

GHAZALI'S PHILOSOPHY OF REALITY, IMPORTANCE AND PURPOSE OF RELIGION

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The history of religion is as old as world itself. That is why from Hadrat Adam to the date, we find no one to claim to live without any specific divine guidance.

The guidance is necessary for all human beings as the Creator of world, Almighty Allah had addressed the first human couple while sending it to this universe:

(1) اهبطوا منها جميعاً فامايا تينكم منى هدى فمن تبع هداى فلا خوف عليهم ولا هم يحزنون

Meaning: "Get you down all from here; and if, as is sure, there comes to you guidance from Me, whosoever follows My guidance, on them shall be no fear, nor shall they grieve".

It means the success of Allah's vicegerents, the human beings, depends on their following the laws given by the Creator of this world.

Human history also confirms that the guidance is spread from the head of the family to the chief of the tribe and then to the head of the state. In fact, few principles are formulated by the international Agencies like, the U.N. for the nations: these nations seek guidance from the international laws in dealing with political and social issues on national and international level. So man needs some basic values and regulations to lead a successful life.

Allah has created man and for his guidance. He has laid down some principles, which are taught through religion, which thus provides a system of life.

As religion is basic human need without which he cannot exist. Allah has given ample guidance to nations ever since the creation of the world, and in keeping with the need of times:

(2) ولكل قوم هاد

Meaning: "And (we sent) to every people a guide"

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e.g. public sector, private sector and volunteer sector. Voluntary sector that is obviously the mettle of Islamic Fiscal Policy that differentiate it to traditional Fiscal policy. There is also need to work how the Islamic Fiscal policies operate in the presence of voluntary sector.

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The stimulation of consumption would push expected rate of payment up ward and this would stimulate private investment even further. Abdin Ahmed Salma says; "inflation may generate a distribution of income and wealth which by concentrating wealth and income in the hands of rich may be harmful to welfare of people"¹³. He suggests that the Islamic State imposes progressive taxes on income and expenditure as well as social security payments can act as an automatic stabilizer for the economy.

ECONOMIC GROWTH

Islamic Fiscal policy by accelerating economic growth may become the primary objective of Fiscal policy. Since growth in the function of saving, fiscal policy should aim at achieving the maximum mobilization of saving of this economics. Also increased state expenditure may be needed to build the necessary infrastructure and to invest the project that is not attract to the private sector.

Since Islam prohibits the interest rate, there is disincentive for the people who invest their wealth in project therefore mobilizations of saving take place in the economy though direct participants, the savers and entrepreneur. Savers themselves start a small business or become partner in entrepreneur.

The financing profits produce government projects (i.e. railway, electric supply, canals, etc.) on the basis of partnership with the public. The general revenue, Institution of special tax and Surplus of government profit producing may finance non-profit producing state project.

CONCLUSION

Islamic Fiscal policy being value-oriented policy depends on the Islamic teachings. Various Economic activities that based on non-Islamic values and teaching and harmful for the society and individuals will not be applicable. Efficient allocation of resources, equitable income distribution, Economic stability, and economic growth will be generated on the basis of Islamic teachings.

But there needs to think about the activities of different institutions like as Stock exchange, insurance companies that are counted illegal activities in the present form because gambling and interest are prohibited in Islam. More over Islamic Fiscal policy would be three-sector policies

ECONOMIC STABILITY

Stability in the value of money is fundamental to Islamic economic system and unemployment must also be cured in order to provide a decent living to the Muslims. Islamic fiscal policy should play an important role to achieve the stabilization objectives.

It is possible that an Islamic economy may face monetary inflation and temporary recessions. Banker in an Islamic state may also inquire to excess credit creation. Financing of public expenditure through printing notes or bank borrowing may finish the inflationary gap. There is possibility of inflation both demand-pull and costs push. The state will try to keep it within limits. The major tool will be controlling the money supplies by central banks.

In the Islamic fiscal policy there may more likely occur only demand pull inflation rather that cost push inflation.¹² It does not mean that there is no union, but there is harmony between employees and employers and implies in order to avoid social exploitation.

There would be two curbs for inflation in Islamic fiscal policy.

- 1- Through an increase in the rate dues on personal income; this will cause decline in consumption, the aggregate demand curve will shift towards equilibrium price level.
- 2- Use of reserve accumulation from Bait-ul-maal. This result is made up by proceeding Zakat dues, which were not spent during a particular time period.

Zakat dues, which were not spent during a particular time period. During the period of inflation, state could spend less reserve from full employment proceeds. This will be resulting a higher degree of economic stability.

In case of unemployment, M.M. Metwally views that to cure unemployment arising due to deficiency of aggregate demand on an Islamic economy, state should raise the rate of dues and idle assets which would stimulate the private investment and increased revenue thus obtained could be passes over in the form of transfer payments to the poor and needy whose MPC is relatively high.

Rs. 25000/- and a negative income tax rate of 0.5 is applicable. This situation is depicted from graph. Formula of negative income tax would be

$$Z = \hat{a} - tY$$

Where Z = net Zakat payments

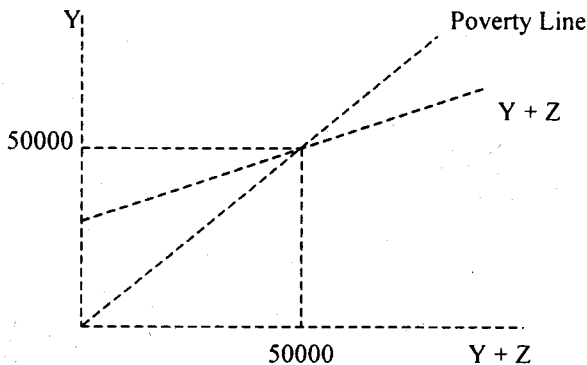
\hat{a} = Basic allowances i.e. Rs. 25000/-

Y = Income

t = tax rate = 0.5 applied up to break even point

If $Y=0$ then $Z = \hat{a} = 25000/-$

Y	Z	Y+Z
00000	25000	25000
5000	22500	27500
10000	20000	30000
15000	17500	32500
20000	15000	35000
25000	12500	37500
30000	10000	40000
35000	7500	42500
40000	5000	45000
45000	2500	47500
50000	0000	50000



equitable redistribution of income can also be achieved by direct transfer payments or provision of public goods. The state provides public goods such as public health, education, provision of accommodation and other services generate a great impact of redistribution of income. Transfer payment such as child allowance, old person pension, welfare payment to disable person is also important redistribute of income and wealth. It is also practiced in the early Islamic period.

Islam encourages those people who pay Nafqat-ul-wajaba and voluntary contribution for the help of others. Qur'an said in this context "And in their wealth is the right of the needy".⁸ In another Ayet "So give what is due to kindred, the needy, and the wayfarer".⁹

Law of inheritance is another tool of distribution of wealth. No people can bequest all his wealth to one person. His wealth is distributed among heirs according to teaching of Islam. A Hadith says: "there is no bequest for heirs".¹⁰ A person can bequeath only one third of his property. In Hadith: "Narrated Hazrat Saad Bin Waqas, I was stricken by an ailment that led me to the verge of death. The Holy Prophet (صلى الله عليه وسلم) came to pay me a visit. I said, O Allah's Apostle! I have much property and no heir except my single daughter, shall I give two third of my property in charity? He said "No". I said "half of it?" He said "No". "I said one third of it?" He said (you may do so). Though one third is also too much, it is better for you to leave your off spring wealth than to leave them poor, ask others for help. And what ever you spend (for Allah's sake) you will be rewarded for it even a (more detailed available in silent features of Zakat) marble of food, which you put in the mouth of your wife¹¹. The narration of this Hadith means the wealth does not accumulate in the hand of one person. Islam wants it distribution among various persons.

It is the responsibility of the state of achieve the equitable distribution of income by the progressive tax. Dr. F.R. Faradi gave such idea of negative income tax, in which Zakat plays an important role. Under this concept the individual is considered to be capable of making a positive tax contribution to the state, if his personal income exceeds poverty line but is considered eligible to receive the negative transfer of funds from the government if his personal income is below to poverty line. Zakat's would form a poverty line in an Islamic state. Faridi suggests a theoretical framework for the disbursement of Zakat with a view of alleviating poverty. He is of the view that negative income tax type frame work he takes present income tax consumption limits as poverty line or the income level where zero income tax is livable above that the level positive income tax is livable. But if the income tax is below this level, state can add supplement the income of family on a negative income tax basis.

Let us suppose a presently exempts Rs. 50000/- annual income from income tax this would form poverty line meaning that the families have income below this need help from Zakat. But in order to provide incentive to work each poor family it is not guaranteed by Rs. 50000/- but

hands of rich may be harmful. Ibn-e-Khaldun long ago has warned against such a reduction in public expenditure that may cause recession and unemployment.

Economic growth

Islamic Fiscal Policy should create condition that is conducive to economic growth. More emphasis should be placed on growth, as with economic growth revenue base will be wider and Taxation will be less. Ibn-e-Khaldun⁵ long ago warned against the excessive taxes. which adversely effect the propensity to invest and adversely effects growth.

MECHANISIM OF FISCAL POLICY

Earlier we have discussed objective of Fiscal Policy. Now we discuss how these objectives operate in Islamic Fiscal Policy.

EFFICIENT ALLOCATION OF RESOURCES

Traditional Fiscal Policy aims to achieve an efficient allocation of resources, which yield maximum material benefit to the society. But Islamic Fiscal Policy along with achieving an efficient allocation of resources, which yield maximum material benefit, attaches importance to spiritual benefit. The idea of efficiency in Islamic Fiscal Policy may be interpreted to harmonize between the spiritual and material desires. Thus an optimum allocation of resources may be defined as "to establish an equilibrium between moral an economics imperatives"⁶. The moral imperatives will be taken from voluntary and market institution reflects economics imperatives. The public sector will not only supplement the economics activities of the two but will also act in a away calculated to ensure a better performance of both. The allocative function of the public sector will also involve direct public expenditure to help the economy the equal indicated above.

EQUITABLE INCOME DISTRIBUTION

Islam abhors accumulation of wealth and income in few hands: Qur'an says, "Wealth should not be permitted to circulate amongst the wealthy only".⁷ Islam gives many tools for distribution of wealth e.g. Zakat, Nafqat-u-wajaba, law of inheritance, voluntary contribution, etc.

Zakat is levied on Zakatable savings subject to condition its value reaches the prescribed limits known as Nisab and that it remained in ownership of a person for a year. It is an obligatory duty on the Muslims whose wealth exceeds the Nisab.

which can produce more money whereas in Islam money is a simple medium for exchange of goods and services and for meeting other emergency needs subjects to payment of Zakat. The present role of bonds for the purpose of interest prize winning will be abolished and only bond is issued on the basis of Musharkah and Mudarbah.

8. Islamic state is basically a welfare state; it looks for welfare of its entire people irrespective of cast and creed. Hence Islamic Fiscal system will cover all such aspects as removal of hungers, general poverty, health care, education, widows, orphans, security of people, provision of cheap and speedy justice, provision of employment, and maintenance of law and order.
9. In Islamic Fiscal Policy the Islamic tax as Zakat, Ushar, Khiraj, Jazia, Booty, Khums etc. is sufficient for generating the revenue of the government, to meet its demand for the welfare of the people and development of country and defense requirement, then no tax will be required. However, in case of emergency the government can device some additional means to collect taxes from the wealthy people of the state in equitable manner.

OBJECTIVES OF FISCAL POLICY

Most of the objectives of Islamic Fiscal Policy are same as of in Capitalist economy but its interpretation and implementation are different from traditional Fiscal Policy. The objectives are: Efficient allocation of resources, Equitable in come distribution, Economics stability and Economic growth.

Allocation of resources

The Islamic society where resources are abundant should be utilized in such a way that achieves welfare in this world and hereafter.

Equitable income distribution

Islam establishes higher degree of equity because Islam strictly prohibits that the wealth or income is circulated in few hands.

Economic stability

Islamic state considers stability of real value of money as obligatory and essential. Such an economy is to proceed smoothly on the path of the development. Inflation resulting in concentration of wealth and income in the