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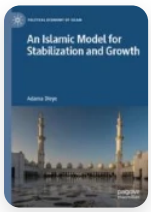

An Islamic Model for Stabilization and Growth

Adama Dieye

Part of the book series: Political Economy of Islam ((PEoI))

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Abstract

Further elaborating upon the institutional rules organizing the legal and regulatory economic policy framework as discussed in the previous chapter, this chapter begins by describing a set of operational rules in the main economic sectors; including production and consumption, investment, and external exchange, and financial operations (public finance and banking).

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Notes

1. Kamali (1991): "*The norm in regard to things is that of permissibility,*" meaning that permissibility is the natural state and will therefore prevail until there is evidence to warrant a departure from that position.

2. Thomson Reuters in collaboration with Dinar Standard (2016) pointed out: "The Islamic global economy is estimated to be worth around US$ 1.9 trillion (excluding Islamic finance) in 2015 and projected to US$3 trillion in 2021, corresponding to 8% compound annual growth rate (CAGR)".

3. Human wants are usually classified in three mains categories: necessities or essentials basic needs items ('*daruriyyat*'), comforts ('*hajiyyat*') and luxuries ('*tahsiniyat*'). For practical reasons (measurement, policymaking), in the current circumstances where poverty and inequalities are widely spread in and across countries, the concept of basic necessities fulfillment is related to level of revenue, and the living standards of societies, countries.

4. Qur'an (S21; 92).

5. Qur'an (S4; 58; S7; 55–56; S57:25).

6. Potential benefits of international trade: increased commercial opportunities

and investment, enhanced competitiveness, export diversification, diversification of supply sources of goods and services and strengthening competition, exchange of know-how and technology that boost in turn innovation, competition and exchange of best practices between trade partners.

7. *Khoms* (tax on income), *Zakah* (tax on wealth) and *Kharaj* (land tax) are proportional taxes which, through their proportionalities favor the stabilization of economy (Sadr 2016).

8. See Askari et al. (2015) and Sadr (2016) for detailed discussions on Islamic fiscal taxation.

9. The authors of the Chicago Plan were: Henry Simons, Frank Knight, Aaron Director, Garfield Cox, Lloyd Mints, Henry Schultz, Paul Douglas, and A. G. Hart.

10. The major advantages of the system of 100% reserve banking commonly advocated are: (i) preventing banks from creating their own funds during credit booms, and then destroying these funds during subsequent contractions; (ii) eliminating occurrence of bank runs; (iii) allowing the government to issue money directly at zero interest, rather than borrowing that same money from banks at interest; and (iv) reducing of government debt and private debt levels.

11. Banks have to migrate their "*Mudaraba*" deposit accounts into either "*Wadiah*" deposit accounts or '*Qardh*' accounts and convert them into "*Mudaraba*" Investment Account.

12. de Mooij et al. (2013) stressed that most corporate tax systems favor debt over equity finance. The fact is now widely recognized as, potentially, amplifying risks to financial stability. In investigating empirically the link

between this tax bias and the probability of financial crisis, they found that greater tax bias is associated with significantly higher aggregate bank leverage, and that this in turn is associated with a significantly greater chance of crisis.

13. One of the key indicators used in the World Bank report “Doing Business”.

14. Biraima (1991) argued that “*the economic actions of a Muslim must be governed by the principle of thankfulness. This means that he will be guided in all his economic activities by the desire to maximize an ‘Iman’ function, the arguments of which consist of good economic deeds*.”

15. This issue will developed in the next chapter.

16. Reforms implemented simultaneously = big bang, and if implemented sequentially, after uncertainty resolution on the first reform = gradualism.

17. In the context of Global economy, the requirement of macroeconomic stability stands also for an Islamic economy to increase savings, investment, foreign capital inflows—all of which are central to the growth process.

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