

***F.R. Faridi***

## **Theory of Fiscal Policy in an Islamic State**

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### ***Comments: Riad el Shaikh***

Many of the propositions of this note as well as its techniques of analysis deserve further discussion and more elaboration.

Of the so many comments incited by Faridi's article, I will be concerned mainly with some relating to the basic techniques which the writer describes as "the complex device of introducing significant elements of current economic systems and integrating them with an Islamic economy". This technique has been preferred according to the writer to other techniques because they would render the whole analysis anachronistic.

After a careful and thorough reading of the paper, one wonders whether the attempt to avoid anachronism by the writer has been successful. The first set of elements relates to the socio-economic policy goals which the writer attributes to an Islamic state (p.18). As the writer knows very well, these goals are looked after by almost all modern states, although some with greater or lesser degrees of success and many with greater or lesser degrees of frustration. Unfortunately, most Muslim countries belong to the latter group (the notable exception being some rich oil exporting countries in the Middle East).

With these goals as given, the writer assumes that *zakat* provides the *base* of the fiscal system although he acknowledges that some secular fiscal devices will be necessary to correct, to complement or to compensate what he calls the objectives gap and the resources gap.

Judging by historical experience, it is highly probable that secular fiscal devices will increase in importance so long as profit making activities are private. Even under complete public ownership, parafiscal devices will remain as important. Thus, the increasing importance of secular fiscal devices will render the resources gap formula derived from *zakat* inapplicable in the light of growing public expenditure which has long been experienced by all modern communities.

On the other hand, if one considers the main proposition behind the analysis as of a declining role for the public (government) sector and an expanding role for both the private and voluntary sectors, one becomes doubtful if the analysis has any operational value, with mass poverty all round. The task facing the voluntary institutions may become impossible.