tactics of keeping the market depressed and thus buying their goods at low uneconomic prices at the time when these goods actually begin to flow into the market. The specialist operators always remain competing with these clever buyers and thus keep the market in a competitive mood. This is a very good theory. What actually happens is that there are regular forces of bearish
and bullish tendencies working in the market, and one force is always trying to dodge the other by all means, fair or foul, such as spreading false rumours, creating huge bearish and bullish blocs and trapping new entrants to join their blocs by giving them hopes of making easy fortunes. These blocs give rise to price leaders. When one price leader, like Gobindram Saksaria, begins to sell cotton, the whole world begins to sell cotton and the price of cotton falls, but, actually, Gobindram has his private men in disguise to buy cotton by the back door. When Gobindram feels that he has bought enough cotton through his private agencies he begins to buy cotton, the whole world follows suit, prices of cotton rise, and Gobindram liquidates his privately bought cotton at high prices and slips out of the market. This process he calls "rigging the market". Again, he remains preparing the ground for his next move by spreading rumours, by colluding with banking corporations, by bribing the news services, by handling trade union leaders for starting or stopping strikes in the textile mills, or by fraternizing with politicians and civil servants for having a certain piece of legislation enacted or having a dead law enforced, and he enters the market when he feels that the ground is ready for his move. Before partition, some Muslims also happened to make money like this and, after the emergence of Pakistan, captured the political fish-market by the show of their money only. There is again a plan to start a "hedge" market for cotton in Karachi through an ordinance of the Government.18

16. To give the name of "hedge" market to speculative trade is a misnomer. There is a well-known incident in the pre-partition Karachi market that a big exporting firm bought a large number of cotton bales from another firm. The market fell. Sellers asked the buyers to pay the price difference. Buyers were shrewd. They knew that the quantity of bales involved was very large and, if they asked for delivery of the goods, the sellers would not be able to deliver the goods. They also knew of the ruling of the judges that they were within their rights to demand delivery, as the contract would not be treated as a wagering contract

by the court. So they asked for delivery. The sellers might be having their own “hedge” contracts with other firms to cover themselves for their original sale contract. But they were also speculative contracts and their fulfilment would have entailed litigation and delayed delivery. So the sellers rushed their own men to the interior to get hold of the goods and rail them to Karachi. This raised the price of cotton in the interior and the sellers were obliged to stop deliveries and go bankrupt. This was a very good “hedge” in theory. The exporting firm might have committed with some overseas buyer. They covered themselves and made a “hedge” contract with a big firm. The big firm made further “hedge” contracts with the other operators. But where were the goods? When the time for delivery came the “hedge” did not help the exporting firm. The reason is that a futures market always acts in the air. It cannot help stabilize the prices, unless there are genuine demands and genuine supplies. The price ruling in the futures market is not the result of actual demand and supply of the commodity, but is the result of the opposing forces of bulls and bears and their resources and influence. Even if the price in the futures market begins to lead the price in the ready market, the price, having been determined by the artificial forces of bulls and bears instead of the genuine forces of demand and supply, stabilizes at a point higher than it ought to be if the genuine forces of demand and supply had been at work. The reason is that the price in the futures market settles after making allowance for the services of brokers and profits of operators, and hence either the producers suffer by getting lower prices than they ought to have got in the absence of parasitical services and profits of brokers and operators, or the consumers suffer by paying higher prices than they ought to have paid in the absence of these services and profits. The remedy for stabilizing the prices at economic levels lies in the establishment of co-operative societies at the centres of production around the countryside markets. With the abolition of landlordism, the peasant co-operative farms can themselves look to the sale side of their produce. Major Ghulam Hasan Khan in his presidential address at the annual general meeting of the All-Pakistan Co-operative Marketing Federation, held at Karachi on 11th December, 1954, observed that in order
to make the co-operative movement a strong organization, it was essential that marketing societies should be established in the villages and these societies should be united into District Co-operative Unions and the unions should be affiliated to the Provincial Co-operative Federation.\footnote{19}

17. In the speculation market, the person who gains most is the broker. His role is that of the managing committee of a racecourse or the keeper of a gambling den. The operators buy and sell through him and he goes on charging his brokerage on each purchase and sale, just as the punters or the card players gain or lose among themselves and the race committee or the den keepers go on deducting their commission at the finish of each event. Money that ought to have been invested in industry or commerce finds its way into the speculative market, where it is feeding disguised and parasitical workers like brokers and shrewd operators. In a world clamouring for capital formation in, and capital diversion into, the under-developed countries a futures market is a regressive step. Islam has prohibited the act of gambling in the Qur'ān.\footnote{20} In the two sahihs the Prophet has commanded as follows:

"It is related on the authority of Anas (may God be pleased with him!) that the Prophet (on him be peace!) prohibited dealings in fruits, as long as they were not ripe. It was asked: 'How to know their ripeness?' He said, 'Until they grow red'. Then he said, 'Do you think that any one of you would be able to take the property of his brother if God were to stop fruit from ripening?' In the account given by Ibn 'Umar, it is stated that the Prophet (on him be peace!) prohibited the purchase and sale of date trees, until the dates ripened, and from dealings in ears of corn until they grew (ripe and) white, or they were safe from calamities. He prohibited both the seller and the purchaser from such transactions."\footnote{21}
In Darqutni it is reported:

“...It is related by Ibn ‘Umar that the Messenger of God (on him be peace!) prohibited the sale of a commodity not in stock with another commodity also not in stock.”\(^{22}\)

“...It is related on the authority of Hakim ibn Hizam, who said: ‘The Prophet of God (on whom be peace!) prohibited me bargaining about anything which I did not possess.’ In another account, he (is reported to have) said, ‘I said, O Prophet of Allah, a person comes to me and wishes me to bargain about a thing which I do not possess. May I purchase for him from the market?’ The Prophet replied, ‘Bargain not about that which is not with you’.”\(^{23}\)

18. Paul A. Samuelson very beautifully sums up the working of the speculation market in the following words: “To the extent that speculators forecast accurately, they provide a definite social service. To the extent that they forecast badly, they tend to aggravate the variability of prices. Were it not for the detailed statistical information provided by the Department of Agriculture and private agencies, the 150-odd main traders of the Chicago Board of Trade would find themselves at the mercy of every idle rumour, hope and fear. For speculation is essentially a mass contagion, like the inexplicable dancing craze that swept medieval villages, the Dutch tulip mania that sent the price of a single bulb higher than that of a house, the South Sea Bubble, in which companies sold stock at fabulous prices for enterprises which would ‘later be revealed’.”\(^ {24}\) If it is the statistical information of the Department of Agriculture that saves the traders of the Chicago Board of Trade from idle rumour, hope and fear, the emphasis should be on the dissemination of correct information among the genuine stockholders and ready buyers and, if speculation is a mass contagion, the remedy is to eliminate the contagion itself and not to allow speculative deals.

\(^{22}\) Darqutni.

\(^{23}\) Ibid.

Similarly, writing on the black October, 1929 crash of the Stock Exchange, he remarks, "The bull market was over and the bear market had taken its place. And, as the former had lived on its dreams, so the latter was consumed by its own nightmares. Billions of dollars of security values were wiped out every month, taking with them not only the capital of gamblers out for speculative gains, but also the widow's mite, supposedly invested for steady income. A 'blue chip' stock, like United States steel, fell from a 1929 high of 261 to a 1932 low of 21, while less respectable securities dropped off the Board completely." In order to eliminate the speculative element in the Stock Exchange operations, the margin requirements were raised to 100% in 1946, i.e., a buyer of stock could buy only against 100% cash and not by depositing some percentage as margin with the broker. In England this step had already been taken before 1946.

19. When an importer or an exporter books forward exchange with his banker, the act is not speculative, if the importation or exportation is actually made afterwards. In the case of importation, the importer buys the foreign exchange from the banker at today's rate and the banker is always supposed to have foreign exchange for sale. The importer only takes delivery of the foreign exchange at a later date when his goods actually arrive, or at an earlier date when he opens the letter of credit. In the case of exportation, the exporter has his goods ready for export and he is sure to receive foreign exchange which he can change into his own currency from the banker at today's rate. But, if the idea of buying and selling foreign exchange is to enter into speculative transactions and not to actually import or export, then it can be stopped by asking the bankers not to book such transactions without checking them up with the proper documents.

20. In an Islamic State, sovereignty belongs to God. That sovereignty when put into practice has to keep in view all the attributes of God. One of His attributes is that He is "Rabb" — the Cherisher and Sustainer of mankind. The

25 Paul A. Samuelson, op. cit., p. 574.
Islamic State has, therefore, to be the Cherisher and Sustainer of its subjects. Ghulam Ahmad Parwez calls Islam Nizam-i-Rabubiyyat — the system of cherishing and sustaining mankind. He advocates the nationalization of the means of production of those commodities (or at least State trading of the items) which go to cherish and sustain mankind. These are the items of the basic necessities of life, like food, clothing, houses, education and medical care. The Caliph 'Umar gave a practical proof of this function of the State when, while on his night round, he carried flour and other eatables from Bait-al-mal (the Public Exchequer) to a woman whose children were crying out with hunger at night and the woman herself could not provide the necessities for them.

For other commodities, the Islamic State has to create essential conditions for the operation of a competitive system, where the law of supply and demand works freely within the limits of these conditions. These conditions are (1) freedom of enterprise or right to compete, and (2) two-sided competition between the forces of supply and demand as a means of determining prices. The experience of the last seventy years shows that the capitalistic system when left to itself, acting on the laissez faire doctrine, has tended towards trusts, combines, mergers and monopolies. The first country where anti-monopoly laws were passed was the U.S.A., and there also they could not be implemented on account of the masterly interpretation of those laws by the legal experts to the benefit of the monopoly institutions, which could pay huge amounts to these experts as their fees for proving black surfaces as white and vice versa and thus defeating the very purpose of the anti-monopoly laws.

There has been found one sphere where the law of supply and demand cannot be allowed to work, and that is the sphere of public works, which entails huge initial non-recurring expenditure, and any competition in this sphere would mean a duplication of the huge layouts and waste of resources which could otherwise have been used in other activities of nation-building. These public works cover public utility services, such as the postal and telegraph

26 Ghulam Ahmad Parwez, Nizam-i-Rabubiyyat, ed., 1954. Published by the Tulu'-i-Islam, Karachi.
services, railways, irrigation dams and canals, hydro-electric projects, municipal thermal electric companies and national housing plans. The rates for these services have got to be arbitrarily fixed, as no competition is allowed in the provision of these services. Their rates are fixed by calculating their cost of production, which is determined by the cost of the factors of production. The most important factor is labour, because, in this case, the capital and the land belong to the Government themselves. The labour market is not inhumanly competitive nowadays in the advanced countries of the world, as it used to be in the days of classical economists. Minimum wage rates are fixed in every industry so the question of starvation level wages does not arise. A reasonable profit is levied on the cost of production and the utility service is supplied to the public. The question of monopoly prices does not arise here, as the profit goes to the Public Exchequer. In an Islamic country, as we have seen above, food, clothing, shelter, medical aid and education are to be provided by the State at within-reach prices, as an Islamic State acts as the vicegerent of God, and God is the cherisher and sustainer of mankind. Moreover, the experience of the last seventy years has shown that the capitalistic society, working on the law of unbridled competition, instead of providing goods and services at competitive rates, has tended to create mergers and trusts and has supplied goods and services at monopolistic rates. An Islamic State cannot take this risk in the case of bare necessities, like food, clothing, shelter, health and education. In order to justify its position as the vicegerent of God, it must nationalize these services by bringing them under State trading and subsidize them in case an emergency arises. In Britain, the Labour Government had nationalized the import of foodstuffs and subsidized it during its 1945-50 régime. Nationalization of these services is also necessary for the reason that an Islamic State has got to get rid of the curse of interest from its body economic. The Islamic State must have in its hands some weapon, in the shape of raising or lowering the rates of these services in lieu of the traditional Bank Rate, when it wants to withdraw currency from the market (pumped in in pursuance of public works and full employment programmes), or when it wants to subsidize some of these services. Luxuries it can easily
leave to react to the law of supply and demand, made effective by the enactment and enforcement of anti-monopoly laws.

21. A student of history would say that the capitalistic system has a tendency towards concentration of control, like that of trusts, mergers, holding companies and interlocking directorate devices, which results in creating interest groups, i.e., groups of the large industrial corporations controlled by a few banking companies. We saw in para. 5 that in 1932, 200 of the larger corporations, or 1/25th of 1% of the total number of corporations in America, controlled 50% of the corporate wealth of the country. The National Resources Committee of America published data in 1935, which showed that the percentage of the wealth controlled by these 200 corporations was increasing, and that eight interest groups or banking companies, like J. P. Morgan & Company, and the First National Bank of New York, or some family groups, as the Rockefellers, Mellons or Du Ponts, were controlling 106 of the 250 largest corporations in the U.S.A. This is clearly centralization of control. But the centralized control is in a few private hands. The student of history would ask, if the capitalistic system is moving towards private centralization, why not have public centralization or nationalization of all means of production? Islam does not go to that extent.

An Islamic State, in its capacity as the vicegerent of God, would nationalize the means of production of items of basic necessities, like food, cheap clothing, building materials, medicines, books, or bring them under State trading as seen in the last para. Islam would also nationalize public utility services, like railways, electricity supply, postal and telegraph services, irrigation dams and canals, as seen in the last chapter in connection with the theory of full employment. But Islam would leave all other items free to react to the interplay of the forces of supply and demand, as, in the words of the Qur’án, "God hath permitted trade and forbidden usury". Moreover, an Islamic State would resist the tendency towards centralization in these luxury items by passing and implementing the anti-monopoly laws,

27 The Qur’án, 2: 275.
as only then genuine supply and genuine demand would constitute "trade". Islam resists total nationalization, in spite of the above reading of the student of history, also because, in the language of the Qur'án, Islam is the religion of the community which is justly balanced, and total nationalization would amount to reaching the fag end of extremity. There is another reason why Islam is opposed to total nationalization in any shape or form. Islam means Peace, and it is a religion of Peace. The cartel type centralization of Germany acts as a deliberate preparation for war, while capitalistic centralization in the shape of trusts, mergers, holding companies and interest groups feeds on war itself and always looks forward to it. The Communist type total nationalization is Utopian and has failed in Russia, as, there, they had to bring in a tolerable disparity in wages as a reward for efficiency, and also had to leave small tracts of land to the peasants for private cultivation and sale of their produce in the free market. Of course, this type of land was in addition to the nationalized or co-operatively farmed land, the fruits of which were enjoyed by all. Islam, therefore, charts its way in between total nationalization and capitalistic centralization.

28 The Qur'án, 2:143.

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CHAPTER V

"LAND BELONGS TO GOD" AS AN ISLAMIC
PRECEPT AND AS A PARAMETER INHERENT
IN THE THEORY OF ECONOMIC DEVELOPMENT

(This article was written in April, 1956. Some additions were
made in its last paragraphs in August, 1956. The two places where
these additions are made can be located by the dates of August
given in the article. This article has not been published before.)

So much has been written on the system of land ownership for the purposes of farming and agriculture that a newcomers in the field is severely handicapped, either by the absence of fresh ground to be broken or by the fear of his observations being dubbed as heretical and contrary to the existing habit of thought. My purpose in attempting the present topic is, first, that as in my previous studies on "Commercial Policy for Pakistan", "Negative Rate of Interest in Islam and the Modern Theory of Full Employment," "The Law of Supply and Demand in Islam and its Working in the Present-Day Economic Structure," and "Economic Security in Islam as Compared with the U.N. Declaration of Human Rights", I have, in my humble way, tried to locate and underline the main planks of the Islamic economic system which apply to the present day world conditions; my model of this system would remain incom-
plete if I did not touch upon such a vital parameter as the ownership of agricultural land.

Secondly, the Maulana Abul Ala Maudoodi, Head of the Jamaat-i-Islami, had irrevocably committed himself in his treatise in Urdu, *The Problem of Land Ownership*, published in 1950 (p. 67), that in every school of thought in Islamic jurisprudence there is certainly present one valid set of procedure or other by which a landowner can have his land tilled by another person. On page 75 of his book he says that if it is tenancy, it should be based on simple principles of partnership, and it should be enacted by law in what maximum and minimum ratios the produce is to be divided between the owner and the tenant in different forms of tenancy.

On page 71 of the same book, he says that it is a wrong notion that the State should buy all land from its owners by paying them full compensation, even with their free and full consent. It is wrong according to the fundamental tenets of the Islamic jurisprudence, though it may not be so according to some incidental rules. But on 30th January, 1956, while addressing a big gathering at Sylhet, he declared that the types of landlordism generally prevalent in East Bengal should be abolished without compensation.¹

Thirdly, the Constitution of Pakistan, passed on 29th February, 1956, named the country, “The Islamic Republic of Pakistan,” and Article 15 of this Constitution lays down:

“(1) No person shall be deprived of his property save in accordance with law.

“(2) No property shall be compulsorily acquired or taken possession of save for a public purpose, and save by the authority of law which provides for compensation therefor and either fixes the amount of compensation or specifies the principles on which, and the manner in which, compensation is to be determined and given.

“(3) Nothing in this Article shall affect the validity of:

(a) any existing law;

¹ The daily *Dawn*, Karachi, 1st February, 1956.
(b) any law permitting the compulsory acquisition or taking possession of any property for preventing danger to life, property or public health;

(c) any law relating to the administration or acquisition of any property which is, or is deemed to be, evacuee property under any law;

(d) any law providing for the taking over by the State for a limited period of the management of any property for the benefit of its owner.

“(4) In Clauses (2) and (3), ‘property’ shall mean immovable property or any commercial or industrial undertaking, or any interest in any such undertaking.”

In the Draft Bill of the Constitution this Article reads almost the same as in the passed Constitution, except that, in the former the words “and no such law shall be called in question in any court on the ground that the compensation provided by the law is not adequate” were present. These words were omitted from the passed Constitution by amendments proposed by Sir Feroze Khan Noon separately and also in conjunction with other landlord members of the Constituent Assembly of Pakistan, viz., Malik Amir Muhammad Khan, Mr. Mozaffar Ali Khan Qizilbash, Mirza Mumtaz Hasan Qizilbash, Mir Ghulam Ali Khan Talpur, Syed Mohyuddin Lal Badshah, Mr. M. A. Khuhro, Mr. Siroomal Kirpaldas, Mian Jaffer Shah, Haji Moula Bakhsh Soomro, Khan Muhammad Jalaluddin Khan and Major-General M. A. H. Jahan Zeb.

Sir Feroze Khan Noon gave notice of another amendment also, that, instead of Clause 15, the following Clause be substituted, namely:

“15. Without prejudice to any law already in existence in East Bengal, no property shall be compulsorily acquired or taken possession of, except for a public purpose and on payment of compensation.
“Nothing in this Article shall affect the validity of any law permitting the acquisition or taking possession of any property for preventing danger to life, property or public health.”

But his above amendment was not moved by him, as the words “and no such law shall be called in question in any court on the ground that the compensation provided by the law is not adequate” had already been dropped from the Clause.

Sir Feroze Khan, as well, criticized this Clause of the Draft Constitution in a Press statement on 15th January, 1956, that if the same was passed with the words “and no such law shall be called in question in any court on the ground that the compensation provided by the law is not adequate”, Pakistan would overnight become a Communist State, and that if the Prime Minister, Mr. Muhammad ‘Ali, could show him from the Holy Qur’án, the Hadith or the history of the first four Caliphs that the Government could expropriate private property without proper compensation, he would bow before the verdict of Islam. Later on, he made a speech in the Constituent Assembly of Pakistan on 14th February, 1956, when Clause 15 of the Draft Constitution was under discussion, and said that the position in East Bengal was totally different from that in West Pakistan. Seventy-five per cent of the land in East Bengal before the Acquisition Act belonged to Hindu Rajahs. He was referring to the East Bengal State Acquisition and Tenancy Act of 1950, by virtue of which all agricultural land over and above 100 bighas (three bighas equal one acre) per family or 10 bighas per member of the family, whichever is greater, would be taken over by the Government and distributed to the landless agricultural labourers, or to the cultivators holding less than 3 acres each. For all land acquired in this way compensation would be paid to the owners according to a prescribed scale varying twice to ten times the net income derived from it. For example, if the net income is up to Rs. 500/- per annum, the compensation paid will be ten times the net income, while if the net income is above Rs. 100,000/- per annum, compensation will be double the net income. The compensation may be paid either in
cash or in bonds, or partly in cash and partly in bonds. The bonds will be non-negotiable and payable in not more than 40 annual instalments. It is estimated that the Land Revenue receipts of the Government of East Bengal would increase by 12 crores of rupees after the State acquisition of the rent-receiving interests by 14th April, 1956. Non-agricultural land was also subject to acquisition by the State by paying five times the annual letting value or the annual profit.

Fourthly, in a footnote on my article "Economic Security in Islam as Compared with the U.N. Declaration of Human Rights", published in the January, 1956 issue of The Voice of Islam, Karachi, Pakistan, the Editor had made the following remarks:

"On being verbally inquired the learned writer has further elucidated his standpoint as follows:

"1. All land primarily belongs to God and, therefore, to the Islamic State, which is the vicegerent of God.

"2. The State, being charged with the guardianship of the entire community, has the power to exercise its discretion in deciding about the ownership of land. The Islamic State has the right to grant ownership of the land to individuals as it also has the right to restrict or withdraw this right, but that this right will not be absolute; it will be liable to be wrested from them, if the State considers individual ownership as incompatible with the general interests of the whole community. In short, the problem of land ownership has to be decided by the State, which is all-powerful in this regard.

"It may, however, be added that most of the Muslim jurists hold quite different views on this vital problem (Editor)."

These remarks of the Editor were made on a sentence in the above article of mine. The sentence reads:

"The Islamic conception of the right to acquire and maintain property is inherent in the precepts about

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Zakat and inheritance. These precepts presuppose the ownership of property on which Zakat is to be levied and which is to revert to the heirs on the demise of the owner. But the free gifts of nature, like water, air, light, sunshine and land are outside the pale of private property, as they are meant for the collective good of humanity and any appropriation of these gifts by one individual would deprive others of the life-giving and life-sustaining effects of these gifts."

I have given four reasons which have impelled me to attempt the present topic. First, I want to give the reader a complete and integrated picture of the Islamic Economic System as understood by me. Secondly, Pakistan was created on the basis of religion and some pseudo-politicians and pseudo-priests are exploiting the situation by perverting this great religion of Islam — a religion which is against priesthood, which is broad based on the Brotherhood of Mankind, which is a complete code of life and not merely a set of rites, which claims to offer solution to all the ills of mankind — social, economic, political or international; whose principles, when applied to the affairs of the individual, community, State or the world at large, are bound to efface poverty, disease, hunger, war and ignorance from the face of this earth and to experiment upon whose principles the separate country of Pakistan was alleged to have been brought into existence at a colossal sacrifice of one million human lives, displacement of millions of refugees, and committal of arson, plunder and abduction on a scale unprecedented in the history of mankind. Thirdly, the subject has a special significance in an under-developed country like Pakistan, where 85% of the population eke out a miserable existence from agriculture as agricultural labourers, tenants or proprietors of uneconomic holdings, while a handful of absentee landlords wallow in luxury by crop-sharing with tenants, and where agricultural produce forms 60% of the total national income and 90% of the total export trade earnings. The average holding in East Bengal is three-quarters of an acre, and in West Pakistan is less
than two acres (1.85) per head of the agricultural population, and the tenant has to share 50%, and in some cases even more, of the produce with his landlord out of these meagre average holdings. Fourthly, I owe a fuller explanation to the Editor of *The Voice of Islam* on the problem of land ownership for the purposes of agriculture. The learned Editor has said in his footnote that most of the Muslim jurists hold quite different views on this vital problem. My contention is that there can be only one view on this vital problem, and it will be worth while to analyze the dissenting views in the following lines.

My first reason in attempting the present study, as told in the beginning, is that I want to give the reader a complete and integrated picture of the Islamic Economic System, as understood by me. It is almost axiomatic by now that the National Income (Y) of a country is the sum total of its expenditure on Consumption (C) and Investment (I). In this model, Y = C plus I, the terms on both sides of the equation are variables. So if we want to maximise the National Income of a country, which in other words means maximising the production or output and getting rid of unemployment or disguised unemployment and raising the standard of life of the country, we have to maximise Consumption or Investment or both. Different countries at different stages of development will make a choice whether to increase consumption or to increase investment, because both consumption and investment are variable and the State can give a direction to the economy of the country in such a way as either to increase Consumption or Investment or both, so that an under-developed country gets developed in the shortest possible time and a developed country may guard itself against business cycles of depression and boom. For the purpose of the above analysis the easiest model is that of Mrs. Joan Robinson, which she used in her lecture on “The Theory of Economic Development”, delivered at Karachi University on 10th August, 1955. It was the following:
<table>
<thead>
<tr>
<th></th>
<th>K</th>
<th>Y</th>
<th>W</th>
<th>P</th>
<th>C</th>
<th>S or I</th>
<th>Rate of Growth per annum G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>1st year</td>
<td>500</td>
<td>100</td>
<td>60</td>
<td>40</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Wage=1</td>
<td>2nd year</td>
<td>520</td>
<td>104</td>
<td>62.4</td>
<td>41.6</td>
<td>83.2</td>
<td>20.8</td>
</tr>
<tr>
<td>Average</td>
<td>1st year</td>
<td>550</td>
<td>100</td>
<td>66</td>
<td>34</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Wage=1.1</td>
<td>2nd year</td>
<td>567</td>
<td>103</td>
<td>68</td>
<td>35</td>
<td>85.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Average</td>
<td>1st year</td>
<td>450</td>
<td>100</td>
<td>54</td>
<td>46</td>
<td>77</td>
<td>23</td>
</tr>
<tr>
<td>Wage=0.9</td>
<td>2nd year</td>
<td>473</td>
<td>105</td>
<td>56.7</td>
<td>48.3</td>
<td>80.8</td>
<td>24.1</td>
</tr>
</tbody>
</table>

K = Value of the Physical Capital.
Y = National Income per year.
W = Total wages per year.
P = Total profits per year.
C = Consumption per year.
S or I = Saving or Investment per year.
Suppose in one year the average wage of the wage-earners is 1, existing Physical Capital (K) in the country is 500, National Income (Y) is 100, the share of the National Income that goes to the wage-earners is 60%, so that the total wage (W) is 60, and the share that goes to the business entrepreneurs is 40%, so that the total profit is 40. Propensity to consume in the country is 80%, so that total consumption (C) is 80. Propensity to save is 20% and that the whole of it is invested, so that total Saving (S) or Investment (I) is 20. We also assume that the saving is done by the entrepreneur class only and not by wage-earners.

The rate of growth in the first year is the addition in Capital, 20, divided by the initial capital in the beginning of the year, 500, or 20/500, equal to 4%.

In the second year, Capital (K) would become 500 plus 20, equal to 520, National Income (Y) would become 100 plus the growth at the rate of 4%, equal to 104, Wage (W) would be 60% of 104, equal to 62.4, Profits (P) would be 40% of 104, equal to 41.6, Consumption (C) would be 80% of 104, equal to 83.2, Saving (S) or Investment (I) would be 20% of 104, equal to 20.8, Rate of Growth in the second year would be the addition of Capital, 20.8 divided by the initial capital in the beginning of the second year, 520, or 20.8/520, equal to 4%.

The economy of the country would remain growing at the rate of 4% per annum if the average wage is kept at 1.

Now, suppose the average wage in any one year is increased to 1.1, and in that year, total capital (K) is 550, National Income (Y) is 100; the total wage (W) increases by 10% as the average wage has increased from 1 to 1.1, so that it is now 66. The total Profit (P) is the difference between National Income 100 and the total wage 66, and therefore equal to 34. Suppose, further, that the propensity to consume in the entrepreneur class is 1/2, so that, when their income is reduced by 6, the reduction in their consumption is 3. But the total wage of the wage-earners has increased by 6 and the whole of it is consumed, as we have assumed that the wage-earners do not make any saving. Hence the increase in Consumption is 6 minus 3, equal to 3. Total Consumption (C) is therefore 83. We have assumed that all the saving is done by the entrepreneur class only.
Their total income (P) has fallen by 6. They have reduced their consumption by 3, as seen above. Hence they will have to reduce their saving by 3, as well, in order to make up for the reduction of 6 in their income. The Saving (S) or Investment (I) would, therefore, be 20 minus 3, equal to 17. The rate of growth in the first year is the addition in Capital, 17, divided by the initial capital, 550, in the beginning of the year or $17/550$, equal to 3%.

In the second year, Capital (K) would become 550 plus the addition of $17=567$, National Income (Y) would become 100 plus the growth at the rate of 3% = 103. Wages (W) would be 66% of 103 = 68, Profits (P) would be 34% of 103 = 35, Consumption (C) would be 83% of 103 = 85.5, Saving (S) or Investment (I) would be 17% of 103 = 17.5. Rate of Growth in the second year would be the addition of Capital, 17.5, divided by the initial capital in the beginning of this year, 567, or $17.5/567 = 3%$.

So the economy of the country would remain growing at the rate of 3% per annum, if the average wage is kept at 1.1.

Now, suppose the average wage in any one year is decreased to 0.9, and in that year total Capital (K) is 450, National Income (Y) is 100, the total wage (W) decreases by 10%, so that it is 54. The total Profit (P) is the difference between National Income 100 and the total wage 54, and, therefore, equal to 46. It is already assumed that the propensity to consume in the entrepreneur class is 1/2, so that when their income increases by 6, the increase in their consumption is 3, but the consumption of wage-earners has decreased by 6, as their wage has decreased by the same amount and they are consuming all their income. Hence the Consumption (C) would be 80 plus 3 minus 6, equal to 77. The entrepreneur class have utilized 3, i.e. one half of their increased income in their consumption. The balance 3 they would utilize in Saving or Investment. Hence Saving (S) or Investment (I) would be 20 plus 3, equal to 23. The rate of growth in the first year is the addition in capital, 23, divided by the initial capital in the beginning of the year, 450, or $23/450 = 5%$.

In the second year, Capital (K) would become 450 plus the addition of $23=473$, National Income (Y) would become
100 plus the growth at the rate of 5% = 105, Wages (W) would be 54% of 105 = 56.7, Profits (P) would be 46% of 105 = 48.3, Consumption (C) would be 77% of 105 = 80.8, Saving (S) or Investment (I) would be 23% of 105 = 24.1. Rate of growth in the second year would be the addition of Capital, 24.1, divided by the initial capital in the beginning of the second year, 473, or 24.1/473 = 5%.

So the economy of the country would remain growing at the rate of 5% per annum if the average wage is kept at 0.9.

From the above analysis we find that, for a greater rate of growth, i.e. 5%, the wage must be low, and profit must be high, and, to sustain this rate of growth, it is necessary that the whole of this high profit should be ploughed back into capital formation. Hence under-developed countries can develop only by keeping low their wages and, therefore, keeping low their consumption, as we have assumed that wage-earners consume all their earnings and save nothing. But going through this ordeal on the part of the wage-earning classes can benefit under-developed countries only when the profits are ploughed back into the pool of capital goods for further development. For this guarantee private enterprise cannot be wholly depended upon, and hence we need greater Government intervention in the initial stages of development of under-developed countries. The same conclusion is reached by Professor Nurkse in his book, Problems of Capital Formation in Under-Developed Countries.

"Once more, look at Japan. In the initial period of development, especially in the 1870’s and 1880’s, the State dominated the scene in providing capital for public works and industrial expansion. How was this financed? By stiff taxation, especially of the agricultural population, occasionally by forced loans imposed on the commercial middle class in the towns; and also by credit expansion, which was not inflationary so far as it reflected an increase in the monetary sector."

W. Arthur Lewis has estimated that net investment in under-developed countries is at the present moment about

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4 or 5% of their national income. For developed countries his estimate of net investment is 12 to 13% of the national income, gross investment 20% minus replacement investment 7 or 8%. As output or production depends upon capital machinery in use in the country, every year the gap between the output of developed and under-developed countries goes on widening, with the result that the hope of under-developed countries catching up with the developed countries goes on receding. Therefore the under-developed countries will have to increase their saving and therefore capital formation from 5% to 12% if this gap is to be kept constant at least. This is a big task and only Government agency can make up the deficiency in the investment sector because private enterprise will be guided by profit motive and not by the need for economic development.

When a country is fully developed, in so far as there is not much scope for capital formation and hence a lower rate of growth is required, as 3% in the above model, the wage must be high and the profit must be low, so that the wage-earners might consume a greater portion of the national income and maintain even this low rate of growth and thus help keep depression at bay, as we have assumed that they consume all their earnings. The same view is expressed by Kenneth K. Kurihara in his essay, "Distribution, Employment and Secular Growth," included in his book, Post-Keynesian Economics.

"Closely allied to the above discussion, but more directly concerned with secular growth, is the classical versus Keynesian controversy on the question of the relationship between income distribution and capital accumulation. This question will be found to pivot around Keynes’ notion of an ‘interest-free’ society, which is, in the writer's view, more fundamental than Professor Hansen’s ‘high-wage, low-profit’ economy. It will be shown that these are not alternatives but complements. . . ."

5 Ibid., pp. 208, 210.
So we find that both Professor Hansen and Kenneth K. Kurihara agree on "high-wage low-profit" economy as well, in so far as secular growth in developed countries beyond the stage of economic development is concerned, in order to safeguard against business cycles. The Governments of the developed countries help to keep the wages high by recognizing the right of trade unions to bargain collectively with employers for higher wages. They also pass minimum wage laws and social security laws for the purpose of keeping consumption at a high level. They also keep the programmes of public works ready in case of any imminent danger of depression and unemployment, so that the consumption of the community may not fall.

Incidentally, in comparison with the above model, the U.S.A. could achieve a 4% rate of growth per annum from 1870 to 1930. The same figure has been for Japan since 1880, i.e., she has been doubling her output every 25 years.\(^7\)

This right of the State to give a direction to the economy or to intervene actively in the economic affairs of developed countries has been conceded since the last great Depression of 1929-33, when laissez-faire countries, having so far been developed on purely classical capitalistic lines, were in the throes of a severe business slump and mass unemployment. This was a phenomenon of business cycle inherent in a free-enterprise capitalistic economy, at a time when any intervention by the State in the economic activity of these countries was thought to be taboo. But this time the depression was of such a virulent type that capitalist countries had to change their philosophy and the right of the State to launch public works programmes in order to relieve the pressure of unemployment was conceded in the United States of America in the shape of the New Deal Legislation, like the Public Works Administration Act of 1933, and the Works Progress Administration Act of 1935. These Acts empowered the Federal Government to initiate programmes of public works, federal housing and public health. In other developed countries it took about ten years to have the right of State intervention recognized formally as the Second World War had started in 1939, and the mobilization of

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resources for war efforts actually amounted to an active intervention on the part of these States. A *de facto* recognition of this right worked all through the war and on the cessation of hostilities White Papers on Employment were issued in England in 1944, and in Canada, Australia and Sweden in 1945, incorporating programmes of public works and public housing. New towns were built with public money in England under the New Towns Act of 1946. The Council of Europe adopted full employment as the aim of all the member countries in 1950, and a report was published in 1951.8 France achieved full employment in 1947-52.9 In Communist countries there was no question of trade depression or unemployment as the State was already running the economic machinery. Germany and Italy had solved their depression and unemployment problems before the war by having launched vast programmes of armament production, but they still had to try the peace-time programmes after the war had ended in their defeat.

Japan’s early industrial development seems to have been “planned” and carried out in large measure by the State.10 Japan, later on, turned to private hands its State-owned projects, and was at a high stage of development before the beginning of the Second World War. The benefits of her development in the shape of higher standard of life had not yet passed to her common people when she entered the war. The Governments of under-developed countries have only recently acquired the right of intervention in order to develop their economies and to raise the standard of living of their people. A Colombo Plan for the development of countries like Pakistan, India, Ceylon, the Philippines and Indonesia was drawn up at a meeting at Colombo of Commonwealth Foreign Ministers in January, 1950. These countries were promised aid in the shape of capital goods and technical assistance by the developed countries, viz., the United Kingdom, Canada, Australia and New Zealand. The under-developed countries were asked to formulate their plans of development and submit them to the next meeting.

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Since then India had her own First Five-Year Plan formulated, implemented and completed in February, 1956. Her Second Five-Year Plan is already on. Pakistan is also formulating her own Five-Year Plan, an outline of which was out at the end of May, 1956. Indonesia has since set up a National Planning Bureau to chalk out her First Five-Year Development Plan.

Ricardo was the first economist to hint that all value depends upon labour. Marx propounded the theory that capital is the surplus labour stored, meaning thereby that capital is that part of the value of labour which has not been distributed to labour as wages but has been saved and stored in the shape of capital goods in order to produce more value with their help. This he called Surplus Value produced by the labourer, and thought that it is denied by the capitalist to the labourer and that it should belong to the labourer or to the community as a whole, having the welfare of the labourer at heart. The capitalist, on the other hand, thinks that this surplus value is the price of risk-taking and claims it as his right. Keynes does not deny him this right, but asserts that, left to himself, the capitalist brings about the cycles of booms and depressions in the economy of a country and, therefore, Keynes wants the State to watch the economic activities of the community and to intervene, at the boom period by raising taxation, in order to curb the boom, and at the depression period by lowering taxation or starting public works, in order to eliminate depression and unemployment. Therefore, investment means the production of those goods which have entailed human labour in their formation like factories, machines, houses, roads, bridges, dams, canals, railways, etc. Buying land is not an investment by any stretch of imagination, as there is no human labour involved in the formation of soil. The soil is formed by nature. In under-developed countries, the problem is to remove as many persons away from the soil as possible, in order to engage them in investment activities. In developed countries, landlordism, if at all it exists, exists at the sufferance of the economy as a whole and ceases to compete with investment activities, as we shall see later on. Hence, land is to be used in a way conducive to the maximum production and nobody has been able to think of a better way for maximum
production than peasant proprietorship, the peasants tilling singly or co-operatively, as the circumstances demand, and the tiller having his relation directly with the State and not through the landlord.

The main points to be drawn from the Islamic Economic System, as brought to focus in my four previous studies, are:

(1) The responsibility of the State to provide work to the unemployed willing, able and seeking to work.

(2) The responsibility of the State to provide food, clothing, housing, education and medical facilities, temporarily in the case of unemployment or sickness or destituteness and permanently in the case of disability and old age.

(3) No control on trade (internal or foreign), prices and movement of goods, and the fostering of a competitive market as a means of price determination.

(4) Maximum mobility and competition of labour and of enterprise, and elimination of private monopolies by legislation, subject to the right of a decent wage to the worker — may be by the present-day process of trade unionism, collective bargaining and arbitration.

(5) Minimum wages fixed in each industry. If the industry cannot pay its way, it should go out of the market or the State should subsidize it.

(6) Ban on interest-bearing investments, including Government securities and portfolio investments. This can be done by bringing items of basic necessity, such as food, clothing, building materials, books and medicines, under State trading. The money supply in the market can be controlled by the Central Bank by increasing the prices of these items in case of inflation and by subsidizing these items in case of depression, unemployment, famine or other calamities. This method would replace the traditional method of manipulating the bank rate or open market operation of Government securities by the Central Bank as weapons for the control of money supply in the market.
(7) Complete freedom in investments on a profit and loss sharing basis (Muzarabah), and a right to compete for the investors, except in the Public Utility Sector.

(8) Imposition of Zakat (Poor Rate at 2\% per annum) as a State tax on uninvested wealth in order to compel the moneyed people to invest their wealth in profit and loss sharing investments (equity investments) and thus create work for the unemployed.

(9) Public works and public utilities to be launched by the State, if full employment conditions are not achieved after the above points Nos. 6, 7 and 8 have been duly enforced.

(10) Right to own property.

We have seen in the study on "Negative Rate of Interest in Islam and the Modern Theory of Full Employment" that, in an interest-less economy, the best weapon to regulate money supply is to have the necessities of life, such as food, clothing, building materials, books and medicines, under State trading, as money can be withdrawn from the market by increasing their prices at the time of inflation or their prices will be subsidized at any time it is felt that they are beyond the purchasing power of the common people. We, therefore, find that points Nos. 2 and 6 are complementary to each other. We also find that points Nos. 6, 7, 8 and 9 are complementary to one another for the purpose of creating full employment conditions, which in turn is the responsibility of the State, as per point No. 1. Hence, we find that points Nos. 1, 2, 6, 7, 8 and 9 are complementary to one another. Point No. 5, regarding minimum wages, is also complementary to point No. 2, as the State, being responsible for the necessities of life (enumerated therein) of each individual, whether temporarily or permanently, will make good any deficiency in wages which do not suffice to cover his above necessities. Hence, points Nos. 1, 2, 5, 6, 7, 8 and 9 are complementary to one another. Points Nos. 3 and 4 flow from the optimum idea of investment. Men, materials and money will always flow towards an enterprise offering a maximum reward, until the rewards in all enterprises are equal. This is, and has been, the keystone of
economic progress in the world. So, if a State is bound to provide work to its nationals, as per point No. 1, and also basic necessities, as per point No. 2, it would like in the first instance to facilitate the provision of work in those enterprises whose products cater to the maximum satisfaction of human wants. This would require open trade, a competitive price structure, mobility of labour and enterprise, and anti-monopoly legislation. So points Nos. 3 and 4 are inherent in point No. 7. Hence, points Nos. 1 to 9 are complementary to one another. Point No. 10, regarding the right to own property, is also inherent in point No. 7, because why should a person make investments and take risks if he is debarred from owning property? The question arises what kind of property he can own? He can own all movable property, including the shares of joint stock companies, provided he pays Zakat on the value of movable property and shares. The exemption of Zakat on shares of industrial companies which have invested their funds in capital machinery is a fit point for Ijtihad (doctrine of applying Islamic laws to the present-day conditions). A person can own immovable property, like houses, and capital machinery as well. He can live on the rent of these and still pay no Zakat on the capital value of houses and machinery. Why is there a concession in the case of houses and machinery? The only point an economist can think of is that he provided work to the community while constructing these. In the case of capital machinery, he is still providing employment to the people working on it. In the case of houses, he is competing with a State responsibility of providing houses to the people, as per point No. 2, and hence cannot indulge in rack renting, while at the same time he is sharing the burden of the State in providing houses. Then his income from the rent, both of capital machinery and houses, is subject to Zakat if he hoards it and does not plough it back into the industry or into the construction of houses, and thus does not lighten the responsibility of the State. The question arises — can he own agricultural land and live on its rent? We have to see if this latitude is compatible with our points Nos. 1 to 9. The pioneer of the present-day economic thought, John Maynard Keynes (1883-1946), while discussing the properties of interest and money in the capitalist economies, observes in his famous book, *The General Theory of*
Employment, Interest and Money, the book which has made the largest single contribution to eliminating unemployment and trade cycles in recent years:

"It may be that in certain historic environments the possession of land has been characterized by a high liquidity-premium in the minds of owners of wealth; and since land resembles money in that its elasticities of production and substitution may be very low, it is conceivable that there have been occasions in history in which the desire to hold land has played the same role in keeping up the rate of interest at too high a level, which money has played in recent years."\(^{11}\)

On page 358 of the above book he says:

"As I have mentioned above, there have been times when it was probably the craving for the ownership of land, independently of its yield, which served to keep up the rate of interest; though, under Gesell's system, this possibility would have been eliminated by land nationalization."\(^{12}\)

We have seen in our study "Negative Rate of Interest and the Modern Theory of Full Employment" that Keynes recommended Gesell's proposal for stamped money which would depreciate over a period of time, in order to force the people to invest instead of hoarding or keeping liquid their money. Keynes discusses this question on page 357 in the following words:

"The idea behind stamped money is sound. It is, indeed, possible that means might be found to apply it in practice on a modest scale. But there are many difficulties which Gesell did not face. In particular, he was unaware that money was not unique in having a liquidity-premium attached to it, but differed only in degree from many other articles, deriving its importance from having a greater liquidity-premium than any other article. Thus if currency notes were to be deprived of their liquidity-premium by a stamping system, a long

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12 Ibid., p. 358.
series of substitutes would step into their shoes — bank money, debts at call, foreign money, jewellery and the precious metals generally, and so forth."

Islam had prescribed the remedy to safeguard against liquidity-premium or hoarding by imposing Zakat, not only on local money but on deposits, on debts receivable, on foreign money, on jewellery and on precious metals. We have quoted above from page 241, where Keynes says that, since land resembles money in its elasticities of production and substitution being very low, there have been occasions in history when land has played the same role as money in keeping up the rate of interest at too high a level and has thus impeded investment activities. We have also seen that, on page 358 of his above book, Keynes remarks that this craving for the ownership of land would have been eliminated by land nationalization. Now, how could Islam, after removing all impediments in the way of investment, by the imposition of Zakat on local money, on deposits, on debts receivable, on foreign money, on jewellery and on precious metals, and by banning interest of all forms, allow the ownership of land for the purpose of rent receiving? The very purpose of the banning of interest and the imposition of Zakat on uninvested funds is defeated if land ownership for the purpose of rent receiving is allowed.

Another present-day authority on economics, Mr. R. F. Harrod, links the prohibition of usury with the marketability of agricultural land in his book, Towards Dynamic Econmocis, and concludes that in the most rigorous feudal days land was never really inalienable and unmarketable and therefore the medieval prohibition of usury never made sense at all and was totally ineffective. This means that because a moneyed man could buy land and live on its rent, the laws prohibiting usury were rendered ineffective. His earlier paragraph runs as follows:

"The land is rather an awkward problem. It has been suggested that, owing to the risk element, the price of land would find some natural level at, say, 100 years’ purchase. Alternatively, at some suitable point on the path towards zero interest, freeholds and copyholds, if any could be converted into 99-year lease-
holds at zero rent, the land being vested, as previously, in the Crown.\textsuperscript{13}

Keynes, in his book referred to above, had predicted on page 220 "that a properly run community equipped with modern technical resources, of which the population is not increasing rapidly, ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation". We have seen in the study "Negative Rate of Interest in Islam and the Modern Theory of Full Employment" that marginal efficiency of capital should always be greater than the prevalent rate of interest in order to tempt the entrepreneurs to make investments and create employment for the unemployed. If the marginal efficiency of capital approaches zero within one generation, as predicted by Keynes in 1936 (his book was first published in that year), the rate of interest must already have approached zero, because it is always less than the marginal efficiency of capital. The realization of the hope that the rate of interest would come down to zero in one generation from 1936 onward has been further postponed due to the Second World War, as the world has grown deficient in modern technical resources, first, by the destruction of war, and secondly, by the production of war materials instead of the peace-time capital machinery.

Harrod's suggestion to convert freehold and copyhold lands into 99 years' nationalized leaseholds can best be illustrated by an example. Suppose a person buys 100 acres of freehold land for Rs. 10,000/-, lets it on rent either on a crop-sharing basis or for cash, and the amount of rent that he receives, either in cash or by selling his share of the crop, is Rs. 1,000/- per year. He thus receives a rent of 10\% per annum. Suppose the rate of interest in the market falls to 5\% per annum. The value of his land would at once jump to Rs. 20,000/- because his land is yielding Rs. 1,000/- per year — and this much interest can be earned on Rs. 20,000/- at the rate of 5\% per annum. Then, if the rate of interest in the market falls to 1\% per annum the value of the land would jump to Rs. 100,000/-. At this stage the owner of the land would like to live rather on his capital than on his income of rent, because he had bought

the land to provide security to him in his old age and to his heirs. The value of his land has risen so high that, even if he begins to live on its capital value instead of its income, it would suffice him for the period for which he had planned to provide security for himself or his heirs. The intensity of his desire to provide for his heirs would go on lessening as the degree of his relationship with his heirs gets remoter. He may be very keen to provide for his son but he will be less keen to provide for his grandson; and, for his unborn great grandson, he may not be keen at all. Harrod says that, normally, a person is keen to provide for himself and for his heirs for the next one hundred years. So, when a stage has been reached by a fall in the rate of interest when he prefers to provide out of the capital value of the land (at the time when the capitalized value of his land has risen appreciably due to the fall in the rate of interest) rather than from the income of the land, the capitalized value of his land should be paid to him in yearly instalments for 100 years and his land be made to vest in the Crown. If he dies in the meantime the payments should be made to his heirs, until at the end of 100 years the instalment payments stop. In this way no injustice would have been done to the landowner, while his land had been smoothly nationalized. All this had to be done to remove the land from the path of interest falling to zero.

Another great economist, M. Allais, basing his arguments on a more technical form of the above analysis, concludes in his article\(^{14}\) that private ownership of land and the fact that the money in circulation is linked to the money in account do not allow the state of stationary equilibrium with maximum social yield. (State of maximum social yield is a state in which it is not possible to improve the economic position of any one person without, at the same time, prejudicing that of others. These conditions are fulfilled by a differentiated industry in a state of perfect competition, as shown by M. Allais himself, while completing the analyses of Pareto and Barone.) A Government security is a money in account and bears interest and it is connected to the currency note (circulating money) by the link of the rate of interest. Actually, the Government security and the currency

\(^{14}\) *Economie et Interet Paris*, 1947, pp. 542, 543.
note are both promises of the Government to pay and both should have been on the same level, but there is a rate of interest attached to the Government security, while no rate of interest is attached to the currency note. Hence this disparity is to be got over by eliminating interest from the currency system of a country. According to Pierre Masse, the above is the first obstacle which militates against the abolition of the rate of interest, and the second is private property in land.¹⁵

Similarly, Hugh Dalton, Chancellor of the Exchequer of the British Government in 1945-47, expresses the view in his famous book, *Principles of Public Finance*, that a large public income equivalent to profits from ordinary competitive prices is easily obtained without any serious economic loss to the community, by the public ownership of minerals and other natural resources and of land, both agricultural and urban, subject, if necessary, to long private leases. If such opportunities had been taken in the past, the present generations would have been able to spend freely on desirable objects and also would have escaped part of their present heavy burden of taxation.¹⁶

The value of the land may rise on account of reasons other than the fall in the rate of interest. It may rise due to its vicinity to a big city. At that stage, also, the owner of the land would prefer to live on its capital value rather than on its rent. So he would sell the land and would begin to live on its sale proceeds.

We have an example in Pakistan of a landlord, leader of the Azad Pakistan Party, Mian Iftikar-ud-Din, who is selling his land near Lahore and living in de luxe hotels on its sale proceeds. The value of a land may rise in the estimation of its owner, if he estimates the satisfaction of his immediate desires more important than the satisfaction of his future desires. Then, also, he begins to sell his land and live on the sale proceeds. We have Khan Ghulam Muhammad Khan of Lundkuwar, a leader of the Jinnah 'Awami League, who is selling his land under this impulse.


There is another impulse under which the owner may sell his land. That is when the price of agricultural produce falls so low that the owner does not find it worth while to keep land, either as a rent-receiving asset if he is a landlord, or as a means of livelihood if he is a peasant proprietor. But the peasant proprietor would sell his land and go out of occupation if he is sure of getting employment in other sectors of the economy. This can happen only in a highly industrialized country where agriculture is mechanized and results in very high yields. We have recently read of 3,000 peasant proprietors in the State of Iowa in the U.S.A., having quitted farming in the last six months. They owned farms of about 150 acres each. In the whole of the U.S.A., 600,000 peasant proprietors of this category have given up farming during the last four years to take jobs elsewhere.\(^{17}\)

Before partition, much of the land of the Muslim League landlords in West Pakistan was under mortgage with Hindu insurance companies or Hindu banks or Hindu private money-lenders. On the establishment of Pakistan, the Hindus migrated to India and the land stood redeemed without the payment of mortgage money. So these landlords were gloating over the emergence of Pakistan and were shouting “Quaid-i-Azam”. Syed Naubahar Shah hurled his cap to the sky on the floor of the Legislative Assembly and shouted, “This is my cap — my movable property; my land is in Lyallpur — my immovable property; and both belong to me and nothing belongs to the Hindu mortgagee. Islam Zindabad! Pakistan Zindabad!” He is happy. Even Jumma Khan Jumma, of Radio Pakistan, is happy while making his weekly broadcasts. Perhaps he has seen the light and does not want the land any more to live as a parasite on it. I had a chance of visiting some landlords as Joint Secretary of the Indo-Pakistan Islam League, and was dazed to see the luxury they were rolling in. Perhaps the interest and monopoly groups of Tatas, Birlas, Saigols, Alis and Valikas even cannot dream of this luxury. We have seen how the land held for the purpose of rent-receiving stands in the path of the rate of interest falling to zero, thus competing with the marginal efficiency of capital and impeding the investment activities for the development

\(^{17}\) *Time* Weekly, 6th February, 1956
of under-developed countries or for tiding over the depression of the trade cycle in the developed countries. The ten main points that flow from the Islamic Economic System were found to be complementary to one another and they could bring about a dynamic state of development only if they were acted upon as an integrated body. If you act upon some and leave the others, the equilibrium point reached in the economy of the society will fall short of the full employment stage and the result will be misery and agony for the general people. If the right to hold property includes holding of agricultural land for the purpose of rent-receiving, the result is that the rate of interest never reaches zero and, even if you make it zero as a religious dogma, the moneyed people would begin to buy land and live on its rent instead of living on interest, and the objective of creating full employment conditions will not be achieved as the moneyed people have got another outlet of rent receiving instead of lending on interest, and the purpose which the Islamic society wants the moneyed people to serve to create employment by investing in enterprises is defeated.

Now we take up the dogmatic opinion of the Maulana Maudoodi validating landlordism. In the Qur’án it is said in chapter 7, verse 128: “For the earth is God’s, to give as a heritage to such of His servants as He pleaseth; and the end is (best) for the righteous.” And the Islamic State, as a vicegerent of God, can give it as a heritage to such people as it thinks best in the greatest interest of the whole community. The ownership would remain vested in the State and the tillers would pay to the State one-tenth of the produce as revenue, as enjoined by the Prophet Muhammad. There would be no intermediary rent-receiving interests. Dr. Iqbal, the vision-gazer poet-philosopher, wrote poetry on this verse and took his inspiration from verses 63 and 64 of chapter 56 of the Qur’án, reading, “See ye the seed that ye sow in the ground. Is it ye that cause it to grow, or are We the Cause?” Similarly, according to verse 10 of chapter 41 of the Qur’án, “He set on (the earth), mountains standing firm, high above it, and bestowed blessings on the earth, and measured therein all things to give them nourishment in due proportion in four days, in accordance with (the needs) of those who seek sustenance,” the produce of
land is the right of those persons who seek sustenance from it, and not of absentee landlords. In the same way verse 39 of chapter 53 of the Qur'án lays down, “Man can have nothing but what he strives for”. Then how can a person live on the rent of land, when his labour or the risk to his capital (land) are both nil, and, when building up that capital, he provided no employment to the community?

As regards the principles evolved in the economics of agriculture during the lifetime of the Prophet and the first four Caliphs, it will be worthwhile to have a peep into the history of that time.

Mecca, where the Prophet Muhammad originally lived, was situated in an arid region, and no agriculture was possible there. When he migrated to Medina at the age of 53 along with his companions, his companions came to be known as immigrants, and the people of Medina, who gave them refuge and had accepted Islam, came to be known as locals. The farming of wheat and barley was already being pursued in the outskirts of Medina, and there were fruit orchards in the oases round the city. The locals took the refugees as their protégés by casting lots. The locals offered to share the ownership of their orchards with their refugee brethren. The Prophet did not agree to it. Then the locals said that the refugees might tend their orchards and could share the fruit with them. To this the refugees agreed (Bukhari, chapter on “Agriculture”). To deduce from this incident that Islam allows crop-sharing between the landlords and the tenants is a big error of judgment. Tending a fruit garden is different from raising a crop. The fruit trees have been there for so many years, having been nurtured from saplings to the fruition stage by the landlord’s own or hired labour, and to ask the other person to partake in the fruit at fruition stage is a big concession from the landlord’s side, and it could only be allowed when the landlord means to help the other person out of his difficulty. In the case of raising a crop, the whole process from the stage of ploughing the land for seeding to the stage of harvesting has to be done by the tenant, and to ask him to part with half the crop at the stage of harvesting is like sucking his blood. Moreover, the arrangement between the locals and the refugees was temporary — a
short-term expedient to tide over the immediate need of helping the refugees and, when that emergency was over, the refugees returned the fruit trees to the locals after the battle of Khaiber (Bukhari, chapter on "Gifts").

The Maulana Maudoodi in his book\textsuperscript{18} referred to above quotes the following sayings of the Prophet.

1. Rafey bin Khadij says that his family used to buy land and then let it on rent on the basis of crop-sharing by one third or one fourth or of the fixed quantity of the crop. One day one of his uncles came and said that the Prophet had forbidden them such a business which was profitable to them. The Prophet had forbidden them to indulge in landlordism and to let the land on the basis of crop-sharing by one third or one fourth or of the fixed quantity of the crop. The Prophet had ordered that the landowner should either cultivate the land himself or should hand it over to others for cultivation and that the Prophet had disliked the leasing of land on rent or on any other basis (Muslim).

2. In another quotation Rafey tells the name of his uncle as Zahir bin Rafey, and says that the Prophet asked him how they were running the affairs of their agriculture. His uncle told the details. On this the Prophet told him not to do like that, but either to cultivate the land himself or to hand it over to others for cultivation or to keep it fallow (Muslim, Bukhari, Ibn Majah).

3. Rafey cites another incident, that once he was watering his farm when the Prophet passed that way and asked whose farm and whose land it was. He replied that the farm was his, the seed and the labour were supplied by him, half the produce would be his and half for such and such a person. On this the Prophet told him that he had indulged in a usurious transaction and that he should return the land to its owners and recover the amount of expenses from them (Abu Daood).

4. It is related by Mujahid that Rafey bin Khadij had told him that the Prophet Muhammad had forbidden them doing a business which was profitable to them, i.e., letting the land to others for cultivation on cash rent or on

crop sharing. The Prophet further said that if any of them had any land, he should either cultivate it himself or should hand it over to one of his brethren in faith without any charge (Tirmazi).

5. Sa‘id bin Musayyib has quoted Rafey bin Khadij as saying, "The Prophet forbade Mahaqua (crop sharing) and Mazanba (the sale of dates on their trees), and said that farming can be done by three persons only:

1. He who possesses his own land and himself cultivates it.
2. He who gets the land from the other and cultivates it.
3. He who gets the land on cash rent (gold and silver) (Abu Daood, Ibn Maja, Nisai).

"But Nisai told, on the authority of another quotation, that actually only the first part of the saying of the Prophet relating to Mahaqua and Mabanba was genuine, and the rest was an explanatory addendum by Sa‘id bin Musayyib and got mixed up with the genuine saying. The Maulana Maudoodi translates Mahaqua as cultivation on a crop-sharing basis, while I have seen Mahaqua as meaning 'the sale of corn before the ears are ripe'" 19

6. Suleman bin Yassar has cited Rafey bin Khadij as quoting his uncle that the Prophet said that if anybody had any land, he should not let it on a fixed quantity of the corn, and the Prophet said, on another occasion, that if anybody had any land he should himself cultivate it or should hand it over to any of his brethren in faith but should not let it on rent nor on the basis of crop-sharing by one third, one fourth or of a fixed quantity of corn (Ibn Maja, Abu Daood, Nisai).

7. The son of Rafey bin Khadij quotes from his father that Abu Rafey told them, after returning from the Prophet, that the Prophet had forbidden them from a business which was profitable to them. But the obedience to God and His Prophet was more profitable to them. The Prophet had forbidden that anybody should cultivate a land except when it belonged to him or it had been given to him for cultivation.

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by somebody else without any understanding of compensation (Abu Daood).

8. Ibn 'Umar says that his family used to let their land on rent, but when they heard the saying of the Prophet from Rafey bin Khadij, they left this practice. On another occasion Ibn 'Umar says that his family used to practise Mukhabira (letting the land on a crop-sharing basis) and did not think it to be objectionable. Then Rafey claimed that the Prophet had forbidden them this practice. So they desisted from it (Muslim, Abu Daood, Ibn Maja).

Then the Maulana Maudoodi quotes the following sayings of the Prophet (pages 42-43 of the above book), the source being Jabir bin Abdullah.

1. The Prophet forbade the letting of land on rent (Muslim).
2. The Prophet forbade Mukhabira — the letting of land on a crop-sharing basis (Muslim).
3. The Prophet forbade that the land be taken on labour or on a crop-sharing basis (Muslim).
4. “If anybody has got land, he should either himself cultivate it or, if he is not himself cultivating it, he should hand it over to one of his brethren in faith.” This saying has been quoted in different texts. One text is: “If anybody has surplus land, he should either himself cultivate it or hand it over to one of his brethren in faith. If he does not want to hand it over he should keep it fallow.” The other text is, “He should give it away or lend it.” Another text is, “He should not let it against the tenant’s labour.” Still another text is, “He should not let it on rent” (Muslim, Bukhari, Ibn Maja).

5. The Prophet forbade to sell (lease) the vacant land for a period of two or three years. The other text is: “The Prophet forbade to sell (lease) the vacant land for a period of a few years.” Another text is: “The Prophet forbade to sell (lease) the vacant land in consideration of its crop or fruit for a few years” (Muslim).

6. Jabir heard the Prophet forbidding Mazanba and Haqul. Then Jabir himself explained Mazanba as exchanging plucked dates with the dates on the tree and Haqul as letting the land on hire (Muslim).
7. Jabir heard the Prophet saying that a person who did not desist from *Mukhabira* (letting the land on a crop-sharing basis) had a challenge of war from God and the Prophet (*Abu Daood*).

Then the Maulana Maudoodi quotes more sayings from the Prophet (pages 43-44 of his above book), the sources being four other Companions of the Prophet.

Abu Huraira is quoted as saying, “The Prophet said, ‘Anybody who has got land should either himself cultivate it or should hand it over to one of his brethren in faith without compensation, but, if he does not want to hand it over, he should keep it fallow’” (*Bukhari, Muslim, Ibn Maja*).

The Prophet forbade *Mahaquala* and *Mazanba* (*Muslim, Tirmazi*).

Abu Sa‘id Khudri is quoted as saying, “The Prophet forbade *Mazanba* and *Mahaquala*. *Mazanba* means purchase of dates on their trees and *Mahaquala* means the rent of land” (*Muslim, Ibn Maja*).

Sabit bin Zahak is quoted as saying, “The Prophet forbade landlordism” (*Muslim*).

Zaid bin Sabit is quoted as saying, “The Prophet forbade *Mukhabira*.” Sabit bin Hajaj asked Zaid bin Sabit the meaning of *Mukhabira*. Zaid replied that it meant the taking of land for cultivation on the basis of crop-sharing by one half, one third or one fourth (*Abu Daood*).

The Maulana Maudoodi then comments on the above sayings of the Prophet as follows (pages 44-45 of the above book):

“We have quoted above verbatim all the sayings of the Prophet on which depends the solution of the problem that in Islam crop-sharing or cash rent is forbidden, and it is ordained either to self-cultivate the land or gift it over without consideration. Probably no reliable saying worthy of the name has been omitted by us. Let us have a critical look at these sayings and try to find out whether in reality the spirit of Islam is the same in this problem as is apparent from these numerous sayings.

“Everybody knows that the Prophet was not only a religious jurist or a religious teacher, but was the ruler of a
State and practically the whole administration was in his hands.

"Everybody knows this also that the problem of land is not a personal or private affair of five or ten persons, nor is it a chance or an emergent affair that orders had been passed in the ears of a few people. This problem relates to the administration of the whole State, which permanently affects the economy of hundreds of thousands of people. Hence, whatever policy was adopted by the Prophet should have been well known during his time and during the time of his Caliphs."

The Maulana Maudoodi here enters into legal chicanery. He is confusing the economy of Pakistan with the economy of Medina of those days. There is no doubt that the problem of land affects the economy of millions of people in Pakistan and other Asian countries at the present moment, but land was not an important factor in the economy of Medina at that time. In other parts of the world land was not as scarce as it is today in Pakistan and other Asian countries. In the world as a whole there were no land settlements even, and the need for land settlements in the Islamic budgetary system was obviated, in the case of Muslims, by levying land revenue as one tenth or 10% of the total produce, and not on the area tilled. The biggest landlord family during the time of the Prophet and the four Caliphs in Medina was the family of Rafey bin Khadij. 20

In the analysis by the Maulana Maudoodi, given above, the Prophet is again and again quoted by Rafey bin Khadij that he and his uncle were forbidden to indulge in landlordism or to let the land on the basis of crop-sharing or on cash rent or on any other basis, and that, if anybody had any land, he should either cultivate it himself or should hand it over to one of his brethren in faith without any charge (pages 40-41 of the Maulana’s above book).

Then the Maulana Maudoodi invents a big lie on page 45 of his above book that the Prophet himself and all his reliable Companions and all the big families connected with the Prophet used to let their land on a crop-sharing basis. It can be asked from the Maulana Maudoodi what need the Prophet had to own land, when he, as head of the State,

20 Muhammad Yusufuddin, op. cit., p. 87; Bukhari, the chapter on "Agriculture".
had all expenses, personal as well as pertaining to social welfare, borne by the exchequer, so much so that when the Prophet died, there was no property to revert to the household people, and they were given life pensions from the State Treasury.

On the same page, further along, he quotes Nafey as saying that ‘Abdullah bin ‘Umar remained letting his land on rent during the time of the Prophet and the four Caliphs. In the year of 50 Hijra, i.e. 40 years after the death of the Prophet, he came to know that Rafey bin Khadij quoted the Prophet as having forbidden this act of letting the land on rent. Then ‘Abdullah went to see Rafey bin Khadij and Nafey went with him. Rafey repeated that the Prophet had forbidden the letting of land on rent. On this ‘Abdullah bin ‘Umar stopped this practice.

At this stage the Maulana Maudoodi grudges stopping the letting of land on rent by ‘Abdullah, who stopped doing an act which the Prophet had forbidden to do. The Maulana Maudoodi seems to be sorry for that, because it does not fit in with his idea of Islam.

On page 46 of his above book, he quotes Salim, son of ‘Abdullah, as saying that ‘Abdullah stopped letting his land on rent when Rafey told that he had heard his two uncles say that the Prophet had forbidden them to charge rent on land. ‘Abdullah said at the time of renouncing this practice that, although he knew that land used to be let on rent during the time of the Prophet, yet he would stop the practice lest the Prophet should have forbidden it and he might not have come to know of it (Bukhari, Muslim, Abu Daood, Ibn Maja).

We have already seen that the family of Rafey bin Khadij was the biggest landlord family in Medina and, when that family was forbidden to let land on rent, they stopped the practice and ‘Abdullah had to follow suit. He did not begin to indulge in hair-splitting, as the Maulana Maudoodi would now like to do.

As regards the Maulana Maudoodi’s charge that the Prophet himself and all his reliable Companions and all the big families connected with the Prophet used to let their land on a crop-sharing basis (page 45 of his above book)
it will be relevant to know how agricultural land fell into their hands and what they did with that land.

The first agricultural land that fell into the hands of the Prophet was the land of the Banu Nazir. The Jews of that place had broken their pledge with the Prophet. So the Prophet asked them to vacate his territory. They did not. The Prophet besieged them and they themselves requested that they might not be put to death for their treachery but be allowed to migrate towards Syria. The Prophet acceded to their request and they took away with them all their movable property, including even the door-frames. The land fell into the hands of the Muslims without any fighting and the question was how to distribute it. According to Muhammad bin Ishaq, verses 6 and 7 of chapter 59 of the Qur'án were revealed to the Prophet at that time. These verses read: “What God has bestowed on His Apostle (and taken away) from them — for this ye made no expedition with either cavalry or camelry: but God gives power to His Apostles over any He pleases: and God has power over all things. What God has bestowed on His Apostle (and taken away) from the people of the townships — belongs to God, to His Apostle and to kindred and orphans, the needy and the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you. So take what the Apostle assigns to you, and deny yourselves that which he withholds from you. And fear God; for God is strict in punishment.”

The narrator of this incident, Muhammad bin Ishaq, says that in these verses God suggested to the Muslims that the above land was the property of the Exchequer and was not meant for any individual. But the Prophet distributed it among the refugees, and when the destitute state of two locals, Suhail bin Hanif and Abu Dajana, was related to the Prophet, they also were given one share. But 'Umar says that the land of the Banu Nazir was such that was bestowed on the Prophet by God without any fighting. The Muslims had made no expedition with either cavalry or camelry (i.e. they had not to resort to fighting), so the land was appropriated by the Prophet (in the capacity of the Head of the State). The crops of that land were used in the household of the Prophet and the surplus, if any, was
sold and spent on arms and horses and other expenses of the crusades. The Prophet himself tilled that land under the shade of the date trees.\textsuperscript{21} The above verses of the Qur’ān are also aimed at preventing the concentration of wealth and land in the hands of the wealthy only, and enjoin the nationalization of land “in order that it may not (merely) make a circuit between the wealthy among you”.

The land of the Banu Qurayza fell into the hands of the Prophet under similar circumstances in the year of Hijra 5, and was distributed among the general Muslims.\textsuperscript{22}

In the year of Hijra 7, the land of Khaibar fell into the hands of the Prophet. The Maulana Maudoodi describes, on pages 47 and 48 of his above book, how half of the land of Khaibar was made the property of the Exchequer and the other half was allotted to the 1,500 participants of the battle of Khaibar because part of the land was won without fighting and part with fighting. The Prophet intended to have the land vacated by the Jews of Khaibar, as they had also broken the pledge, but the Jews requested that they might be allowed to stay and that they would cultivate the land and would be prepared to accept one half of the produce. The Prophet acceded to their request, thinking that the Muslim community at that time was short of numbers, but they were warned that they would have to vacate the land, whenever the Islamic State wanted them to do so. To this they agreed. This arrangement remained intact during the time of the Prophet and Abu Bakr. But, during the time of ‘Umar, the Jews again indulged in mischief-making, and it was decided to have the land vacated by them. So ‘Umar declared that the Muslims who had got their share of land in Khaibar should go and take possession of it, and the Jews were resettled in Taima and Ariha (\textit{Bukhari, Muslim, Ahmad, Tirmazi, Abu Daood, Nisai, Ibn Maja}).

The Maulana Maudoodi deduces from this incident the doctrine of letting the land on a crop-sharing basis. This is very unfair of him. This arrangement was proposed by the Jews themselves as an attenuated form of punishment for high treason. The Prophet accepted it, as the Muslim community was short of personnel at that time to till the

\textsuperscript{21} Muhammad Yusufuddin, op. cit., pp. 300, 301; \textit{Fatuhulbaldan}, pp. 18-20.
\textsuperscript{22} \textit{Ibid.}, p. 302.
land. If the Prophet had insisted on the immediate evacuation of the land by the Jews, the land would have remained fallow and none of the parties would have benefited. Then the offer to cultivate the land on the basis of one half share of the produce was from the side of the Jews themselves. This condition was not imposed on them nor was it a subject of bargain. Rather they were warned that they would have to vacate the land whenever the conditions of the Islamic State demanded it. This arrangement was a short-term expedient, meant to last till the time the Muslims could spare themselves or could grow in number to farm the pieces of land allotted to them, and made purely on humanitarian grounds, at the request of the defeated enemy themselves. To deduce a regular rule of law validating landlordism from this incident is to crush the spirit of Islam, which we have earlier seen in verse 128 of chapter 7, verses 63 and 64 of chapter 56, verse 10 of chapter 41, and verse 39 of chapter 53 of the Qur'an. As regards half the land of Khaibar belonging to the Exchequer being tilled on a crop-sharing basis, we have an example of the nationalization of land, and the Maulana Maudoodi has no comment to make on it.

Land fell into the hands of the Prophet under similar circumstances in the regions of Fidak, Vadi-ul-Qura and Taima. That land was made the property of the Exchequer and the original inhabitants remained the tillers. During the time of ʿUmar they resorted to mischief-making and were therefore asked to vacate the land. But they were paid compensation for the land as per their original treaties with the Prophet. After that, the Prophet conquered Mecca. The refugees who had fled from Mecca earlier along with the Prophet were allowed to take possession of their land and houses. In the case of the land of Taif, Doomatul Jandal, the Yemen, Yamama, Hazarmaut and Amman, the people of these regions accepted Islam, their land remained with them and they paid one tenth of the produce as land revenue. The people of Najran sent a deputation to the Prophet and besought peace. The Prophet made peace with them and gave protection to their lives, property, land and churches. Their treaty was upheld during the time of Abu

23 Muhammad Yusufuddin, op. cit., pp. 304-308; Fatuhulbaldan, pp. 29, 34, 35.
Bakr. But during the time of ‘Umar, those people began to make usurious deals. So ‘Umar withdrew the protection granted to them by the Prophet, paid compensation for their land and asked them to move to some other territory.\textsuperscript{24}

On page 50 of his above book, the Maulana Maudoodi quotes Abu Huraira (and he thinks that he is the same Abu Huraira who has been earlier quoted as having heard the Prophet forbidding the letting of land on a crop-sharing basis or on cash rent and asking the land to be owner-cultivated or be handed over free) that, when the Prophet came to Medina, the locals expressed a wish that their orchards be divided between the refugees and themselves. The Prophet did not agree to it. Then the locals told the refugees that they might tend their orchards and thus become the co-sharers in the fruit. The refugees agreed to this (Bukhari). We have already seen that tending a fruit garden is different from raising crops. The fruit trees have been there for years, having been brought to the fruition stage from seedlings by the landlord’s own or hired labour, and it is a big favour by the landlord to ask another person to partake in their fruit just by tending them at the time of the fruit season. While raising a crop is a whole-time, all-the-year-round job, and sharing half the crop by the landlord is sucking the blood of the tenant. Hence this example cannot be quoted as a justification for crop-sharing.

Then the Maulana Maudoodi quotes the narrations of Quais bin Muslim, Abu Jaffar, Ibn Abi Sheeba and Musa bin Talha, who say that every refugee family in Medina used to till land on the basis of crop-sharing with their landlord, that Abu Bakr, ‘Umar, ‘Ali, Saad bin Malik, Abdullah bin Masud, ‘Umar bin Abdul Aziz, Qasim and Urwah were crop-sharing landlords (Bukhari), that ‘Ali used to say that there was no harm in letting the land on the basis of half crop-sharing (Kanzulammāl), and that ‘Uthman had granted land to Abdullah bin Masud, Ammar bin Yasar, Khubab bin Arat and Saad bin Malik, and that Abdullah bin Masud and Saad bin Malik used to let their land on the basis of crop-sharing by one third or one fourth (Kitabul Khiraj Abu Yusuf).

\textsuperscript{24} Muhammad Yusufuddin, op. cit., pp. 305-313.
In between, the Maulana Maudoodi quotes Taoos as saying that Ma‘az bin Jabal used to let his land on the basis of crop-sharing by one third or one fourth during the time of the Prophet, of Abu Bakr, of ‘Umar and of ‘Uthman (Ibn Maja). The Maulana Maudoodi then criticizes this saying of Taoos that Taoos has mentioned the time of ‘Uthman, although Ma‘az had died earlier during the time of ‘Umar. But the Maulana Maudoodi does not dismiss the saying of Taoos, even for this gross anomaly. He is quoting the narrations of Quais bin Muslim, Abu Jaffar and Ibn Abi Sheeba as counter to the sayings of the Prophet which forbid landlordism and are directed to the biggest landlord family of Medina at that time, i.e., the family of Rafey bin Khadij.

Moreover, according to these narrations, Abu Bakr, ‘Umar and ‘Ali were crop-sharing landlords.

It is an historical fact that Abu Bakr had dismissed the petition of Fatima, the daughter of the Prophet, wherein she had laid claim to a share in the Crown land. He maintained that the revenue of the Crown land was the exclusive property of the Exchequer and could not be transferred to any individual. Fatima was very much aggrieved with this decision and she severed all connections with Abu Bakr for the rest of her life.25 Abu Bakr had a piece of land. At the time of his death he asked his daughter to sell it and refund to the State Exchequer, out of its sale proceeds, the amount of money (6,000 dirhams—about £110—Rs. 1400 or 1500) he had drawn as total Privy Purse as head of the State. The only other property he left was twenty date trees which he asked his daughter to share with her two sisters.26 To label such a man as a crop-sharing landlord is to run down Islam for the sake of winning a cheap argument.

About levelling the charge of landlordism against ‘Umar, it will be worth while to look into the incident of conquering the fertile region of Sawad in Iraq. This region was conquered in the year of Hijra 16. On the fall of this region the Muslim crusaders asked for the agricultural land to be divided among them. ‘Umar ordered that a census of the whole region should be taken. It was found that, if

25 Ata Mohy-ud-Din, Ph.D., Abu-Bakr, p. 15.
26 Ibid., pp. 105, 106.
the original inhabitants be made tenants to the crusaders, each crusader would get three tenants along with the land that they were tilling. Then 'Umar consulted the trusted Companions of the Prophet. 'Ali advised that the tillers of the land be left as they were and the land be nationalized, so that the State Exchequer might benefit. 'Umar himself also argued that, if the land was distributed among the crusaders and was made the subject of inheritance, the future generations of Muslims (as a nation) would be great sufferers. The crusaders were insisting that, as the land had been conquered by actual fighting and had not fallen into the hands of the Muslims without fighting, it was by right, of the crusaders and their heirs. 'Uthman, 'Ali, Talha and 'Abdullah bin 'Umar were supporting 'Umar. The great jurist Abu Yusuf has given details of the above incident on the authority of Muhammad bin Ishaq, who relates that, when 'Umar was pressed hard, he repeated verses 6 and 7 of chapter 59 of the Qur'án, which were revealed at the time of the fall of the Banu Nazir — the first land that fell into the hands of the Prophet — as seen earlier, and further quoted the next verses, 8, 9 and 10, of this chapter, reading:

"(Some part is due) to the indigent refugees, those who were expelled from their homes and their property, while seeking Grace from God and (His) Good Pleasure, and aiding God and His Apostle: Such are indeed the sincere ones.

"But those who, before them, had homes (in Medina) and had adopted the Faith, show their affection to such as come to them for refuge, and entertain no desire in their hearts for things given to the (latter), but give them preference over themselves, even though poverty was their (own lot). And those saved from the covetousness of their own souls, they are the ones that achieve prosperity.

"And those who came after them say: 'Our Lord, forgive us and our brethren who came before us into the Faith, and leave not, in our hearts, rancour (or sense of injury) against those who have believed. Our Lord, Thou art indeed full of Kindness, Most Merciful'."

After that, he said that verse 6 related to the land of the Banu Nazir, while verses 7, 8, 9 and 10 relate to all
land. From this he inferred that all conquered territories were by right, of all people and said then how could he distribute those to the crusaders and deprive the future generations of the nation? So the people agreed to have that land nationalized and made subject to the Settlement Revenue (Tribute) as charged from non-Muslim tillers.27 Prior to this, ‘Umar had decided to distribute the land of Syria among the crusaders, but Ma‘az bin Jabal had advised him not to do so; as, by so doing, that land would remain the property of one set of people and their heirs and the future generations of Muslims would suffer. ‘Umar acted on the advice of Ma‘az and nationalized the land of Syria.28 The same procedure was adopted by ‘Umar in the case of the land of Egypt.29 The precedent, set up by the Prophet, Abu Bakr and ‘Umar, was followed in the case of conquered land during the time of ‘Uthman and ‘Ali.30

In the light of these historical facts, it is a tendentious perversion of Islam to say that ‘Umar or ‘Ali or Ma‘az bin Jabal were crop-sharing landlords. We have seen above that ‘Ali himself suggested to ‘Umar not to distribute the land of Sawad (Iraq) to the crusaders and thus not create landlords, and ‘Ali, ‘Uthman, Talha and Abdullah bin ‘Umar had supported the decision of ‘Umar to nationalize the land of Sawad, and Ma‘az bin Jabal had similarly advised ‘Umar in the case of the land of Syria. If they themselves had been landlords, how could they act against their self-interest, as the crusaders could quote them as examples and ask for the expropriation of their lands as well?

Then, on page 51 of his above book, the Maulana Maudoodi wants to justify landlordism as a dovetailed and integrated sector in the Islamic Economic System and says that, if landlordism is abolished, the whole economic system of Islam will have to be changed. He quotes the following anomalies which would crop up:

1. If landlordism is abolished, the ownership of landed property becomes meaningless for women, children, the

28 Ibid., p. 315.
29 Ibid., p. 324.
30 Ibid., p. 325.
invalid and the aged. Perhaps the Maulana Maudoodi does not know that an Islamic State is responsible for the basic necessities of life, permanently in the case of disability and temporarily in the case of unemployment and sickness. Hence his argument does not stand.

2. If landlordism is abolished, there would be a clash between the Islamic law of inheritance and the abolition of landlordism. There is a possibility that a person may inherit land from many sources and, if landlordism is abolished, the land over and above the area which he cannot himself cultivate becomes useless for him. But there are clear sayings of the Prophet, as seen earlier, that the owner of land should either himself cultivate it or should hand it over to others for cultivation or keep it fallow, and that the Prophet had disliked the leasing of land on rent or on any other basis (Muslim, Bukhari, Ibn Maja, Tirmazi, Abu Daoood, Nisai). In the light of these sayings anybody who inherits surplus land should hand it over to others. It will be worth while to repeat verse 128 of chapter 7 of the Qur\'ân, seen earlier, viz., "For the earth is God's, to give as a heritage to such of His servants as He pleaseth; and the end is (best) for the righteous". And the Islamic State, as a vicegerent of God, can give the surplus land as a heritage to such of its people as it pleases, if the original heir himself does not hand it over to others. It is not understandable why the Maulana Sahib does not move out of his mental groove in the light of this clear verse. If anybody keeps his surplus land fallow, he loses his right of ownership after three years as per the saying of the Prophet quoted by the Maulana Maudoodi himself on page 30 of his above book. So the Maulana Maudoodi need not worry about the surplus land of an heir. It will escheat to the State.

3. The Islamic Law of Trade does not restrict the purchase of any tradable commodity to a definite limit. Then, why should it apply to land? The Maulana Maudoodi must know that the Prophet had prohibited the cornering of grain and withholding it from sale during a shortage, as related by Ma'mer in Muslim, as also by 'Umar and Ma'az. And Abu Hanifa, taking his cue from the commands of the Prophet, had ruled that a monopoly of any foodstuff should not be permitted (Charles C. Adams on Abu Hanifa). When the
Islamic law of trade prohibits monopolies in foodstuffs, how can it allow the monopoly of land, which produces the foodstuffs? Moreover, freedom of trade does not mean creating monopolies, and in America, the home of laissez faire economy, and in other countries, anti-monopoly laws had to be enacted to restore the freedom of trade, as seen in the study “The Law of Supply and Demand in Islam and its Working in the Present-Day Economic Structure”.

4. Islam has not put restrictions on the quantitative ownership of any tradable commodities, provided the levies on these commodities are paid. Then, why has land been restricted to an area cultivated by the owner himself and no more? We have seen in the earlier part of this study that the present-day ruling theory of economics has put the land leased on rent and the money loaned on interest in the same category insofar as their evil effects of obstructing the path of economic development or creating depression in the economy are concerned. If Islam has banned interest and does not ban landlordism, the purpose of achieving “the state of Maximum Social Yield” is defeated, and the rent-yielding surplus land becomes as harmful as interest-yielding money. So, limiting the agricultural holding to an area which can be cultivated by an owner and no more is quite justified.

5. Islam does not make it compulsory for an owner to distribute his property free to others. Then, why should it single out land for this purpose? We have seen earlier that an absentee landlord is on all fours with a moneylender, so far as his obstruction to the economic development or his contribution to bring about or deepen the economic depression are concerned. A moneylender is stopped from charging interest. Then his idle money is subjected to Zakat (2½% per annum) in order to force him to invest his money in houses or capital goods and thus create employment, take part in economic development and help tide over the economic depression. But a landlord cannot be forced to take part in the economic development, create employment or help tide over the economic depression. He can, at the most, be stopped from charging rent, so that the rent may not take the place of interest in his estimation or the other moneyed people may not begin to buy land and live on its rent instead
of living on interest. But then his land would remain fallow. And this fallow land can create employment for somebody else, if it is handed over to a self-cultivating person. This is the reason why the absentee landlord should compulsorily hand over his land free of charge to the self-cultivating persons.

6. The Islamic law gives a free choice to a moneyed man to invest his money in commerce, industry or other sectors of economy on the basis of profit and loss sharing. Then, why should the investment of money in land and its profit in the shape of crop-sharing be prohibited? We have seen, in the earlier part of the study, that, of all the economic activities undertaken by man, landlordism is the only activity which stands in the way of the rate of interest falling to zero. Even if it is made to fall to zero by a religious ordinance or legislation, it would not be able to create employment, speed up economic development or tide over economic depression; as moneyed people would begin to buy land and live on its rent, and the purpose which the society wants the moneyed people to serve, i.e., the purpose of creating employment, speed up economic development or tide over economic depression, will not be served.

On pages 55-59 of his above book, the Maulana Maudoodi hunts out cock-and-bull stories in order to substantiate the validity of landlordism. If he were a student of economics, he would at once be convinced of the reasons for banning landlordism.

On pages 60-61 he tries to mitigate some of the evils of landlordism. He need not take this trouble, if he tries to acquaint himself with the present-day economic thought, which has proved landlordism as harmful to society as moneylending on interest.

On pages 61-63 he quotes different schools of thought in Islamic Jurisprudence. But they cannot refute the verses of the Qur'án and the categorical sayings of the Prophet.

In the last part of his book (pages 68-76) the Maulana Maudoodi gives his own verdict, part of which we have quoted in the beginning of this study. But the Maulana Sahib might have to change his verdict, if ever he tries to spend some of the time in grasping the present-day economic theory. He will then be able to appreciate the philosophy
of verse 128 of chapter 7 of the Qur’án, “For the earth is God’s.” An idea of the general knowledge of the Maulana Sahib can be had from the assertion he makes on page 10 of his above book, that lately scientists have succeeded in separating heavy water from ordinary water, that heavy water is a very precious poison and that the formula of manufacturing petroleum from heavy water has been prepared. Scientists tell that heavy water is used as a moderator in the atomic chain reactions for slowing down the speed of neutrons while splitting an atom. The use of the isotope of hydrogen of heavy water in the fusion process, as done in the hydrogen bomb, is a far-off possibility for generation of energy on a commercial scale, as this process has not so far been moderated or controlled, as the fission or atom-splitting process is, by the use of heavy water. It is not clear how the Maulana Sahib would manufacture petroleum out of it.

From this forced criticism of the Maulana Mauoodidi, the following things emerge regarding the institution of land ownership in Islam:

(1) The State is the ultimate owner of all land.

(2) A person can possess only that much land which he can himself cultivate. The surplus he has to surrender to the State, and the State would determine whether to allot it to other self-cultivators or to keep it as a State farm for grazing cattle (Hima). The Prophet had earmarked a plot of land six miles long and one mile broad at Naqui‘ in Medina as Hima. Abu Bakr converted a piece of land into Hima in Rabza. ‘Umar ordered a Hima in Saraf.31 During the time of ‘Uthman and ‘Ali, public pastures were bought out of the funds of the Exchequer,32 as vacant lands were no more available at the spots where public pastures were decided to be made. Another case, showing the State as the ultimate owner of land, is that of the forests. The forests in the region of Dumaratul Jandal were preserved as State property by the

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Prophet. ‘Umar had retained the land and property of the defeated Emperor Chosroes and of those who were slain in the battle or had fled and the forests in Iraq and Iran as State property.\textsuperscript{33}

(3) The institution of land revenue in the Islamic Economic System corroborates the viewpoint that the State, and not the tiller, is the landowner. The land revenue is charged as 10% of the total produce if the land is rain fed and 5% of the total produce if it is irrigated by the cultivator by well or any other means. There is no need for land settlement or boundary demarcation for revenue purposes, as revenue is not charged on the area cultivated but on the quantity of crop raised, because, as seen earlier, according to verses 63 and 64 of chapter 56 of the Qur’án, “See ye the seed that ye sow in the ground? Is it ye that cause it to grow, or are We the Cause?” it is nature that makes agriculture possible, and the tiller’s job is to scatter the seed and wait. There was land revenue levied on the basis of the area cultivated in the case of non-Muslim tillers in Syria, Iraq and Egypt by ‘Umar, but that was in the nature of tribute. Therefore, a settlement of those lands was made.\textsuperscript{34} The tribute levied was never excessive and the rates varied with the crops raised on the land. The general rate fixed was 4 dirhams (about Sh. 1/6—1 Rupee) per jarib per annum (1 jarib=2.47 acres). On the land growing melons and cucumbers, it was 20 dirhams (about 5 Rupees) per jarib per annum, and on the land growing grape-vines, it was 40 dirhams (about Sh. 15/—10 Rupees) per jarib per annum. But land was assessed at different rates of tribute, according to its fertility and according to the market conditions of each region. These rates of tribute were much less than what the non-Muslim tillers used to pay to their erstwhile rulers, and this was one of the reasons of the large-scale and whirlwind


\textsuperscript{34} \textit{Ibid.}, p. 339.
victories of Islam in Syria and Egypt. Then these rates were decreased or the tribute was totally remitted in case of crop failure or drought.35 But the greatest reason why the land of Muslims was subjected to revenue as a percentage of the crop raised therein (without having to undergo the process of settlement), while non-Muslims’ land was subjected to tribute on the area of the land tilled (and therefore the land settlement being necessary), seems to be the underlying principle that surplus land of Muslims be repossed by the State without payment of compensation, while land of non-Muslims must be compensated for, if there arises a need of possessing that land. Compensation was paid to the Jews of Fidak and Vadi-ul-Qura on the basis of an equitable valuation by value appraisers when ‘Umar asked them to vacate the land on account of their treasonous activities. The Prophet bought the land of the Jews of Medina, when they were asked to vacate for similar reasons. In the case of the non-Muslims of Najran, land in Syria and Iraq was given to them in lieu of their land in Najran, when they were asked to vacate by ‘Umar for having resorted to the business of usury.36 Similarly, the Jews of Khaibar were resettled in Taima and Ariha, as seen earlier. But, when a Muslim has surplus land, he has to surrender it without compensation, either directly to the State, as “For the earth is God’s” (verse 128 of chapter 7 of the Qur’án, as seen earlier), or indirectly to the nationals of the State, as per the sayings of the Prophet (Muslim, Bukhari, Ibn Maja, Tirmazi, Abu Daood, Nisai, also seen earlier).

A movement for voluntary gifts of land (Bhoo-dan) by the landlords to the landless peasants was started in India in 1951 by Acharya Vinoba Bhave — a disciple of Mahatma Gandhi. Ten million acres of land had been collected by the movement up to October 1955. More than 300,000 acres

had already been distributed to the landless peasants. Acharya Bhave has fixed a target of collecting by 1957, 50,000,000 acres in this way, out of India's total cultivable area of 300,000,000 acres. In May, 1955, Acharya Bhave had even appealed to the temple authorities in India to give away their land to their landless tenants.

Sir Feroze Khan Noon and his eleven landlord disciples have a lesson to learn from Acharya Bhave. Ten million acres of land have slipped from the hands of the landlords for distribution to the landless peasants without a single pie of compensation and India has not turned Communist. Acharya Bhave is teaching the lesson of Islam, "For the earth is God's" and "the landowner should either cultivate the land himself or should hand it over to others for cultivation, and that the leasing of land on rent or on any other basis is forbidden". The Hindu landlord in secular India is hearkening to the voice of Islam, while the Muslim landlord in the Islamic Republic of Pakistan is amending the clause in the Constitution to evade the State acquisition of land on payment of compensation even.

Sir Feroze Khan Noon is not worried if the landed property in East Pakistan is acquired, because according to him the position in East Bengal was totally different from that of West Pakistan, as 75% of the land in East Bengal before the Acquisition Act belonged to Hindu rajas. Similarly, the Maulana Maudoodi declares that the types of landlordism generally prevalent in East Bengal be abolished without compensation, while in defence of landlordism in West Pakistan he burnt the midnight oil to write the book, *The Problem of Land Ownership*, when a prisoner in the Central Jail, Multan. Both are taking the shelter of Islam in expressing the viewpoint that the Hindu landlord is to be treated on a level inferior to that of a Muslim landlord. But our study above leads to the conclusion that a Muslim landlord is to be deprived of his surplus land without compensation and a non-Muslim landlord on payment of compensation to be determined by an impartial appraiser. This is the whole philosophy of charging revenue from a Muslim tiller of the land at the rate of 10% of his total produce.

38 Ibid., 6th May, 1955.
and from a non-Muslim on the area of the land cultivated by him. For a Muslim cultivator, no land settlement is, therefore, necessary, while it is very necessary for a non-Muslim cultivator. Land by the Muslim cultivator is held at the pleasure of the State, while a non-Muslim cultivator has an alienable right in the land which the State buys from him when acquiring his land for any political or economic reasons. Let Sir Feroze with his eleven landlord disciples bow before this verdict of Islam, initiate land reforms on a voluntary basis and prove to the world that Islam can mean action in the twentieth century as well, and is not mere slogans.

The fourth reason I gave for attempting the present study was that I owed a fuller explanation to the Learned Editor of The Voice of Islam on the problem of land ownership for the purposes of agriculture. I would give this explanation in the context of the conditions obtaining in agriculture in the world at large, and shall try to show how these conditions have been influenced by the economic development in each country.

In 1783, at the end of the War of Independence, the population of America, white and black, was about 3,500,000. The land policy of the United States took shape in 1790, when Alexander Hamilton, in his capacity as Secretary of the Treasury, submitted his report to Congress on the administration and disposal of public land, as he was earlier asked to do. His suggestions were that the land be surveyed, a Land Office be established and land be disposed of in large quantities. A Land Ordinance was passed in 1796, embodying these suggestions. As soon as land in a district was surveyed, it was to be sold in plots of 640 acres each to the highest bidder. The reserve price was $2 an acre. Only big capitalists and corporations could buy these plots, and they indulged in speculation by selling the same in smaller lots to settlers at high profits. Then in 1800, a system of selling smaller plots of 160 acres each on credit was introduced by the Government. But the settlers got encumbered with debt to the Government, and by 1820, there were $22,000,000 in arrears. In 1820, a system of cash sales at a reduced price of $1.25 per acre was inaugurated. The minimum size of the plots was also reduced to 80 acres.
Until that time the policy had been to sell the land at as high a price as possible in order to pay off the Public Debt, contracted during the War of Independence. After 1820, the policy was to encourage development by fostering small holdings at a low price. But land continued to be bought and then held up for higher prices.

In 1844, an anti-rent movement spread with its cry "Free homes for free men", and, as a result of this, the Homestead Act of 1862 was passed during the Civil War of 1861-65. This Act entitled every person of over 21 years to become the owner of 160 acres of land if he had cultivated it himself for five years. Millions of acres were given away under this Act and the progress of the United States is attributed by historians to this Act together with the railways. This Act meant the break-up of the capitalist land-holding régime. In 1870, the proportion of the working population engaged in agriculture was 53%. In 1873, the Timber Culture Act was passed, which gave a settler 160 acres, if he would plant one-sixteenth of it with trees and protect them for eight years. In 1877, the Desert Land Act made grants for pastoral purposes of 640 acres each possible, of land unsuitable for cultivation. The great cattle ranches in the west of America have been built up owing to this law. By 1890, the inland expansion of America was complete. By 1900, her population had risen to 75,477,467, and 67% of this population lived in rural areas. By 1910, the land utilized in farms in America was 46.2% of the total area. According to the Occupation Census of 1910, the total number of working people was 38,167,336, out of which 33% were engaged in agriculture.

America's agricultural produce, especially cotton and wheat, occupied an important place in her export trade. During the period 1860-90, cotton and wheat formed 77% of her export earnings. But during the same period, she became one of the great manufacturing countries of the world behind her tariff walls. She built up her great iron and steel industry and also silk and cotton industries during the period 1860-1900. Monopolies in the form of trusts had begun to develop, and in 1890 the first Anti-Trust Act,

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the Sherman Act, was passed.⁴⁰ The half-century from 1900 onwards has been a period of phenomenal industrial progress for the United States, except for the depression of 1929-33.

During this depression period, agricultural prices fell to such an extent that American farmers were burning wheat in order to prevent the prices from further fall. To enable the farmers to finance the carrying and orderly marketing of wheat, corn and other products, the Commodity Credit Corporation (C.C.C.) was organized by the United States Government in 1933. Banks and other local lending agencies were made to act as agents of the Corporation and, in places where there were no banks, the Corporation might lend directly to farmers. In July, 1939, the C.C.C. was terminated and its functions were taken over by the Department of Agriculture. In early 1943, the War Food Administration was set up within the Department of Agriculture and this agency absorbed the C.C.C. as well as the Agricultural Adjustment Administration (A.A.A., an agency that paid farmers to reduce the acreage of those crops or the numbers of those types of livestock which were believed to be in excessive supply). In order to peg the prices of certain farm products the C.C.C. places a loan value on the products pledged. This value may be higher than the current market price of the product. Later, if the product is sold for less than the value of the loan, the loss is absorbed by the C.C.C. The loss thus suffered by the C.C.C. is made good by the Government annually. This is a Price Support Scheme and is applicable to the products like cotton, corn, wheat, eggs, milk, chicken, turkeys, turpentine, rosin, butter, dates, figs, hops, prunes, raisins, rye, wool, rice, tobacco, peanuts and a few others. These products are stored wherever they are produced. If the price rises more than the loan value the farmers have the option to repurchase the products from the Corporation and sell it in the open market. The loan values are called parity loans. The term “parity” is used to denote the relationship between the prices of farm products and the

prices of industrial products in the period from August 1909 to July 1914. This has been done to keep the ratio of the purchasing power of the agriculturists to the purchasing power of non-agriculturists at the same figure at which it was during the period 1909-1914.

In July, 1937, the Bankhead-Jones Tenant Act was passed, which authorized the Secretary of Agriculture to make loans to farm labourers, tenants and share-croppers to enable them to acquire land and make improvements thereon, at a low interest rate of 3% per annum and for a period of 40 years. As a result of this Act the percentage of owner-cultivators increased from 57.6 in 1930 to 73.2 in 1950.41 The Reclamation Act of 1902 provides that landlords with holdings over and above 160 acres should sell their excess land at Government prescribed prices, if they wanted to get water for their fields from the irrigation project. Similarly, Section 46 of the Omnibus Adjustment Act of 1926 reads "... all irrigable land in private ownership by any one owner in excess of 160 irrigable acres, shall be appraised in a manner described by the Secretary of the Interior, and the sale prices thereof fixed by the Secretary, on the bona fide value, at the date of appraisal, without reference to the construction of irrigation works. ..."42 The Bankhead-Jones Act is administered by a department of the Farm Security Administration. This Administration also makes loans to low-income farmers for rehabilitation, for emergency and for facilitating farmers' community and co-operative programmes. Under the Water Facilities Act, loans are made to farmers for the purpose of supplying moderate water facilities, such as wells, pumps, windmills and minor irrigation.

The Federal Crop Insurance Corporation is a Government body created in February, 1938, to safeguard the farmers against crop pests and crop failures.43 The Farm Credit Corporation in U.S.A. provides credit to co-operative credit societies of farmers. The Federal Home Administra-

43 Prather, Money and Banking, 1947 edition, pp. 737-739.
tion provides about 50% of the credit to the farmers in project areas directly through its own agencies. It provides long-term loans for the purchase of land and for permanent land improvements repayable in instalments in 40 years.\textsuperscript{44}

During the Second World War the need for supporting the prices of food products was obviated as the general consumers in and outside the country were all employed and well paid, and were thus able to buy the food they had always wanted to buy. The cotton price, however, remained supported during the war even, and stocks accumulated. After the war, the food stocks also began to accumulate as previously. The one great reason was the increase in U.S. acreage productivity, due to increased farm mechanization and increased use of chemical fertilizers. The farm productivity was 47% more in 1954, as compared with 1939. Corn yields increased to an average of 2.4 tons per hectare (2.471 acres) from a pre-war average of 1.8 tons.

The U.S. Government has been forced to make the parity loan value flexible on account of the increased production of farm products. The Secretary of Agriculture, E. T. Benson, intended in September, 1955, after his 16-day tour of Europe, to reduce the parity values or supports by 3% to 13% on five major crops for the next year. Wheat supports were to be reduced from 82.5% of parity to 76%. His other plan to increase farm income was to control the sowing of crops by paying $10 to $12 per acre yearly to the farmers who grew grass or trees on their lands instead of crops. He hoped to take 40,000,000 acres out of production in this way. This plan would cost the Government $500 million per year.\textsuperscript{45} The Senate Agriculture Committee approved this plan on 11th February, 1956, along with price supports to wheat, cotton, corn, rice and peanuts at 90% of parity.\textsuperscript{46}

The U.S. Government had invested $7 billion till the end of September, 1955, in price support schemes. This was one billion more than last year, although the Government had sold $1.3 billion worth of the farm products at a

\textsuperscript{44} The Indian Journal of Agricultural Economics, March, 1955, p. 219.

\textsuperscript{45} Time Weekly, 26th September, 1955.

\textsuperscript{46} The daily Dawn, Karachi, 12th February, 1956.
net loss of $800 million in 1955.\textsuperscript{47} At the present moment the farm problem in the U.S.A. is over-storage and not over-production. The U.S. Government is holding 6,327,000 bales (each bale of 500 lbs.) of cotton (about 40\% of her yearly production and 18\% of world yearly production), 913,000,000 bushels of wheat (1 bushel of wheat equals 60 lbs.) (nearly equal to her yearly production and 15\% of world yearly production), 657,000,000 bushels of corn and hoards of butter, cheese, dried milk, barley, beans, flaxseed, sorghum, oats, rice, rye, soya beans, honey, peanuts, tobacco, wool, olive oil, tung-nut oil, linseed oil and whey.\textsuperscript{48}

In spite of such a tremendous help from the Government, the U.S. farmer is not getting a fair reward for his labour, as compared to people in the industrial sector. In spite of all this help from the Government, farmers get 30\% of their income from sources other than agriculture, like industrial jobs or investments.\textsuperscript{49} We have already seen that farmers with farm areas of as much as 150 acres each are selling their farms and finding employment elsewhere as they cannot run them as a business proposition. The number of farms in the U.S. is decreasing. It decreased from 5,382,162 to 4,782,393 during 1950-54. Most of the decrease occurred in tenants' and share-croppers' farms as these farmers could get jobs in industry which were more remunerative than farming. The balance of the decrease occurred in peasant-proprietor farms, as these farmers also did not find it remunerative to remain in agriculture.\textsuperscript{50} At the present moment about 12\% of the U.S. population is engaged in agriculture, and their problem is agricultural surpluses.\textsuperscript{51} In 1870, 53\% and in 1910, 33\% of the American population were engaged in agriculture, as seen earlier. It has dwindled to 12\% on account of better avenues of employment in the industrial sector. In 1954, the farmers who owned their own land were 75.6\% of the total landholders. Sixty per cent of the agricultural output in America is produced by 2,000,000 peasant-proprietor farms; 26\% output is produced by 100,000 giant farms. They are like "factories

\textsuperscript{47} Time Weekly, 3rd October, 1955.
\textsuperscript{48} Ibid., 7th November, 1955.
\textsuperscript{49} Ibid., 7th November, 1955.
\textsuperscript{50} Ibid., 2nd January, 1956.
\textsuperscript{51} Reader's Digest, February, 1956, p. 114.
in the field". Their production is so terrific that even the tenants and share-croppers on these farms get as much income as the workers in industry. Then, there is an increasing tendency to apply labour legislation to farm workers. Federal old-age and survivors' pensions apply to agricultural workers, but not unemployment insurance. Minimum wages are fixed for workers on sugar-cane and sugar-beet farms. General minimum wage laws of some of the States are also applicable to agricultural workers. One million farms (80% of them in the South) produce only 8%. They are marginal farms and may go out of business any time. About 1,700,000 are just hobby farms. They are not meant for making a living, and they contribute a small percentage to the agricultural output. With the facilities provided by the Bankhead-Jones Tenant Act, as mentioned earlier, the percentage of farmers owning their own land is increasing every year.

These are the conditions in the most highly capitalistic country of the world, and they border on equality so far as the income from land ownership to a peasant-proprietor or from crop-sharing to a tenant is concerned. Both of them tend to go out of their profession, and seek employment in industry, when they find farming as peasant-proprietor or as tenant uneconomic. Therefore, land ownership is no consideration so far as income from farming is concerned. For a moneyed man, the land as a rent-yielding asset does not act as a hindrance for industrial development, as compared with profit-yielding investment, on account of the surplus production and low income on the farm. Perhaps the American people will never exclude agricultural land from their concept of private property, although they got millions of acres of this land free under the Homestead Act of 1862 on an equitable basis of 160 acres each adult who could farm. One great reason for this is that there is a general property tax in America, charged on the value of property, tangible or intangible. In 1941, it produced 31% of all tax revenues combined, federal, State and local. No other country in the world, except Canada, raises such a large proportion of its revenue from property taxes. In 1941, the yield from the

above tax was $4,689,000,000 for State or Local Governments, or about 56% of their total revenue. About one-fourth of the States have given exemption to the peasant-proprietors on the value of their farmland, because it is felt that excessive tenancy is against the general interest. Another reason is the capital gains tax in America, which is also levied on the value of the property that might have increased during the year of assessment. The high degree of industrial progress in America has made land ownership harmless, rather subservient to her general economy. There, the land ownership cannot breathe until it is given a respiratory dose of price support by the general economy. There, it is being fed on subsidies and is not like an arrogant mistress holding back the wheels of progress, as in under-developed countries.

England has been a country of tenant farmers since the sixteenth century. Before this the lord of the manor had his serfs attached to the soil. The serf was granted a piece of land for his and his family's sustenance and he had to cultivate the other land of the lord and render him personal services in lieu of the grant. After the break-up of the manorial farming system, land was in the form of open fields, commons and waste. Open fields were cultivated by freeholders who had bought the land from the lord of the manor or copy-holders who were freed serfs and were paying feudal payments to their erstwhile lords in lieu of the lapsed services. Rights for the enclosure of land were granted at different times beginning with the Statute of Merton, 1235, till the middle of the nineteenth century. Enclosure meant the consolidation of scattered strips and their demarcation from the neighbour's land, usually by a hedge or a wall. It could apply to all kinds of available land, viz., open fields, village commons and waste. In England, there was some leasing of land at the time of the break-up of the manor, but it did not develop into a crop-sharing tenancy. Rather it was an evolutionary stage in the transition from manorial farming to commercial renting. The country squire of the Middle Ages — the John Bull — replaced the lord of the manor, and he preferred cash rent

to crop-sharing. The industrial revolution substituted the country squire by a commercial landlord and, as the latter had money to invest in permanent improvements, his landlordship proved beneficial to the tenant.\textsuperscript{55} Marshal, in his book, \textit{Principles of Economics}, calculated that the total investment of the landlord including land, buildings and improvements, seldom yielded a net rent of 3\% per annum.\textsuperscript{56}

"There is no other business in which a man can borrow what capital he wants at so low a rate, or can often borrow so large a part of his capital at any rate at all. The \textit{metayar} (the share-cropper) indeed may be said to borrow an even larger share, but at a much higher rate."

The tenancy system in England grew to be a yearly tenancy plus the custom of tenancy right. To give the tenant the security of tenure and the benefit of improvements that he might have made on the land, different Agricultural Holdings Acts of 1875, 1883, 1895 and 1908 were passed. The latest of these Acts is the Agricultural Holdings Act of 1948. The tenant, if made to leave, is entitled to compensation for the value of unexhausted improvements and also for uncalled-for disturbance. Thus, the tenancy system was not oppressive in England, especially with a cash rent of less than 3\%, as seen earlier. Yet the percentage of owner-farmers increased from 10\% in 1910 to about 25\% in 1925. The reason was the purchase of farms by the tenants after World War I, in some cases to avoid the loss of the farm.\textsuperscript{57} The percentage of owner-farmers at present is 40,\textsuperscript{58} and one third of the agricultural land in Britain is now farmed by owner-farmers.\textsuperscript{59}

There did not grow a class of peasant-proprietors in England, especially before 1910. The reasons were manifold

\textsuperscript{55} C. R. Fay, \textit{Great Britain from Adam Smith to the Present Day—An Economic and Social Survey}, 1943 edition, pp. 231-235.
\textsuperscript{57} C. R. Fay, \textit{Great Britain from Adam Smith to the Present Day—An Economic and Social Survey}, 1943 edition, p. 247.
\textsuperscript{58} \textit{Progress in Land Reform}, United Nations Publication, 1954 edition, p. 120.
\textsuperscript{59} R. Cohen, \textit{The Economics of Agriculture}, 1951 edition, p. 66.
In the early stages, the small man could not afford the expense of enclosure-surveys and of enclosing his land by walls or hedges. Then, the estates of the country squires passed intact to their eldest sons by the law of primogeniture, and those estates did not break up to smaller plots on inheritance. The third reason that encouraged large farms and enclosures was the Napoleonic War of 1793-1815 between Britain and France. The British towns were expanding during the war, and the urban population needed more food. The import of corn from European ports became uncertain and the years 1797-1801 and 1810-1813 proved to be bad harvest years. The small farmer did not know the methods of intensive farming at that time. The big farmer could carry out improvements and produce the food needed by the nation. The Government could not help the small farmer by initiating co-operative societies, providing credit or engaging teachers to instruct the small farmer in the methods of improved agriculture even if it had known these methods. It was itself engaged in war and suffering heavy losses in the shape of its ships being sunk and its cloth being withheld from export. So the small owner disappeared. The enterprising one sold his land, and either started cotton factories or rented large farms, using the money received from the sale of his small farm to stock the large farms. Others became agricultural labourers. The fourth reason was that the years between 1815 and 1830 were very slump years for agriculture, and the remaining small-holders had also to sell their land. In 1913, the statistics showed that, though farms of one to fifty acres numbered 292,720 as against 143,166 larger than fifty acres, they did not occupy more than 16% of the total area cultivated. In other words larger farms, although less than one half the number of smaller farms, occupied 84% of the total area. At that time 67% of the privately owned wealth of Britain belonged to 1% of the adult population, 17% of the wealth belonged to 2% of the population, and the balance, 16%, belonged to 97% of the population. At the end of the Second World War, 67% of the wealth was shared by 3% of the population, 17% belonged to 7% of the population, and the balance,

16%, to 90% of the people. Death duties, though levied on landed property in 1853, assumed the modern progressive form in taxation in 1894. Since 1945, it has been made impossible to pay Death Duties annually out of income. Properties up to £100,000 have been subjected to 50% of Death Duty and up to £1,000,000 to 80% of Death Duty. The first land taxes in England were levied on area, then on a family size farm. Later on, another land tax fell on knights only — the scutage in lieu of the personal services they had to render under feudal tenure. Gradually, the value of the land was made the basis for annual taxation. In 1798, the tax was made permanent and the landlords were allowed to pay it off permanently in lump sum payments. So gradually it disappeared as a source of revenue. At present there are only local taxes (the rates) on land, and they form the major part of local revenues. The largest State-owned land in Britain at present is the forest land, covering one and a half million acres and taken care of by the British Forestry Commission.

With Death Duties at such a high rate, with an agricultural population of only 7%, with an agricultural income of even less than 7% of the whole National Income, with a minimum income assured to farmers by means of guaranteed minimum prices, if the market prices fall below the prescribed minimum level, with landlords taking cash rent of less than 3% of the capital invested in land, houses and improvements, and with security of tenure to the tenants, landlordism in England is not a very acute social or economic problem at present. Yet the Labour Party has land nationalization as its election pledge. As a matter of fact, it had it as the next item on its programme of nationalization after the Bank of England, coal mines, transport and iron and steel had been nationalized during its régime of 1945-50. The Labour Government passed the Agriculture Act of 1947 under which both landlords and

tenants may be dispossessed (with compensation) if they do not observe the rules of good estate management and of good husbandry. It also amended the earlier Smallholdings and Allotment Act, 1908. Under the earlier Act the County Councils were empowered to acquire land in every county, and to sell or let it to smallholders. If they could not get the land they wanted, they were empowered to take it compulsorily and submit the price to arbitration. Should the County Councils refuse to act, the Board of Agriculture could act instead. Loans were advanced to the County Councils at low rates of interest for the purpose of acquiring land. Under the 1947 Act, the smallholdings provided by County Councils to smallholders can only be let, and not sold. The Act of 1908 was not obligatory for County Councils. But the 1947 Act imposes an obligation on County Councils to provide smallholdings for lease to persons with agricultural experience, preferably farm workers. The total number of smallholdings provided to farmers under the two Acts on 31st March, 1952, was 20,098, and the total acreage was 438,000. The Labour Government also passed the Agricultural Wages Act of 1948, which set up an agricultural wages board consisting of an equal number of employers' and employees' representatives along with independent members. The board is empowered to fix minimum rates of wages, although during the war the agricultural workers had already got an enactment of minimum wage of £3 5s. 0d. per week, as the adjustment of wages in agriculture was deemed to be of urgent importance to the war effort. In 1946, it was raised to £4 per week.* All social security laws are applicable to agricultural workers.

France is said to be a country of peasant-proprietors. They had to make a revolution in 1789 to get deliverance from feudal payments to their overlords and tithes to the Church. Arthur Young, in his *Travels in France*, first published in 1794, five years after the French Revolution, had remarked that "the magic of private property turns sand into gold". He was impressed by the comparative prosperity of the French peasant in relation to the English farmer, who was generally a tenant to his squire. Before this Revolution, the big landowners of France cultivated very little of their own land on account of it being intermingled with peasants'.

* Continued on page 233.
strips. The result was that they let their land, either on cash rent or on a crop-sharing basis. The ownership of the peasants was restricted to the extent that they were bound to make feudal payments to their Seigneur or overlord, which was a relic of their old serf status. Tenants made these payments in addition to their rent. Tenants, as well as owners, had also to pay taxes to the king and tithe to the Church. M. Marion estimated that 13-14% of the income of the owner-cultivator went to the tithe, 11-12% to the Seigneur and 36% to the tax-collector. The tenant had to pay the rent or the share of the crop in addition to this total of 60%. Thirty years before the Revolution, a movement took shape in France to create large farms, because in England large farms were paying well. So the landlords began to raise rent in order to eject the small tenants and also began to break up commons, thus depriving the tenants and the small owners both of pastures and wood. The Seigneurs also increased dues, as they needed money for agricultural improvements. The discontent thus created among the peasants became one of the potential reasons of the Revolution. After the Revolution, the Government was forced in 1793, by the revolutionaries, to abolish all feudal dues and the tithe. Thus the French owner-cultivator became a real owner. The tenant was not much profited by the abolition of feudal dues and the tithe, as his rent increased after the Revolution. But he got a chance to buy more land on instalments in the post-Revolution land sales. When land became scarce for the purpose of cultivation in France, the peasants changed to the intensive form of agriculture instead of the extensive. The law of inheritance was also changed. The property was to be divided equally among the heirs, and not to be left to the eldest son as in England. Later on, Napoleon, in 1801, changed the law of inheritance a little and allowed the entails to one degree.

Agricultural co-operative societies were started in France after 1884, as the law against syndicates was repealed. They were subsidized by the French Government and agriculture progressed remarkably since then.⁶⁷

Germany freed her serfs after France. Napoleon invaded Germany after the French Revolution of 1789. The western parts of Germany were the first to free serfs, as these parts had been taken over by Napoleon after the French Revolution. The parts affected were the Rhine, Jerome, Berg, Frankfort, Baden, Wurtemberg, Bavaria and Tyrol, and up to 1817, serfdom had been abolished in these parts, one by one. In 1799, in the eastern province of Prussia, the King of Prussia made the royal peasants free, under the influence of the French example, and their personal services were converted into money payments or they could surrender part of their land instead. Many manorial lords followed suit. The Prussian Edict of 1807 for emancipation declared the abolition of the status of serfdom. The manorial services were converted into money payments by a process called “Regulation”. The holdings where the serfs gave hand services were not regulated till 1853, on account of the labour shortage felt in working the big estates. But in Habsburg, the serfs had to make revolutions in 1848, in order to free themselves, and these revolutions hastened the process of the Prussian peasants turning into landowners without making the capitalized money payments of their service charges. In 1850, another law was passed. The small properties were condoned, so far as the payment of service charges was concerned. For others a provision for the establishment of a bank was made, in order to make payments of service charges due to the lord. The peasant could mortgage his land to the bank at 4% per annum rate of interest and pay off his capitalized service charges in instalments in 41½ or 56½ years. The same plan was adopted in other provinces in Germany at a later date. When the First World War broke out in 1914, some German peasants were still redeeming their labour dues, reminding them of their serfdom status.

But the small peasant required guidance and capital. He was saved by the co-operative banks — the Raiffeisen banks — started in 1849. Other forms of co-operation also developed, like the purchase of manures and seeds, the hiring of machinery, the setting up of power stations and sugar factories, the sale of agricultural produce and dairy products and the founding of insurance societies, especially for cattle. Agricultural co-operation was subsidized by the Central Government in Germany, as in France.
Ninety-three per cent of the land in Germany was owned by owner-farmers in 1916, and small holdings under 50 acres comprised about half the total land cultivated.\(^{68}\) After the Second World War, Germany was divided into two parts, East Germany and West Germany. East Germany is under the occupation of Russia and land under the Communist ideology belongs to those who work it. Large estates in East Germany have, therefore, disappeared.

In West Germany, two measures for the expropriation of land in large estates were adopted in 1946, one affecting all the provinces in the United States zone of occupation, and the other affecting the provinces of North Rhineland — Westphalia and Schleswig Holstein in the British zone of occupation. In the U.S. zone, any estate exceeding 100 hectares owned by one person is subject to scaled expropriation (1 hectare = 2.47 acres). In the British zone, any area exceeding 150 hectares, owned by one person, is subject to expropriation. As a result of these measures, 70% of the land under cultivation is occupied by farms of less than 50 acres each. Another 20% area is occupied by farms of the sizes between 50 and 125 acres.\(^{69}\)

Russia was the last country to free her serfs. The ideas of French liberty and German management did permeate the Russian soil. But a feeling had prevailed, somehow or other, in Russia that the Slav civilization was better than the Western civilization. In 1854, England and France commenced the Crimean War against the reactionary Czar of Russia, Nicholas. They won and Nicholas died. He was succeeded by a liberal Czar, Alexander II, who wanted to free the serfs. A Government Commission sat and they evolved the principle that the serf should not only be freed, but should be made a landowner, so that he might have a stake in the soil, might not migrate to the towns, and “Holy Russia” might remain unaffected by the contamination of Western industrialism. The serfs were freed between 1861 and 1865. The lord of the manor was substituted by a village commune or mir. The mir was made responsible, as a whole, for the taxes, and the ownership of the land of the erstwhile

\(^{68}\) L. C. A. Knowles, op. cit., p. 73.

nobles was vested in this body. The freed serf had not an alienable right in the land, but he had a claim to the land by virtue of being born in the community. A large family was given a larger number of holdings, so that the area per head worked out to be approximately equal. But the taxes were so heavy that the land was a liability rather than an asset. If one member failed to pay the tax, the others had to make good the deficiency. The mir did not give a passport to a member unless it was sure that his tax would be paid by another, and without a passport nobody could move in Russia. Even if a member was allowed to leave, he had to send to the commune his share of the tax from the outstation. The Russian peasant, after the defeat of Russia in the Russo-Japanese War, had to make a revolution in 1905 to get the restrictions on his movements removed by having the mir freed from the collective responsibility of paying the taxes, and by having set up individual, instead of the communal, ownership of land, thus breaking up the mir itself. Before 1905, the freed serf had also to pay in instalments the redemption of service-fees to the State, along with his tax, as the State had already made payment to the overlords. The arrears of redemption were cancelled in 1905. Between 1906 and 1911, Government commissions were set up in various provinces to assess the needs of the peasants for more land and to explore the possibility of satisfying those needs by selling them State land or the land of the nobles. The land was sold to Land Banks, which in turn sold to the peasants with uneconomic holdings. The banks also made advances to the peasants to enable them to buy direct from the landowners. Russia was in the process of evolution to the owner-farmer type of agriculture when the First World War broke out in 1914.70

As a result of this policy, about half the peasant households in Russia had got their land on hereditary tenure before the Revolution of 1917. When Lenin returned to Russia in March, 1917, after the overthrow of the Czar, he was all out for a Government representing a proletarian-peasant alliance. In his April thesis, he advocated nationalization of land. But the peasants themselves were very

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enthusiastic and were seizing the estates of nobles by direct action. This action of the peasants led towards the precipitation of the November Revolution. Prince Lvov, the head of the Provisional Government, resigned in early July as a protest against this tendency. This tendency of the peasants cooled down after July, when Kerensky’s Government promised to base the future land policy on “the principle that the land is to pass into the hands of those that work it.” So the Land Decree, signed by Lenin, was one of the first acts of the Soviet Government of November, 1917. It abolished landlordism without compensation. The land held by owner-farmers rose from 70% to 96%. No other definite economic policy could be formulated, as Russia was fighting the war on her own soil. There was great confusion and the Government agencies, called Norcomprod, compulsory confiscated the peasants’ surplus crop. An armistice was signed with Poland in October, 1920, and Baron Wrangel’s army retreated in November that year. The whole position was re-assessed and Lenin proclaimed his New Economic Policy (N.E.P.) in October, 1921. This policy restored the market relationship between the products of agriculture and those of industry. A decree of 26th October, 1921, recognized the right to form agricultural co-operatives on a voluntary basis.

All the peasant-proprietors who got land by virtue of revolution could not afford to cultivate it, owing to the lack of draught animals and agricultural implements. The richer peasant, called Kulak, was given a right to take on lease part of the land from the poorer peasants and cultivate it. The poorer peasant could cultivate the remainder by hiring the plough team or the implements from the Kulak, in exchange for the lease of a portion of his land. In 1925, the Government needed expansion in agricultural produce, in order to provide food to the industrial worker and also to provide raw material to the industry. In that year, the period for which the land could be leased to the Kulak was extended from 6 years to 12 years. An official inquiry in 1924 had shown that the average holding of the lessors of land was 8 acres, and, of the Kulaks, the lessees was 24 acres each.

Russia launched her first Five-Year Plan in 1928-29. By then, it had been established that more agricultural
produce was pre-requisite for sustaining the industrial activity and achieving the targets of the Plan. It was felt that the equalitarian distribution of land could not achieve the purpose of increased production, unless the farmers pooled their land and resources in collective farms (Kolkhozy) or unless giant State farms (Sovkhozy) were created in greater number. This decision was taken at the Fifteenth Party Congress. Previously, co-operative farming in Russia was practised in three forms: (1) the pre-1917 communes or Mirs, under which the members farmed collectively and lived together communally; (2) Artels, under which members kept their own dwellings, farmed collectively and shared the crop; and (3) the Toz, in which the farmers retained their own land, and even implements, and the households co-operated to work the land and shared the crop according to the size of their holdings.

On the eve of the First Five-Year Plan, the second form of collective farming, the Artel, was retained. The Kulaks opposed it. They would slaughter their cattle, rather than pool them in the collective farm. The Kulaks even committed arson and violence against the new collective farms. In the second year of the Plan (1929-30) it was decided to eliminate the Kulaks. The village Soviets were given power to expropriate the machinery, working cattle and other farm property (above a certain minimum) belonging to those rich peasants in favour of the collective farms. The Kulaks who resisted were subjected to severe police measures, including deportation. These measures have been criticized in other countries. Since then, the whole village economy of Russia has changed. By the end of 1932, the membership of the households who had joined the collective farms had passed the 14,000,000 mark. These 200,000 farms comprised 66% of the total sown area. The State and collective farms together supplied 84% of the grain and 83% of the cotton to the market. The State farms in Russia were too unwieldy until 1934 and did not give maximum results. Steps were then taken to reduce the area of these "grain factories" to an optimum standard, their administration was scaled down to a manageable size and also divided into different departments. Social Security benefits, like old age pension and sickness and disability insurance, are State-provided to all workers, industrial as well as agricultural.
The State levies a certain percentage on the gross wage bill of each factory or State farm, as premium for providing these benefits to the workers engaged therein. Co-operative workers on collective farms are not compulsorily insured, but they can form voluntary aid societies, which are subsidized by the State. Unemployment benefit is given only to those persons who have already been employed for one year, in the case of trade union members, and for three years in the case of non-unionists; but this benefit has been suspended on account of labour scarcity felt since 1930, the third year of the First Five-Year Plan.\(^{71}\)

Other countries of Europe having a Communist ideology, viz., Poland, Czechoslovakia, Yugoslavia, Hungary, Rumania, Albania, have adopted land reform measures in their countries after the Second World War. In Poland, 91% of the agricultural population in 1951 were independent farmers, 2.6% were private farm workers, 2% were members of collective farms, and 4.4% were State farm workers. The percentage of independent farmers in 1951 was almost the same as in 1930, but the number of farmers owning land between 5 and 10 hectares had increased, while of those owning less than 5 hectares had decreased. In Czechoslovakia, after the incorporation of the principle that “the land belongs to him who works it” in her Constitution in 1945, a total area of 4,500,000 hectares was expropriated and distributed to 350,000 small, medium and landless peasants (1,750,000 hectares), public institutions (250,000 hectares), State farms (500,000 hectares), and State forest (2,000,000 hectares). In Yugoslavia, the same principle, that land should belong to those who worked it, was applied in 1945, and at present 81.4% of the total farm area is occupied by farms of less than 15 hectares, and the balance by collective farms and State farms. Social Security benefits are provided to agricultural workers along with the industrial workers in Poland, Czechoslovakia and Yugoslavia. Albania hopes to bring 85% of her cultivated land under collective farming by 1960, during the implementation of her Second Five-Year Plan.\(^{72}\)

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72 The daily *Dawn*, Karachi, 17th April, 1956.
The Scandinavian countries are known to be countries of peasant proprietors. In Denmark, 82% of the farm area is occupied by farms of 5 to 60 hectares. In Norway, 87% of the agricultural land is occupied by farms of 2 to 50 hectares. In Sweden, 75.8% of the agricultural land is held by farms of 2 to 50 hectares. According to the Agricultural Act of 1947, the prices of farm products are supported in Sweden, so as to make family-sized farms remunerative. In Finland, a reform law was passed in 1918, enabling the tenant-farmers to buy their farms on very favourable terms. About 67,000 tenants were converted into owner-farmers by virtue of this law. Two more laws, the Rapid Resettlement Act of 1940, and the Land Acquisition Act of 1945, were passed to enable the resettlement of the displaced persons from the territory ceded to the Russian Republics. As a result of these measures, owner-occupancy rose to 97% in 1950, as compared with 40% in 1900. Collective farming has been encouraged in Sweden by an enactment passed in 1948. In Norway, cultivation of pasture lands is done co-operatively and, in Finland, community pastures and community forests are developed collectively. Social Security benefits, covering old-age pension and sickness and disability insurance, are provided to the agricultural workers as to the industrial workers in Denmark, Norway and Sweden.

In Switzerland, rent of agricultural land is controlled and ranges from 4 to 4½% of the farm value estimated on the basis of its net output.

In Italy, the new Constitution passed after the Second World War recognized the principle of limitation on land-ownership of individuals. Three laws affecting certain parts of Italy have been passed since then. By March, 1953, a total area of 187,856 hectares of land had been distributed to 39,691 families.

In Turkey, a land reform policy was initiated in 1945. The aim of this policy is laid down as follows:

"To endow the Turkish peasant with land, to help him acquire essential equipment and to ensure the continuous exploitation of the country's soil resources. . . . Although it is agreed that it is a necessity for the landless peasant to have his plot of land, it is not only
because of its economic nature that land reform should be carried out, but mainly because it represents the fulfilment of social requirements. . . . The principle has been accepted from the start that *metayage* and other types of share-cropping systems do not permit rational cultivation."

As a result of the Reform Law of 1945, a total of 253,000 hectares of reclaimed land was distributed to 51,722 families. In addition, 3,368 refugee families received 20,000 hectares of land. Uncultivated land is distributed free of charge. Under the Reform Law, farms of over 500 hectares may be expropriated and redistributed, while farms of over 200 hectares belonging to absentee landlords may also be expropriated and redistributed.

In Egypt, before the Decree Law of Agrarian Reform of September, 1952, big landlords numbering 2,115 owned 1,218,000 *feddans* (1 *feddan* = 1.038 acres), while 2,569,000 smallholders owned only 2,091,000, or an average of 0.8 *feddan* per person. Seventy-five per cent of the population of Egypt live on agriculture, the whole of her cultivated land is irrigated, and, as a result of the use of fertilizers and intensive cultivation, yield per acre is very high, but the yield per man is low on account of the high pressure of population on the land. The Agrarian Reform Law of 1952 provided that no person could own more than 200 acres of agricultural land.* Private persons may own more than 200 acres of fallow or desert land for the purpose of improvement. Compensation is provided to be paid at the rate of ten times the rental value in the shape of Government bonds, bearing interest at 3% per annum, encashable in 30 years. These bonds are non-negotiable, but may be used for the purchase of unimproved land from the Government, or for payment of land tax and death duties. Farmers and farm labourers having less than five acres are entitled to receive two to five acres of expropriated land on payment by instalments of the compensation calculated by the Government, plus 3% per annum interest, plus 15% requisition costs. By the autumn of 1953, approximately 181,000 acres had been expropriated and 38,000 acres of reclaimed land had become available for resettlement. A further area of 200,000 acres was due to be expropriated in November, 1953, and 145,000

* Continued on page 233.*
acres were due to be reclaimed. Land already distributed to owner-farmers is producing up to 20% more wheat and 12.5% more sugar cane.\textsuperscript{73}

In the Sudan, a great experiment in collective farming was launched in 1925, under the Gezira Scheme. One million acres of land have been developed with canals under this scheme. Cotton is grown on 270,000 acres, sorghum on 125,000 acres and legumes on 60,000 acres. In the beginning, the scheme was a partnership between the Government, a commercial firm and the tenants. At present, the scheme is nationalized and the commercial firm has been replaced by the Sudan Gezira Board. One third of the land is owned by the Government, and the balance by private owners, from whom the Government requisitioned and itself became their tenant. The Government then built the Sennar Dam and the main canals. Each tenant is given a holding of 40 acres, on which annual sowing is 10 acres of cotton, 5 acres of sorghum and 2\textfrac{1}{2} acres of legumes. The tenants are responsible for all cultivation after the mechanical ploughing and for the maintenance of field channels. The share of profit is 40% for the Government, 40% for the tenants and 20% for the Gezira Board. The Board provides staff, housing, stores and ginning factories and arranges for transport of cotton by light railways, and is responsible for marketing. Out of its share of profit the Board also provides pure water supplies, games, schools and other amenities coming under social development. Animals and implements are hired by the Board, the tenants provide the fodder and the labour. A Tenants’ Reserve Fund has been created, which accumulates reserves in the years of high prices and supplements the tenants’ income in the years of low prices. A Tenants’ Representative Council deals directly with the management in running the affairs of the Scheme. In addition to this major scheme the formation of small co-operative societies for the joint utilization of land is also encouraged by the Government in the shape of the grant of a licence for a pump and a loan as a contribution to the share capital.

\textsuperscript{73} The daily \textit{Dawn}, Karachi, 15th May, 1955.
Iraq initiated her policy of land reform through the Land Development Law of 1951. The objects of this policy are given as follows:

"To provide adequate income for the landless peasants by enabling them to cultivate their own farms and improve their living standards. . . . Measures have been taken to promote the organization of farmers in co-operative groups."

It is reported that, so far, 3,000 families have been successfully settled on agricultural land. Another 5,000 families are expected to be settled on the land to be irrigated by the Dokan and Wadi Tharthar Dams. The State-owned Agricultural Bank will purchase the agricultural machinery for reselling on an instalment basis to the smallholders.74

All the Middle Eastern countries felt, after all, that a high point had been reached in facing the urgent agricultural issues of the region. The representatives of twelve countries—Afghanistan, Egypt, Iran, Iraq, Jordan, the Lebanon, Libya, Pakistan, Sa'udi Arabia, the Sudan, Syria and Turkey—met in a Land Problems Conference at Salahuddin (Iraq) for three weeks in October, 1955, and declared unanimously that the different sessions of the Conference should have an important effect on the land reform policies in the area. The majority opinion emerged was that "land reform programmes should aim at abolishing the remnants of feudalism by creating a whole new community of independent middle-class farmers, owners of their own land". The Conference was sponsored by the Iraqi Government with the assistance of the U.N. Food and Agricultural Organization and the U.S. International Co-operation Administration.75

The mainland of China was won over by the Communists after the Second World War in 1949. Land reform was then the first priority. The tenants were no longer required to pay rent to their landlords. An idea of the disparity of holdings can be had from the fact that in pre-war China 4% of the population owned 50% of the land.76 After abolishing landlordism, China launched her First Five-

75 The daily Times of Karachi, Karachi, 22nd October, 1955.
76 The Indian Journal of Agricultural Economics, March, 1955, p. 100.
Year Plan in 1952. Her agricultural economy had already become a small-peasant economy. Co-operative farming was thought to be the only way to promote agricultural production. It was first estimated that one third of the 110,000,000 total peasant households would have joined the agricultural co-operatives by 1957 — the end of the First Five-Year Plan. Later on, in October, 1955, President Mao Tse-tung improved upon this estimate and told the Communist Party Central Committee that about half the Chinese peasantry would have joined the farmers’ co-operatives by 1957. He further estimated that by 1960, three years after their Second Five-Year Plan had begun, the remainder of the peasants would have been grouped into co-operatives, while the co-operatives set up under the First Five-Year Plan would have turned into State farms, thus eliminating land-proprietorship of individual co-operators. He said that a 20% increase in the agricultural output was needed in order to meet the country’s needs. This increase was considered necessary to serve as a basis for industrial development. 77 There have appeared signs of rich peasants sabotaging the co-operative movement, like the Kulaks of Russia. In December, 1955, it was admitted that the co-operative movement in Kiangsi, the Southern Province of China, had been deadlocked by violence, and many Circuit Courts had been set up to deal with “enemies of the co-operatives”, many of whom had been executed. 78 The latest report is that 92,800,000 peasant families have already joined agricultural co-operatives. 78

In Nationalist China (Taiwan), the outstanding feature is the scarcity of land. The average area cultivated per person is one quarter of an acre. In the 1917 Constitution of pre-Communist China, the famous Chinese leader, Sun Yet Sen, had laid down the principles of “equalization of land ownership” and “the land to the tiller”. But these principles were not acted upon. The present Government of Chiang Kai Shek has partly carried out a programme of land reforms since 1953, the expropriation by compensation of all land above a prescribed limit and its distribution among

78 The daily Dawn, Karachi, 17th April, 1956.
the tenants. The object of the land reform was laid down to eliminate the tenancy system based on exploitation, to create owner-farmers, to divert landlords and land capital to industry, to raise the status of farmers and to increase production by giving the farmers an incentive.

Burma nationalized her land through the Nationalization of Land Act, passed in 1952. Compensation has been provided to be paid to the owners under the new Act.

Japan's problem is also the scarcity of land. Added to this was her tenancy system, under which a few great landlords could get half the share of the crop without working on the farms. This situation had existed since the feudal ages. It had been felt that a greater exploitation of land under the owner-farmer system helped the expansion of other industries, but the reactionary elements did not allow any land reform to take place.

After the Second World War, the Japanese Government proposed a land reform programme to the General Headquarters and the Allied Council for Japan. They amended it and promulgated the Owner-Farmer Establishment Special Measure Law on 21st October, 1946. Another law, the Agricultural Land Adjustment Law of 1946, regulated conditions of tenancy. Under the Owner-Farmer Establishment Law, all tenanted land owned by absentee landlords was expropriated and also all tenanted land owned by resident landlords in excess of one hectare (four hectares in Hokkaido). Moreover, the total land retained by an individual was not to exceed three hectares (12 hectares in Hokkaido). The new owners were required to pay for their holdings by annual instalments in 30 years, at an interest rate of 3.2% per annum. The price of the land was fixed at forty times the 1938 rental value for paddy fields and forty-eight times for up-country farms. These rates were fixed in 1946, but, during the time the land was being sold to the farmers at a later date, inflation had already set in. Thus the owners got much less value in real terms for their land. A large part of the payment was made by the Government in land-bonds bearing 3.5% interest encashable in yearly instalments over a period of 22 years. As a result of this measure, 80% of the tenanted land was transferred to the tenant-farmers, and at present 92% of the land in Japan is
held by the owner-farmers. Japan has now started a campaign to establish collective farming. It is expected that more than 13,000,000 acres of land will come under collective farms in the next five years, and the increase in food production is estimated at 10% after the establishment of collective farms.79

Canada, Australia and New Zealand are countries of comparatively recent settlement. The original policy in Canada was to grant land free to the settlers. Later on, the policy was to facilitate land ownership by the farmers by credit and other means. In the maritime provinces and Quebec, 95% of the farms are owned by the farmers themselves. Tenancy is confined mainly to cash-crop areas. It is not a permanent feature, but is considered as a first step to farm ownership, when the young farmer at the beginning of his career is handicapped by the lack of capital for equipment and land instalments. The Agricultural Prices Support Act of 1944 provided for the establishment of an Agricultural Prices Support Board to ensure a fair return to the agriculturists, as compared with other professions. The Canadian Government buys the products of the farmers at guaranteed prices under this programme, and resells them to the consumers, bearing the loss itself, if any.80 At the present moment, Canada is holding a burdensome surplus of wheat on account of a fall-off in its export for the last two years. The National Wheat Board has limited the amount of new wheat it would accept from a farmer during the harvest season to 300 bushels. Farmers have to dig out their savings to meet their land taxes. The Government has presented a scheme to guarantee bank loans to farmers having unsold wheat. But the farmers are not satisfied.81 In Canada, in the Province of Saskatchewan, also exist various forms of co-operative organizations, ranging from common use of machinery to common ownership of land, livestock and buildings.82 The situation in New Zealand is similar to that in Canada. The opportunities for an agricultural worker to

become a farm-owner are plenty. Share-cropping tenancy does not exist in New Zealand. In Australia, share-cropping tenancy does exist, but the position of these tenants is similar to that of the tenants in Canada. Many who begin their career as share-croppers are able to accumulate sufficient capital to become owner-farmers within five to ten years. In the State of New South Wales, crop-sharing tenants are entitled to compensation, if they are disturbed for no fault of their own. Moreover, a tenancy agreement must be for five years at least. Tenants are entitled to compensation, also, for any improvements they might have made or for any increase in the value of the farm on account of their having adopted a better standard of farming than the one stipulated in the contract. To safeguard against excessive accumulation of farm land in fewer hands in Australia, the Government has imposed a progressive land tax on the value of the land. A big landlord will save more than one half of his land tax if he sells one half of his land. In the field of price support, Australia has a Wheat Stabilization Plan, under which a minimum price, based on the assessment of the changes of the cost of production of wheat, is guaranteed to the farmers.

In Europe, the two countries which have been slow to introduce reforms are Spain and Portugal. In the South American countries, Bolivia and Mexico are acting upon a programme of land re-distribution. Other countries in the region emphasize the need for reform; and, in some of these, reform measures are under consideration, e.g., in Brazil, Puerto Rico, Cuba, Haiti, Honduras. The Government of the Philippines is in favour of reform, but nothing has been achieved so far. The need for reforms is not felt in Laos nor in Cambodia, as rural property is divided almost equally in these two countries. The non-self-governing and trust territories of Africa are being ruled by Britain, Belgium and France, and land reform measures in these territories might wait until they attain their independence.

In India, during the ancient Hindu period, the land belonged to village communities with hereditary headmen.

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84 The Indian Journal of Agricultural Economics, August, 1955, p. 28.
Each inhabitant possessed his own holding of land. The headman held a larger portion of land, for the cultivation of which he took free labour from smallholders. In South India, the system was the Dravidian system, according to which the whole produce of the land was claimed by the ruler in theory. Each village was divided into different lots. One lot was the royal farm, another went to the headman, and some to the priests. In order to secure labourers to work on the royal farm, a revenue-free allotment was made to some of the peasants in return for their working on that farm. All other peasants paid a share of the crop to the ruler and their land was styled as rulers’ land. Later on, the Muslim rulers did not recognize private rights in land. According to Islamic jurisprudence, land belonged to the State, and, as in those days the Emperor had usurped the power of the State, the Emperor declared himself to be the owner of all the land. In the Hindu period, land tax ranged from one-twelfth to one-sixth of the gross produce. Under the Muslim rule the theoretical rate was one-tenth of the produce. Sometimes the demand used to be higher but the actual collection never came to more than one-tenth to one-sixth. Feroze Shah Tughlaq introduced a canal system for the purpose of irrigation, but still retained the tax as one-tenth of the produce. After him, Sher Shah divided the land into two categories: (1) land owned by the peasants who paid land revenue; (2) land owned by the State and cultivated directly through land-labour which shared the crops. There were 113,000 such groups of State farms in his time. He allowed the revenue officers — Shiqdar, Amin, Clerk, Munsif, Treasurer, Patwari and Governor — to own some land according to their status. Later on, they formed the nucleus of feudal lords. Sher Shah also introduced Takavi, help by the State to the farmers in famine or floods. Akbar continued his revenue system. During Aurangzeb’s time, the status quo was maintained so far as the revenue system was concerned, but he reduced the share of the State on State farms to one-third from one-half wherever it was found oppressive. Debtors were exempted from revenue. In his time, the State

also advanced money to the peasants for procuring seeds and other requirements of agriculture. All expenses on digging and repairing of wells, maintenance of canals and on irrigation were borne by the State. On State farms payments to the labour were made by his Revenue Department. Erskine writes about the land tenure system of Muslim rulers in India: “There were two separate and legal rights in the land, that of the ryot, or cultivator, who held it by hereditary succession, and that of the Government, which could justly claim a fixed share of the produce. Both of these were permanent.”

Degeneration set in after Aurangzeb. The State broke up into many feudal estates. The Revenue Officers grabbed land and realized rent for their own purposes, and started exacting free labour from the cultivators as well. On the advent of the rule of the East India Company in the beginning of the seventeenth century, the landlord system was given great encouragement, as it was easy to deal with the landlord and collect all revenue from him, instead of hankering after each cultivator. 88 The permanent settlement of Bengal was done in 1793. This resulted in a rigid structure of land revenue, assessed permanently on the land with a class of hereditary landlords made responsible for its collection. As land became scarce the rent of the land increased and there grew a class of intermediaries between the landlord and the tenant. In some cases, there were as many as fifty sub-infeudations. Fifteen to twenty grades of these interests were common in some districts of East Bengal in 1940. Permanent settlements were made in the United Provinces, Bihar, Assam, Orissa and Madras later on with the extension of the British power. In other parts of India, temporary settlements were made. The only difference was that the rates of land revenue were not made fixed, but were subject to change on renewed settlements after every 20-40 years. 89

During its early rule, the East India Company encouraged the growth of those commercial crops which could lead to the profitable development of trade between

India and Britain. The cultivation of indigo on a commercial scale in Bengal and Bihar was the first step in this direction. The cultivation of sugar-cane and jute in Bengal, and of cotton in the Deccan, were also encouraged as a consequence of this policy. As a result of the creation of this landlord class, the tiller of the soil remained reduced to serfdom all through the British rule. "He was born in debt, lived in debt and died in debt." "He continued to live in a mud hut, eat coarse bread and sell his honour to his landlord and to his money-lender." With the increase in population, the land available to him became smaller and smaller, until the per capita area sown declined to 0.72 acre in 1941 from 0.89 acre in 1911. He had to face 16 famines during the rule of the East India Company (1760-1857) and 12 famines under the rule of the British Crown, including the last Bengal Famine of 1943-44. The British Government in India did start famine relief funds, constructed huge irrigation projects, passed debt relief laws and started a co-operative movement for rural credit and consolidation of holdings, but the poverty and the attendant misery of the tiller were far too great for these measures. His self-respect was pawned with his landlord and his share of the crop with the money-lender. He was practising child-bearing as an industry so that his children might lighten his burden of work and serve as his old-age security. He was forming 85% of the Indian population when, in 1947, India was partitioned into two parts — Pakistan and India. Since then, India has abolished landlordism in all her provinces against payment of compensation. When the governments of different provinces of India acquired land under Land Acquisition Acts, the landlords began moving the High Courts on the plea of insufficient compensation. This obstructed the Government programme, as in some cases the Land Reform Acts were declared ultra vires of the Indian Constitution by the Supreme Court. As a last resort the Indian Prime Minister had to move an amendment to the Constitution in the Indian Parliament in March, 1955, empowering the Government to acquire and requisition private property without payment of compensation, or with payment of any amount of compensation that a Select Committee appointed by the Government deemed suitable. His resolution was accepted. India has not turned Com-
munist overnight, as Sir Feroze Khan Noon thinks Pakistan would, if the powers of determining compensation for acquired private property are taken away from the judiciary and vested in some Government agency. Similarly, America has not turned Communist by having the land in excess of 160 acres sold by landlords at Government prescribed prices under the Reclamation Act of 1902, if they want water from the irrigation project, or by having the sale price fixed by the Secretary of the Interior under the Omnibus Adjustment Act of 1926. Nor has England gone Communist by empowering the County Councils to acquire land and submit the price to arbitration under the Smallholdings and Allotment Act of 1908, as seen earlier. Different provinces in India have allowed different limits up to which a landlord can retain a part of his land for self-cultivation. The areas thus allowed are: 50 acres for Bombay, 30 for East Punjab and 80 for Saurashtra. If such landlords get their land cultivated on rent, the maximum they can charge has also been fixed from one-fifth to one-quarter of the produce. Wages of the agricultural workers have also been fixed under the Minimum Wages Act, 1948, if such landlords cultivate their holdings with the help of the agricultural workers. The expropriated landlords have been given compensation by 30 years' bonds, bearing interest at 2½% per annum. The compensation has been computed at two to ten times the net annual income of the land expropriated in some provinces, while in others at two to ten times the land revenue. In some provinces, transfer of the ownership of land to the cultivators cannot take place in the near future, as they are unable to pay the price. In that case, the Provincial Governments would take over the land from the landlords, and cultivators would pay the reduced rates of rent (one-fifth to one-quarter of the produce) to the Government, till such time as long-term credit is made available to the cultivators enabling them to buy the land. The long-range policy of the land reforms in India has been declared to aim at a “co-operative system of land management in which the entire land and other resources of the village will be so managed and developed as to increase and diversify production and provide fuller employment to all the people working on the land”.

In addition to the above Government measures, we have already considered the Bhoo-dan (land-gift) movement in
India, which has collected 10,000,000 acres of land in four years from landlords for free distribution to landless peasants. The slogan of the movement is Sabai Bhoomi Gopalaki — “All land belongs to God”.

Pakistan had inherited the institutional poverty and misery of the tiller in August, 1947, when the partition of India took place. The debt of the tiller might have vanished with the emigration of the Hindu money-lenders, but the system of landlordism, which landed him into debt and which sucked his blood every hour of the day by half-sharing the meagre fruit of his and his family’s miserable toil, did not vanish. His landlord drew the noose tighter round his neck by exploiting the name of Islam and getting the perverted opinion of pseudo priests that landlordism was allowed in Islam, and that any step raised towards its abolition would at once put Islam in danger. We have already seen that land per capita of the agricultural population is 0.75 acre in East Bengal and 1.85 acres in West Pakistan. Before partition, a Bill to abolish landlordism (the Bengal Land Acquisition and Tenancy Bill) was introduced in the Bengal Assembly, but partition was effected before this Bill could be passed. This Bill was based on the recommendations of the Land Revenue Commission appointed in 1938, and which published its report in 1940. After partition, the East Bengal Government named it as the East Bengal State Acquisition and Tenancy Bill, 1948, and passed it in 1950. This is the Act which Sir Feroze Khan Noon approves, on the plea that conditions in East Bengal are quite different from those in West Pakistan as the land in East Bengal belongs to the Hindu Rajas, while the land in West Pakistan belongs to the Muslim Nobobs, and the law which applies to the Hindu Rajas should not apply to the Muslim Nobobs, because the latter are the higher grade citizens. This is the same Act which the Maulana Maudoodi wants to have amended in this respect that the land of the Hindu Rajas should be expropriated without compensation in East Bengal. But, in the same breath, he wants the system of landlordism to continue for the benefit of the Muslim Nobobs in West Pakistan, and he has written a full fledged book, justifying and supporting this system. The common man of Pakistan is very much puzzled as to what face he would show to the world if somebody asks him why discriminatory laws are
being passed in different regions and for different sets of people of Pakistan, and those also in the name of Islam and its principles — the principles he was indoctrinated with as being universal, eternal and offering a panacea for all the ills, economic, social, political and moral, of mankind. He does not mind what the after-thoughts of Sir Feroze Khan Noon or the Maulana Maudoodi are, but he feels gratified that at least one Islamic step has been taken in East Bengal. In the meantime, the Dacca High Court passed an injunction order on 13th April, 1956, one day before the East Bengal Government was to take over all the rent-receiving interests in that Province, restraining it to take any further action on the acquisition of agricultural or urban land till the disposal of a petition filed by a landlord challenging the validity of the Government action. The counsel for the petitioner took the plea that the Government action was ultra vires of the Constitution of Pakistan, in so far as it discriminated between one section of the people and the other and thus violated Article 5 of the Constitution. This petition of the landlord was rejected by the Dacca High Court on 7th August, 1956, on the ground that, even if the East Bengal State Acquisition and Tenancy Act be discriminatory under Article 5 of the Constitution, it should be held valid as it was passed before the Constitution came into force on 23rd March, 1956. In West Pakistan, the common man will have a tough fight and it is in furtherance of that fight that the present study has been attempted. Another reason is that landlordism has been abolished in Indian-occupied Kashmir since October, 1950, and West Pakistan fervently desires the accession of occupied Kashmir to her in a free plebiscite. If landlordism is not abolished in West Pakistan, the opposite party can use it as an argument in its favour that a vote for Pakistan is a vote for reaction. The study has been very tiring, but it has proved worthwhile in so far as it has enabled us to draw two conclusions:

(1) In the developed countries, like America, Britain, Russia, France, Germany, Sweden, Denmark, Norway, Finland, Czechoslovakia, Austria, Hungary, Switzerland, Yugoslavia, Poland, Rumania, Albania, Canada, Australia, New

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90 The daily Dawn, Karachi, 14th April, 1956.
Zealand and Japan, land is more or less owned by the farmers. If in some countries it is not exclusively owned, as in America, Britain, Canada, Australia and New Zealand, wide opportunities for the farmers to own land exist and the Governments of these countries are legally bound to afford facilities for purchase of land by the farmers. Also, these countries have reached such a stage of industrialization that agricultural income forms a negligible part of their total national income. The mechanization of agriculture is so high in countries with greater land resources, like America, Canada and Australia, that there is over-production of agricultural products and the Governments of these countries have to support the agricultural prices by subsidies. Countries like Britain and Sweden, although not having big land resources, support their agricultural prices to help keep their farming population in occupation. In America, Canada and Australia, the taxes on the ownership of land are so high that the disparity between the income of the tenant and the landlord is very considerably reduced. In England, where there are no land taxes, the rent of the land is in cash and does not amount to more than 3% per annum. Similarly, rent in Switzerland works out at 4 or 4½% per annum.

(2) In the under-developed countries, industry is in a primitive stage. It cannot attract the surplus population from agriculture by any magic wand. Hence, the leaders who are giving the slogan of industrialization in order to evade, and as a substitute for, land reforms are cheating the people. Russia, in spite of intensive and successive programmes of industrialization in the shape of Five-Year Plans, has still 50% of her population engaged in agriculture (Reader's Digest, February, 1956, p. 114). India has only 2.4 million (1.8% of the working population) employed in organized industries, in spite of her concerted efforts at industrialization in the last three decades (Thirumalai, *ibid.*, p. 149), and in spite of the grievance of Muslims in pre-partition days that the Government was developing the Hindu majority areas and was neglecting the Muslim majority areas in the sphere of industry. So the agricultural population would have to remain agricultural for many decades in under-developed countries, even if they launch industrial programmes more speedy than Russia's. To keep them as serfs and underlings to their feudal lords, till such time as the
under-developed countries are fully industrialized, would be a stigma on human civilization. The anomaly with these countries has been that they did not start industrializing themselves with the increase in their population, with the result that the population pressure on agriculture went on multiplying instead of having been diverted to the industrial sector. They are not themselves to be blamed for this anomaly, because most of them were not self-governing and their economic policies were dictated by the industrial requirements of their ruling powers. The countries which were self-governing were ruled by autocrats who never bothered about the standard of living of their people and used feudal lords as instruments of tyranny for collecting land revenue. If, now, they want to catch up with the developed countries, they will have to plan their resources and increase production within their existing economies. Their existing economies are agricultural, and production in this sector can be increased only by giving their people a stake in the occupation they are pursuing. They can give no better stake to their people than making them the full recipients of the fruit of their labour and abolishing the parasite class of absentee landlords from their midst. Mechanization of agriculture cannot be attempted ab initio in the over-populated under-developed countries, as it will displace more persons from the agricultural sector than can be absorbed in the other sectors of economy. It is only when industry is capable of absorbing the displaced people that mechanization of agriculture can be attempted. Until that stage is reached, peasant proprietorship is the only method to increase agricultural production. When agricultural production has thus been increased the next step is to mobilize this increased production to industrial development. Professor Ragnar Nurkse of Columbia University discusses this step in his book, Problems of Capital Formation in Under-Developed Countries, as follows:

"If the productive peasants were to send their useless dependants — their cousins, brothers and nephews — to work on capital projects, and, if they continued to feed them there, then their virtual saving would become effective saving. The unproductive consumption of the surplus farm population would become
productive consumption. Here is a departure from classical model (rate of capital formation requires a reduction in consumption) and from Keynesian model (consumption as well as investment can be expanded at the same time). Because we have found a way to increase capital formation without having to cut down the level of consumption. Taxation in kind may be attempted on the productive peasants lest they should consume all that they produce. Russia solves it by collective farms. Japan kept up a stiff land tax during her economic development in the late 19th century. But it is nicer if the food required for the subsistence workers could be got entirely from outside as foreign aid.”

About any apprehension in the rise of population, he observes:

“There is no reason to expect any growth in population, since no increase in consumption takes place. The increase in real income has been directed to capital formation. On the other hand, foreign grants and investment may conduce to increase in population. The effective mobilization of domestic saving-potential is for this reason a basic initial prerequisite to increasing real income per head.”

Creating peasant proprietors in the under-developed countries may not bring about the maximum results, as the average holding per head would work out to a very small area. In West Pakistan, it comes to 1.25 acres per head of its population and in East Bengal to nearly 0.75. In recent discussions, an area of 2.5 acres has been held to be the minimum to produce food for one person in one year. A moderate estimate is of Mr. Dudley Stamp, who holds that one acre of land is sufficient to produce a year's food for a single person. Working on the latter estimate, it is found that the total cultivated area in the whole of Pakistan (West Pakistan and East Bengal combined) is insufficient to pro-

92 Ibid., p. 47.
duce food for the total population, because the average per person comes to just one acre when both the wings of Pakistan are considered. If we assume that some more land can be reclaimed and brought under the plough in West Pakistan, we have to bear in mind that forests in the whole of Pakistan cover only 4% of the total area, while a minimum of 25% forest coverage is necessary to meet the yearly spectre of floods and soil erosion. In West Pakistan, the forest area is less than 4% even. It is about 2.7%. Moreover, the whole of the cultivated area is not sown with food crops, but with commercial crops, like cotton and jute, as well. And these commercial crops are the mainstay of the export trade of Pakistan to such an extent that these two commodities along with the other agricultural products, like wool, goat hair, skins and hides, form 90% of her total export trade. Both these items, food as well as cash crops, have got to be increased in production, and the next step to increase the agricultural production is co-operative and collective farming, as introduced in Canada, Egypt, Russia, the whole of Eastern Europe, China and the Sudan, and made as a policy objective in India and Japan.

It has been found that agriculture is the least lucrative job, as compared with other professions. Countries like America, Australia, Canada, Sweden and Britain have introduced price support schemes for their agricultural food products in order to bring the income of the farming population at par with the income of the people engaged in the industrial and commercial sectors of the economy. This is State trading with a definite purpose, because the farmers can sell their products to the State, if the prices fall below a certain minimum level. In the under-developed countries, the industrial sector is practically non-existent and non-agricultural consumer-goods are generally imported. With the growth of industry, these countries would need industrial machinery, instead of consumer-goods from abroad. Their home-produced consumer-goods would be dearer in the initial stages, as their production methods would not be as efficient as of industrially developed countries, with the result that the farming populations in these countries would be losers while exchanging their products with the products of industry, as they are in the industrially developed countries, but on account of a different reason. Hence, there would be
need for State trading in agricultural food products in these countries in order to remove the disadvantage of exchange accruing to these products. Non-food agricultural products need no support as they form the raw material for consumer-goods and any support in their price would result in a higher price of the finished consumer goods, which it is our very aim to avoid. At later stages, the need for State trading in food products would still be there, on account of the mechanization of agriculture and resultant over-production, as in America, Canada and Australia, and with a view to keep some people engaged in agriculture for the production of food, as a long-range policy, as in Britain and Sweden.

Lastly, the State has to remain as an ultimate landlord to impose taxation in kind (in the words of Professor Nurkse) in order to provide food to the workmen engaged in community projects, public works and the industrial sector, and to provide interest-free supervised credit to the agricultural co-operatives, because the State would be a partner in their prosperity. It would levy taxation in kind, and the larger the crop, the greater would be the amount of taxation. The State might have to run its own farms to keep a stock pile of food products in emergent situations, like crop failures and failures of collection targets of “taxes in kind”. The business cycle in agriculture is said to be a profit cycle, and not a production cycle. At the time of depression, agriculturists do not curtail their production; rather they increase it, with the result that their profits are reduced. At the time of boom, they cannot expand their production indefinitely on account of the natural limitation of land. Hence, their increased income is chiefly due to high prices and greater profits and not due to increased production. State farms can act as shock-absorbers for the agricultural sector of economy by growing crops different from the usual crops grown by the general farmers at the time of surplus production and resultant depression, and by supplementing the same crops, as grown by the general farmers at the time of scarcity and consequent boom, and can thus help reduce the intensity of the business cycle.

Therefore the market value idea cannot apply to the value of landed property. The valuation of agricultural land is assessed as a multiple of its land revenue or its annual
produce changing with the area of the property being acquired. This has been done in Japan, Egypt, India and East Bengal, and in a modified form in Britain and America. This is necessary not only in the initial stages, when the land is being acquired from the landlords, but for the future as a permanent State policy as well, when uneconomic fragmented and sub-divided holdings are to be acquired; because uneconomic small-holdings are as much a hindrance to economic exploitation of land as the absentee landlords’ estates. The expropriated landlords, whether of big estates or of fragmented holdings, may be given shares of Government-sponsored industrial organizations, like the Pakistan Industrial Development Corporation, in lieu of the value of their land, assessed according to a prescribed scale, being a multiple of land revenue or annual produce. To give them interest-bearing bonds is as much unacceptable both to dynamic welfare economy and to Islam, as the institution of landlordism itself.

Mr. M. L. Qureshi, Chief Economist, Planning Board, Government of Pakistan, delivering his Conference Address at the Fifth Economic Conference of the Pakistan Economic Association held at Peshawar University on 11th January, 1955, had said:

“The enactment and enforcement of land reform legislation may not cost much. But it can provide a great incentive for increased production by ensuring security of tenure for the cultivator and by preventing exploitation.”

His topic was “The impact of development expenditure on the National Income in Pakistan”. He had taken the compensation to be paid for land reforms as development expenditure and had concluded that the National Income of the country could be greatly increased by this step. But the slogan-mongering politician has won and the cool-thinking economist has lost in Pakistan at the present moment, as land reforms are being linked with Communism instead of being acted upon as a principle of Islam and serving as a basis for economic development. Pakistan (meaning the land of the pure) is bleeding white as a result of the atrocities committed on her by pseudo-politicians and their henchmen priests. Her only hope is her common man
— the political sovereign in theory. The day he begins to think correctly in terms of the brotherhood of mankind and its common good, and refuses to be exploited by communal, sectional and parochial slogans of political jugglers, that day Pakistan will become the Land of the Pure, and will serve as the laboratory for Islamic principles — her very raison d'être.

The First Five-Year Plan of Pakistan, an outline of which was out at the end of May, 1956, has recommended in mild undertones the abolition of landlordism “to assure maximum production from the land and to improve social justice”. But this recommendation has annoyed Sir Feroze Khan Noon. In a Press statement issued on 9th August, 1956, he criticized it in the following terms:

“The solution of the social inequalities, found by our talented experts of the Planning Board, briefly is that the assets and properties of the industrial classes should not be touched (rather they should be protected and allowed to accumulate more wealth and assets) while the right of ownership and right of cultivation of land should be restricted. It is difficult to understand on what ethical principles or political expediency discrimination can be shown in favour of one class and a hostile attitude and unfavourable atmosphere created for the other.”

Sir Feroze Khan Noon has missed the important point that an economic plan is not a solution of the social inequalities, but is a programme for bettering the economic condition of those countries whose economic development has lagged behind their population growth. It is only concerned with the increase in the production of goods and services, so that in due course of time the increased production may pass on to the common people and may raise their standard of living. In the initial stages of development, the common people may not benefit to any appreciable degree as the country, instead of producing consumer-goods immediately, might have to produce or to buy from abroad capital machinery, or might engage itself in developing public works, such as railways, roads, dams, irrigation canals and electricity, or might have to build up its Social Capital by opening schools, colleges, hospitals and technical training
centres. It can thus equip itself for better and greater produ-
duction of consumer-goods by different phases — the first
phase being of producing or buying capital machinery or
developing public works or building up social capital, and
the second phase, of production of consumer goods. When
the country is engaged in the first phase, the workers need
food, coarse clothing and improvised houses at least for
their subsistence. The production of these articles has to
be carried on by fewer people than before, because quite a
large part of the population has been diverted to producing
machinery or to producing export goods in exchange for
which machinery is to be bought from abroad, or to develop-
ing public works, or to building up Social Capital. Hence,
there must be incentive for greater production for the people
engaged in the production of food and agricultural raw
materials used as a base for coarse clothing or improvised
house-building or for export abroad to buy capital machinery
in exchange thereof. This incentive can only be given to
the agriculturist if he is made the owner of the land he
cultivates. Although the major portion of his increased
production will be siphoned off by the Government, in the
form of taxation, to enable it to finance the public works
programmes and build up the Social Capital, yet the indi-
vidual farmer will not lose the incentive as the appeal will
be to his patriotic sentiment and to his ideology of the
brotherhood of mankind. Sir Feroze Khan Noon can easily
shift from the agricultural class to the industrial or the com-
mmercial class, and can enjoy the protection granted to them
and can partake of the accumulation of their wealth and
assets. In fact, he has already done so and is now a cotton
magnate and a landlord combined. Risk-taking is necessary
for economic development and, in a developing economy,
willingsness to change one's occupation is one form of risk-
taking. The following passage from The Theory of Economic
Growth is worth quoting in this context:

"It is the habit of productive investment that dis-
tinguishes rich from poor nations, rather than differences
in equality of income, or differences in the respect
accorded to wealthy men. Again, in so far as there are
differences in prestige attaching to wealth, what matters
is the relative status of those whose wealth is made or
represented by productive investment, as compared with
those whose wealth springs from ownership or inheritance of land. In most societies, the landowners constitute the aristocracy, and it is only in societies which have undergone considerable economic expansion that rich men whose wealth is founded upon commercial activities can move on equal terms with men whose wealth is founded upon land. The really significant turning-point in the life of a society is not when it begins to respect wealth, as such, but when it places in the forefront productive investment and the wealth associated therewith."

Then Sir Feroze raises the point of Provincial Jurisdiction, meaning that the land tenure system and agriculture are provincial subjects and that the Provincial Government and the Provincial Legislature should assert their rights and maintain their privileges. But we have seen, in our study "An Islamic Constitution and Pakistan", that no economic development is possible without a strong Central Government, and agriculture, being the mainstay of the economy of an under-developed country, will have to be looked after by the Central Government, unless the Provincial Governments themselves see the light and bring about the desired reform.

A SURVEY OF THE LAND REFORMS ANNOUNCED BY THE MARTIAL LAW REGIME IN PAKISTAN

The land reforms for West Pakistan announced on 24th January, 1959, by the Martial Law régime do not abolish landlordism; they fix the maximum limit of land area a landlord can own. This limit is 500 acres of irrigated land or 1,000 acres of unirrigated land. A landlord can also retain 150 acres under orchards. He is also allowed to transfer 100 acres of irrigated or 200 acres of unirrigated land to his heirs. He can, as well, transfer 83 acres of irrigated or 166 acres of unirrigated land to each female dependant of his family. Besides, he is given the right to declare as much area for stud and livestock farms as he wants to retain for this purpose. These reforms do not apply to religious or charitable institutions, nor do they apply to

the special areas of West Pakistan, like Swat, Dir, Chitral, Amb, etc. These land reforms are so liberal that one member of the Land Reforms Commission, Mr. Ghulam Ishaq, has remarked in the report of the Commission that cumulative results of such transfers would be for land to remain concentrated in the families of big landowners, in spite of ceilings. It has been estimated that, as a result of these reforms, an area of approximately 2,000,000 acres would be resumed from the landlords, out of which half the area is uncultivated. In other words, as a result of the implementation of the land reforms scheme, only 1,000,000 acres of cultivated land would be resumed from the landlords. Before the announcement of these reforms, the top bracket 6,000 landlords owned 7,500,000 acres of land in West Pakistan. If we deduct 1,000,000 acres of uncultivated land from this area, we find that these 6,000 landlords were owning 6,500,000 acres of cultivated land. Now, after the implementation of the land reforms scheme, these 6,000 landlords or their families would own 5,500,000 acres of cultivated land. To say that these reforms would revolutionize the whole economy of the country is a very big optimism. Then, compensation would also be paid to these landlords for 1,000,000 acres of cultivated land and 1,000,000 acres of uncultivated land resumed from them. The rate of compensation would be Rs. 360/- per acre for the first 250 acres, Rs. 288/- per acre for the next 333 acres, Rs. 216/- per acre for the next 500 acres, Rs. 144/- per acre for the next 1,000 acres, and Rs. 72/- per acre for the balance. But the resumed land is so small that each landlord would be compensated at a high rate for the small area surrendered by him. The compensation would be paid in the form of bonds bearing interest at 4% per annum, redeemable in 25 years. Ten days before the announcement of these reforms, the Central Bank (State Bank of Pakistan) rate of interest was 3% per annum. On 15th January, 1959, the State Bank rate of interest was raised to 4% per annum, and on 24th January, 1959, on the announcement of Land Reforms, the rate of interest on the compensation bonds was given as 4% per annum, although, since the inception of the State Bank of Pakistan in 1948, its rate of interest has remained unchanged at 3% per annum. The daily Dawn, Karachi, in its editorial for 26th January, 1959, wrote that the area of 500 acres
in the irrigated regions (the maximum limit of holding of
the irrigated land allowed in the Land Reforms Scheme)
would yield an income of Rs. 5,000/- per month to a land-
lord. The income from the orchards and the stud and live-
stock farms and the interest on the compensation of the
resumed land would be in addition to this. This would be
the kind of Islamic social justice delivered in a country
with a per capita income of Rs. 20/- per month, while the
ideology of that country is Islam, which prohibits landlord-
ism in every form.

Leaving aside the ideology of Islam, we have also seen
in detail in this chapter that landlordism is a challenging
hurdle in the path of the economic development of an under-
developed country and, unless the land in this country is
cultivated on a co-operative basis by the peasant proprietors
after abolishing landlordism, this country cannot get out of
the vicious circle of poverty, adversity and foreign charity.
The presence of landlordism in some developed countries
cannot serve as a precedent for under-developed countries.
We have seen that, in England, the landlord, instead of
sucking the blood of his tenants, is an angel of mercy for
them. He provides buildings and all agricultural machines
to his tenants in addition to land, and instead of share-
cropping with his tenants he charges a cash rent of 3% per
annum on the value of his land, buildings and machines. It
is difficult for his tenants even to get a loan from any other
source at this rate. In spite of this, there are such laws on
the statute book of that country that the percentage of
owner-farmers is increasing every year. In America, although
the landlord share-crops with his tenant, the crop is so
abundant on account of the agricultural mechanization that
the share of the tenant is not incommensurate with his
labour from the economic point of view. Then, the Govern-
ment buys his share of the crop at high rates under the
Agricultural Price Support Scheme. Besides, in America,
there is a property tax which the landlord has to pay on
the value of his land every year, and which the tenant does
not pay. Thus the landlord pays the major portion of his
share of the crop to the Government in the shape of property
tax. In spite of all this, the owner-farmers in America form
75.6% of the whole farming community, and there, such
laws are in force by virtue of which the percentage of owner-
farmers is increasing every year. In France, the owner-
farmers are in such an overwhelming majority that it is
called the country of owner-farmers. In Germany and Japan,
landlordism has been abolished after the Second World
War. The question of landlordism does not arise in Russia
and other Communist countries. In countries of recent settle-
ment, like Canada, Australia and New Zealand, innumerable
opportunities exist for an agricultural labourer to become
an owner-farmer in a period of five to ten years. We have
already given a detailed account of agricultural conditions in
the developed countries of the world in this chapter.

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FURTHER NOTES ACCORDING TO PAGE NUMBERS

Page 38  In July, 1960, Italian Somaliland and British Somaliland merged themselves to form the Somali Republic. The Legislatures of the two territories simply combined to form the Legislature of the Somali Republic.

The Federation of Mali was dissolved on 22nd September, 1960, but a Union of Ghana, Guinea and Mali (formerly the Sudanese Republic) was announced on 27th December, 1960, and named itself the Union of African States (U.A.S.).

Malaya’s Prime Minister, Tengku Abdul Rahman, has proposed the merger of Malaya, Singapore, Sarawak, Brunei and North Borneo to be called Malaysia. Singapore would be first merged in Malaya to become its twelfth State in or before June, 1963. The other territories would merge later.

Fundamentals for the East African Federation of Tanganyika, Kenya and Uganda were already fixed before Tanganyika got independence on 9th December, 1961, and the other two territories had still to get their independence. The Federation would come into existence on their attaining independence as well.

On 28th September, 1961, Syria revolted out of the union with Egypt, the United Arab Republic (U.A.R.). President Nasser’s reply to the revolt was, “The Arab people in Syria should not be pre-occupied with a secondary or temporary issue which would be finally settled by the inevitable course of history — Unity”. H. A. R. Philby, in his article “Syria Today”, published in the Observer, London, dated 8th October, 1961, remarked, “The first experiment in Arab Union has fallen apart in less than four years. To many who have sincerely believed in Arab unity there is, in this event, material not only for tragedy but for shame as well”. Egypt is to sever her link with the Yemen by ending the United Arab States, as President Nasser declared on 23rd December, 1961, that the conditions in the Yemen were against the law of justice and the law of God.

Page 63  Free Trade Area comprising Britain, Austria, Switzerland, Sweden, Denmark, Norway and the six Common Market nations could not be formed, but a European Free Trade Association (EFTA), separate from the six Common
Market nations, was formed in November, 1959. It included seven countries — Britain, Austria, Switzerland, Sweden, Denmark, Norway and Portugal — which were called the Outer Seven. In April, 1961, Finland joined EFTA. At about the same time Greece became an associate member of the Common Market of the Inner Six, called the European Economic Community (E.E.C.). It was seen that the six Common Market nations were making great economic progress by sharing the market with one another. Their industries were becoming more efficient by having reduced the tariff walls and thus creating competitive conditions for themselves. Having been influenced by their prosperity and growth, Britain and some other EFTA countries decided to join the Common Market, and in August, 1961, Britain formally applied for its membership. Denmark followed suit. Norway is also planning to apply. If Britain succeeds in joining the Common Market, the United States of America and Canada also hope to join and would call it the Atlantic Common Community.

In February, 1960, six Latin-American countries, Argentine, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, agreed to form a Latin-American Free Trade Association. It started working in June, 1961.

In July, 1961, six African nations, the United Arab Republic, Morocco, Ghana, Guinea, Mali and the Algerian Nationalist Government decided to form an economic common market to start working in January, 1962.

In April, 1961, 12 nations of former French West Africa—Senegal, Ivory Coast, Congo Republic, Chad, Gabon, Dahomey, Central African Republic, Upper Volta, Mauritania, Niger, Cameroun, Malagasy Republic (the former Madagascar) — proclaimed themselves a new economic unit known as the Afro-Malagasy Economic Union. The new Union will have a common Customs pact, a common airline and closely knit foreign policies and a co-ordinated defence system.

In June, 1961, the Government of Pakistan decided to introduce an Export Credit Guarantee Scheme to be operated by the Pakistan Insurance Corporation — a Government re-insurance corporation.

On 22nd September, 1961, the export duty on Desi cotton was reduced from Rs. 40/- to Rs. 25/- per bale and the export duty on Comilla cotton was abolished by the Government of Pakistan in order to provide an export incentive.

The International Development Association has recently been established with modest resources. In May, 1961, it granted its first loan of $9 million to British Honduras in South America. The loan is interest free and repayable
in 50 years. In June, 1961, it granted its second loan (interest free, repayable in 50 years) of $60 million to India.

Page 115 In February, 1961, judgment was delivered in a Philadelphia Court in the largest criminal prosecution of its kind since the Sherman Anti-Trust Act was passed in 1890, in which fines totalling $1,924,500 on 29 manufacturers of heavy electric equipment like General Electric, Westinghouse, Allis-Chalmers, and on 44 of their officials, were imposed, and 7 of their officials (5 Vice-Presidents and 2 Managers) were sentenced to 30 days' imprisonment each on charges of price agreements and bid manipulations. The Justice Department would also sue these manufacturers for millions of dollars overcharged through these tactics on purchases by Federal agencies.

In May, 1961, the Supreme Court of America told Du Pont — the biggest chemical company in the world — to divest themselves of their share in General Motors — the biggest company in the world — in ten years' time. Du Pont are holding 63 million shares of General Motors, valued at $3 billion, amounting to 23% of General Motors' total capital.

Page 118 At their annual conference in October, 1960, the Labour Party adopted the executive report recognizing that both public and private enterprise had a place in the economy and that it believed that further expansion of common ownership should be decided from time to time . . . with due regard for the views of the workers and consumers concerned.

Page 123 In Switzerland, in September, 1961, the aims of the Swiss Cartel (Anti-Trust) Law were published. There was no special legislation on the matter until then. The new law tends to give freedom of competition and restricts activities of trusts.

Page 128 On 15th February, 1961, British Pound Sterling and currencies of nine other countries — Belgium, France, West Germany, the Irish Republic, Italy, Luxembourg, the Netherlands, Peru and Sweden — became convertible to any currency in the world without exchange control restrictions. American and Canadian dollars have been convertible all the time. Similarly, currencies of Sa'udi Arabia, Kuwait, Aden, Syria, the Lebanon, Afghanistan and Mexico have been convertible all the time.

Page 196 On 3rd January, 1962, the Agricultural Wages Board in London confirmed the minimum wage of £8 15s. 0d. per week to farm workers. The award is to be operative from 26th February, 1962.

Page 205 In August, 1961, the United Arab Republic reduced the maximum area of land that an individual could own to 100 acres.
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