

CRITICAL ANALYSIS OF
CAPITALISM
SOCIALISM
AND

ISLAMIC
ECONOMIC
ORDER

By

Syed Muhammad Ismail
B.A. (Pb). Emeritus F.C.W.A. (London)
Retired Chief Auditor, P.I.D.C.



With Comments
Aman Sultani
12/2/90

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ORIENTAL PUBLICATIONS

115 McLeod Road, Lahore - 54000, Pakistan

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134982

Published by: ORIENTAL PUBLICATIONS
115-McLeod Road, Lahore, Pakistan
☎ 042-222784

First Edition: 1989

Typsetting by: GRAFIX XI
115-McLeod Road, Lahore, Pakistan
☎ 222784

Printed by:
Khalid M. Naseem
at Annoor Printers & Publishers
3/2 Faisal Nager, Multan Road
P.o. Box 4190, LAHORE - 25

Printed in The Islamic Republic of Pakistan

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PREFACE

Economics is a social science which deals with the production, exchange and distribution of wealth for the benefit of individuals, groups and society as a whole. Since respective interests of individuals and groups involved in economic pursuits differ materially from the collective interests of society as a whole, three different economic systems can possibly evolve and develop as a consequence:-

1. A system laying undue stress on the interests of individuals and groups at the expense of society as a whole;
2. A system laying undue stress on the collective social interests at the expense of individual's basic human rights and freedoms; and
3. A system advocating a via media between these two extremes.

Human society has actually adopted and practiced each of these three systems for long in different countries at different times; and each has left its indelible imprint on history, which no sensible student of economics can overlook or ignore.

Capitalism is an economic system which lays undue stress on individual self-interest for historic reasons. Human economic endeavours began as struggle for existence and survival by individuals fully occupied in discovering and adopting ways and means to satisfy their own wants. They had no leisure or inclination to seek other's comforts or attend to social demands. Consequently the economic system that sprang up by itself under such circumstances as a wild growth developed untrimmed, grasping practices which benefitted some individuals at the expense of others. By constant usage these practices became economic norms, and vested interests secured their legal sanctions. Classical economists pruned and dressed a jumble of these practices to present them as an economic system, in which capital dominated over other factors of production. So it acquired the title of capitalism.

Capitalism exploited the labouring classes and the consuming public ruthlessly during the last two centuries, and gradually became a target of general indignation. Cries for social reforms gave birth to a socialist movement, which produced many leaders. Amongst them was Karl Marx, the father of modern socialism, who worked methodically. He formed a Communist Party and issued a Communist Manifesto, to overthrow the capitalist class by dint of hatred aroused by his party in the minds of the labouring classes. He failed in his life-time, but his followers succeeded under Lenin in establishing a socialist state in Russia. Within half a century U.S.S.R. became a mighty empire challenging U.S.A. in all politico-economic spheres, and Socialism has by now consolidated itself as a full-fledged rival economic system, goading its followers to the other extreme. It holds its sway over almost half the world.

Capitalism and Socialism both have their good points and bad ones; but they cannot be properly grasped without studying them in detail, in their own atmosphere. It is not possible to conduct such critical studies in countries like Pakistan, which lack necessary literature and true atmosphere. A visit to and a long stay in the countries of their origin are indispensable. It was England which laid the foundations of modern capitalism and became the leader of industrial revolution in its hay-days. It was England again which gave refuge to Karl Marx and allowed him with his friend Frederick Engels to preach their cult from that country till they died. Therefore, the undersigned visited England and stayed there long enough to complete his critical analysis of both Capitalism and Socialism within that country. Freedom to visit U.S.S.R. for collecting firsthand information was not available. So the undersigned could peep through the iron curtain only from a distance.

The third economic system can be that of a via media between these two extremes. This middle course is cherished much by the under-developed countries of the Third World, which are hemmed in on either sides by capitalism and socialism ready to pounce upon them. Unfortunately these terrified and bewildered countries do not know what that via media is; vested interests hold their sway in these countries and their intelligentsia is imbecile. However in this Third World there are Muslim countries which claim that the "Via media" was revealed unto their Holy Prophet Mohammad (peace be upon him) who introduced it fourteen centuries ago, and it worked for long.

The Muslims claim that the principles and some details of this Via Media are preserved in the Holy Quran and Sunnah, which can be applied to modern economic situations to benefit the Muslim World. There is a fresh awakening in Muslim countries to rediscover and renovate the Islamic Economic Ideology; and the last three decades have seen some brisk activities in that direction. Egypt has produced some helpful literature, and Interestfree Banks have been established in many Muslim countries. An International Centre for Research in Islamic Economics is established in King

Abdul Aziz University at Jeddah, Saudi Arabia, which is engaged in genuine research. In view of these developments the undersigned visited Saudi Arabia and stayed there for a few months to learn all that was possible about this revival and the nature and particulars of economic ideology taught by Islam.

This book which is a product of long-drawn studies, investigations and research, consists of the following four parts:

1. Part one consists of Preliminary Survey comprising two chapters; the first exhibiting a Panorama of Economic Phenomena through the ages, and the second delineating Criteria for Critical Analysis.
2. Part two conducts critical analysis of Capitalism in detail.
3. Part three critically examines socialism as propounded by its exponents, and practiced in various parts of the world.
4. Part four deals with Islamic Economic Ideology, examines it critically and offers suggestions for its introduction in a Muslim community without inviting any catastrophe.

Being a Muslim the undersigned is prone to religious leanings in his writings; but during his researches in capitalism and socialism he realised that people regard economics as a purely secular subject, and they are so allergic to the slightest touch of theology in economic affairs that they would not listen to anybody discussing economic issues in a non-secular fashion. Therefore the undersigned decided to discuss all economic issues in this book in perfectly secular fashion relying solely and exclusively on rationalism and common sense throughout. The part dealing with Islamic economic ideology is also presented so as to help secular economists read and assimilate it with an open unbiased mind.

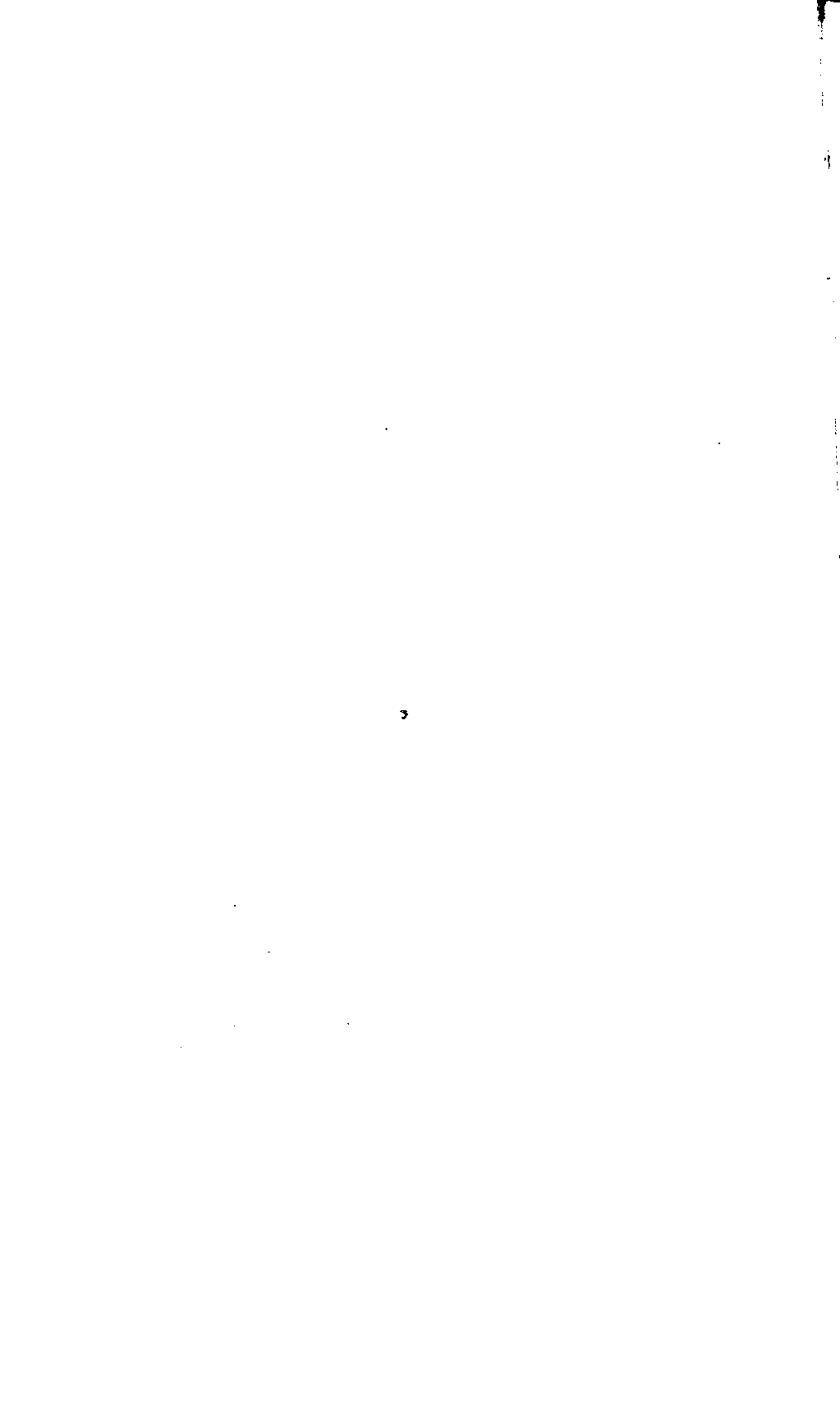
To err is human. All constructive criticism and suggestions for improvements will be cordially received and accepted with thanks.

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***Preliminary
Survey***



PANORAMA OF ECONOMIC PHENOMENA

1.1. PRE-HISTORIC ECONOMIC PRACTICES.

Economic phenomenon is older than civilization and some economic practices have been traced back to savages. They built mud huts for shelter and stored surplus fruits for subsequent use instinctively like birds, ants and bees. Those who had collected plenty of fruits desired to exchange varieties for relish, and those who could get nothing to eat were obliged to beg and borrow from those who could spare. Thus barter exchange and credit emerged without pre-meditation. Credit continued to earn gratitude in words for long, but with the progress of civilization, people began to feel gratuitous lending to be a burden. They asked for something extra in return and charging interest on loans gradually became an accepted practice. The institutions of private property, commodity exchange, credit and interest thus seem to be older than recorded history and it is impossible to locate their origins.

Individual enterprises improved craftsmanship in due course and multiplied utility products so much that barter proved to be unfit for increased multilateral exchange operations. Adoption of a convenient medium of exchange became inevitable. Emergence of gold and silver as stable media of exchange, measures of value and stores of wealth modified the old concept of wealth and well being. Utility of precious metals as stores of wealth increased human covetousness. Trade and commerce multiplied, demanding more and more goods of utility and products for luxurious living. These demands stimulated cottage industries and paved the way for an industrial revolution, but luxurious standard of living displayed by the rich incited ambitious persons to grow rich quick by any means, fair or foul. Thus tendency to grab originated and developed in economic field.

The strategy of grab was not a new discovery for man. It had been operative in political field eversince the dawn of civilization.

Those who could muster brute force became the masters. Land robbery proved to be a paying enterprise. A band of fighting riders would take over habitations by force imposing patronage on tillers of land to become masters of their lands. The tillers continued to sweat and produce crops as before, but now the major share of their produce went to the land robbers. This practice laid the foundations of feudalist economy. More enterprising soldiers who could muster still greater hordes of fighting men visited these land-robbers with a display of their swordsmanship and forced them to accept their over-lordship, pay tithe and acknowledge allegiance. Thus kingdoms sprang up to prosper on forced labour, taxes and slavery. Kings patronized arts and crafts, created a society of elites, set examples of luxurious living for them, helped them in raising their standard of living, widened the wealth gap between the labouring and exploiting classes, and with the passage of time sanctified this politico-economic system which ruled the world for millenniums without a change, and continues to do so still in many backward countries.

1.2. FEUDALISM: ITS ORIGIN AND DEVELOPMENT.

When we talk of the origin and development of anything, we take for granted that time is an endless continuity with no past, present and future; but which appears to us in motion like changing days and nights or water flowing down the river. Consideration of the origin and development of anything admits that it did not exist prior to a point of time, but appeared later on in a vague and crude form needing further nurture from internal and external forces to adopt a mature and well defined shape.

Land with the help of water produces food for human and animal subsistence, and as soon as the savage men realized the significance of this truth, their fast multiplying families must have spread about in search of fertile lands to possess them exclusively for themselves. Feudalism is a politico-economic social structure which owes its origin to this search for fertile lands, but its development to a final mature shape must have taken a good many centuries, perhaps millenniums to materialize.

Thousands of years ago human races living in different lands with changing climates learnt through repeated observations and understood that when rains come all hills and plains get soaked and drenched with water and give birth to green vegetation in different forms autogenously. Tender leaves sprout on bare branches of trees, green grasses of sorts come out of moist soil to develop into stalks bearing ears of cereals like rice, wheat, barley, and corn. The trees bear varieties of fruits with juicy pulp rich in sweet and relishing food. All this bounty becomes subsistence for the human races. Realization of the great significance of land by human mind awoke in him a wish to own a big piece of land exclusively for ones family. Every human family in every country, therefore, tried to possess a vacant piece of land and preserve it.

Subsequent development of agriculture, horticulture, animal husbandry, dairy farming, poultry farming and forestry confirmed that the wish to own land which led the human race to learn and indulge in all these helpful activities, was in itself a legitimate desire. But how all this development was managed by one class of human race with the sweat and blood of another class is the story of the development of feudalism, which covers a time span of a good many centuries.

Various civilizations prospered and decayed in different lands and epochs. The Egyptians, the Phoenicians, the Babylonians, the Hebrews, the Chinese, the Aryans, the Persians, the Greeks and the Romans, all enriched history with annals of their achievements derived from Feudal economy; and in spite of all its faults and failings Feudalism played its role admirably in its hey - days. Therefore it deserves mention in history for contributing towards progress of civilization.

Feudalism owes its origin to ownership of land, but to develop that land, to cultivate it, to plough furrows in it, to bury seeds in those furrows and to supply water to them every now and then, to weed the fields and to take care of the sprouts as they appear, to guard the growing plants from birds and insects, and finally to reap the ripe harvest, thrash and winnow the grain and take it to the market for sale; all this needs human labour to perform these functions. The owners of a sizeable land needed enough labour to do this hard manual work for them. To comprehend from where this manual labour came, it is necessary to study the political setup and the labour markets existing during the formative period of the feudal system.

As already mentioned individual families started ownership of land to create an exclusive family preserve. The family members, therefore, tilled the land and developed it themselves with their own hands. They were owners, managers and cultivators of their farms all by themselves. Their land holdings were, therefore, limited and confined to what the family members could themselves cultivate and manage. Any desire to possess more land than what self-cultivator could manage was not feasible as other families were there searching for land to subsist. Hence initially land holdings were small and all functions were performed by family labour alone.

Those families which multiplied faster than others, and were therefore obliged to resort to intensive farming for producing more food for family needs, adopted this method for so long as their younger generations grew up to become physically strong enough to snatch the neighbouring lands from their fewer and weaker farmers by force, and to make their family members vassals and slaves. This is how petty landlords and slaves appeared. These petty lords established their position with the help of forced labour of their vassals and became strong to fight with the neighbouring petty lords for expanding their own domain. Such activities

promoted the manufacture of war weapons then used, like the bows and arrows, lances and spears, swords and shields, helmets and breast plates, etc. Horse breeding farms developed and warlike horsemanship became an emblem of real power.

As mentioned earlier, those who could muster brute force became the masters, imposing their over-lordship on the mutually fighting petty lords, and reducing them to the humble position of remaining their vassals. This politico-economic setup developed as a wild growth in bigger and smaller patches throughout the world. Wherever it developed, it did so independent of one another, due to yet undeveloped means of long distance communications, as a natural process of social development; yet their social thoughts, their various classes of society, their production methods, their criteria for class distinction, their standards of living and their norms of governing were all alike.

Land owning members of these societies considered it an act of mercy to engage destitute for work against food and cast-off clothes, thereby saving them from death by starvation. To exact hard and strenuous work from them and eventually to make them serfs and slaves was a custom sanctioned by their society which could not perceive any harm in it. Thus this automatic slave-making custom spread and everyone including the kings, the aristocrats, and the land lords, indulged in it. The slaves thus made were forced to hard labour for bare subsistence for long, and then sold in the slave markets, which hummed with as much activity as any other commodity market. It was from this market that the land owners of the Feudalist era bought the labour force needed for farming their fields, for tending their flocks, and for the conduct of their household chores.

It would be a mistake to assume that the feudal society consisted only of the two classes of masters and slaves. Other classes also lived and flourished in that society, particularly those of the craftsmen, the merchants, and the money-lenders.

They were all free men who lived mostly in towns and cities instead of villages, and carried on their respective trades freely.

1.3. MERCHANTS DEVELOP COMMERCE AND TRADE.

The landless population of free men living in various countries during the feudal era had to adopt some trade for earning enough money to buy necessities of life for their families. Having no capital or skill in any trade most of them had to sell their services as unskilled labour. Since the labour markets have always remained over-flooded with this class of labourers, they remain either unemployed or underpaid. They are therefore obliged to seek asylum with the master tradesmen of their localities begging to be retained as apprentices. The terms of apprenticeship were hard in those days, its period long and available vacancies with the craftsmen used to be very few. Many persons were, therefore, obliged to learn the rudiments of reading, writing and arithmetic to join some

mercantile organization as clerks, shop assistants and salesmen

Production of commodities from natural resources is one phase of economic operations, and sale of the produced commodities is another. Both are essential parts of any economic venture. The operation of selling the products is carried out by the mercantile community of every society. Some members of this community purchase products of utility from their centres of production and carry them to the wholesale markets for selling them in bulk; while other members of the same community buy these products from wholesale centres and carry them to sell in retail at their shops in residential areas. This community as a whole thus performs the helpful service of carriers of commodities from production sites to the consumers' doorsteps. The mercantile community thus acts as an indispensable link in the production and consumption chain of the economic cycle. No doubt it has ever remained a highly paying profession. For so long as production depended solely on the motive power of human and animal muscles, production lagged behind the demands of trade and commerce, which then overwhelmed the economic field. It would be interesting to know how the mercantile community gained and retained this dominating position for long.

All merchants, big and small, placed their children on the sale counters of their retail shops to learn the art of selling at a profit. A till used to be reserved for every boy and at the end of every day a small amount of commission of the sales made by the boy during the day used to be put in his till. These daily contributions earned by the boy piled up during the course of a few years to form the working capital for him when he became an adept for independent trading. In this way merchant community thrived on self help basis, without borrowing funds from any lending source.

History does not tell us when the retail shop-keeping actually commenced in human society; but it does tell us that land and sea trade commenced to prosper in some countries five thousand years ago; although earliest known rafts are said to have been used in southeastern Asia 24000 years B.C. Sailing boats were built in Egypt sometimes in 4500 B.C. Cretan ships were active in eastern Mediterranean during 3750 B.C. Wheeled vehicles first appeared in Sumeria in 3500 B.C., and Egyptian vessels traded in the Mediterranean sea during that period. Mediterranean ships first ventured into the Atlantic Ocean in about 3000 B.C. Inflated skin rafts were used in Middle East in about 3000 B.C. Pyramids began to be built in Egypt from 2600 B.C. onwards. Indus Valley civilization emerged at Harappa and Mohenjo-Daro as major centre during 2500 B.C. and trade developed between cities of Mesopotamia and Indus Valley soon after. Egyptian ships imported Gold from African lands in the south during 2200 B.C. This little information cursorily copied from an Encyclopedia should suffice to convince the reader that trade by land and sea was already flourishing many thousand years before it donned the robe of Mercantilism from

sixteenth century A.D onwards.

1.4. ROLE OF PIRACY IN WORLD CONQUEST.

Piracy is defined as an act of plundering other people at sea and depriving them of their rightful belongings. It is considered an abominable and morally loathsome act by all. But to invade a peaceful country and to subjugate its people by dint of brute force, though equally immoral and detestable, is admired by the victor, although the lookers-on condemn it with equal vehemence. Since economists regard morality as a non-economic issue and therefore irrelevant to economic topics, we feel justified in discussing piracy and conquests collaterally, especially when history supports us.

Amongst the European nations the Spaniards happened to be the fore-runners both in piracy as well as in conquest of the New World. The New Caxton Encyclopedia of Britain in its 15th volume on pages 195 and 196 tells us the following about the South American state of Peru:-

"Upto the time of the Spanish conquest of the 16th century, Peru was the centre of the highly advanced and wealthy Inca civilization. Francisco Pizarro first heard of the fabled wealth of this great southern empire in 1515 and then made several reconnaissances before landing at Tumbez with 183 men in 1532. Early in 1533 Diego de Almagro arrived with reinforcements, but Pizarro had already summoned Atahualpa to call on him and had then slaughtered the thousands in his retinue and taken the king prisoner. After promising to release him for a ransom of a roomful of gold, Pizarro had the last Inca King baptized and strangled and then entered the old capital of Cuzco unopposed. Pizarro and Almagro were both illiterate peasants and among the most heartless of the conquistadors. Their only interest was in looting gold, and the priceless treasures of the Incas were melted down into bars for distribution among the Spaniards, and the dispatch of one fifth to the Spanish monarchy in Madrid. Pizarro and Almagro fell out with each other and after a battle between the rival armies in 1537 Almagro was captured and strangled. Four years later Pizarro was assassinated and succeeded by Almagro's half caste son, who was executed in 1542.

Pizarro had been appointed governor and captain general of Peru, and set about systematically removing the wealth of the country and all traces of Inca civilization. A new capital was established at Lima, from which the colonial government ruled a vast area that covered most of modern Ecuador, Chile, and Bolivia as well as parts of Argentina.

The viceregal powers of the Spanish crown were firmly established by Francisco de Toledo (Viceroy 1569 -1581), and the precious metals mined in Peru were sent by annual treasure fleets to Spain."

In the same 15th volume the Encyclopedia tells us about Pizarro on pages 288 and 289 that:-

" An illegitimate child, Pizarro was brought up as a peasant in Estremadura, one of the most backward parts of Spain. He had no schooling and never learnt to write his name, but he became one of the most successful and most heartless of the Spanish

conquerors of South America. At the age of thirty he sailed for the New World and took part with Nunez de Balboa in the exploration of the isthmus of Panama across to the Pacific Ocean. He settled down in Panama, and then heard rumours of treasure in Peru. Though well over 50 he pursued preliminary expeditions with immense hardship and risk; they convinced him and the equally robust and illiterate Diego de Almagro (1475-1538) that the stories were right. Pizarro went back to Spain to get royal patronage and in 1528 was appointed governor and captain-general of Peru.

Landing in Ecuador in 1531 he marched south, followed by his brothers, Hernando (1475-1578), Juan (1500 - 1536), and Gonzalo (1506 - 1548), and by Diego de Almagro in 1533. In November 1532 Pizarro succeeded in capturing the Inca Emperor Atahualpa by means of a trick and had him strangled as soon as he had discovered the whereabouts of the Inca treasure. In November 1533 he sacked the Inca capital of Cuzco and stripped the city of its gold. In January 1535 he founded a new capital at Lima, from where he directed the 'pacification' of a region stretching from Ecuador to Chile. Quarreling with Diego de Almagro he defeated him in 1538, and had him strangled; three years later he was killed in a conspiracy headed by Almagro's son."

[The NEW CAXTON ENCYCLOPEDIA, Volume 15, pages 288-289, Edition 1979, Published in London, England.]

Information about fleets of Spanish ships loaded with treasures and moving regularly from Peru towards Spain could not remain secret indefinitely. Sailors and pirates of other European countries heard about it. It attracted the Portuguese, the French, the Dutch and the British sailors and pirates to locate and attack them. About the British sailor Francis Drake, the New Caxton Encyclopedia tells us on page 74 and 75 of its seventh volume that:-

"Francis Drake (1543-1596) was the eldest son of a yeoman farmer on the western border of Devon; the year of his birth is not precisely known. His father was an ardent Protestant and in a revolt of the Catholic peasantry in 1549 the family had to flee to poverty in Kent. At an early age Francis Drake was apprenticed to the master of a small coasting vessel, and later made two voyages to Guinea with Captain John Lovell. In 1567 he sailed in a slave-trading expedition to the West Indies organized by his kinsman John Hawkins. During the voyage Hawkins placed him in command of the 50 ton 'Judith'. Most of the squadron was treacherously destroyed by the Spaniards in the port of San Juan de Ulloa, but Hawkins escaped on Minion and Drake on Judith. On his return to Plymouth in January 1569 Drake was sent to London to inform William Cecil of all details of the attack, and thus was brought to the notice of the most powerful of Queen Elizabeth's ministers. In July of that year he married Mary Newman.

Smarting over the loss at San Juan de Ulloa, Drake spent 1570-1571 in sailing round the Spanish Main and finding out by what route the Spanish gold and silver from Peru was brought home. He decided that the point at which to grab it was the town of Nombre de Dios on the Atlantic side of the isthmus of Panama. He gathered every detail of the layout of the town by questioning every negro or Spaniard he captured who had been there. With

two small ships and 73 men he sailed from Plymouth on May 24th 1572 to attack Nombre de Dios. He captured the town after a sharp fight in which he was severely wounded in the thigh. In the governor's house he discovered an enormous stack of 360 tons of silver, valued at one million sterling, and in the treasure house gold and jewels more than the pinnaces could carry. At this moment Drake fainted from loss of blood from his wound, and his men, fearful of a Spanish counter attack, forcibly carried him back to the boats, leaving the treasure behind.

Recovering from his wound, Drake hung around the Main waiting for news of the coming of the next Spanish treasure fleet to Nombre de Dios. During this time two of his brothers and many others of the crew died of fever. On February 3rd 1573, with only 18 Englishmen and 30 Indians, Drake began a march across the isthmus of Panama.

At the highest point he climbed a tall tree to become the first Englishman to sight the Pacific Ocean. Finally they laid an ambush about 2 km from Nombre de Dios for a mule train carrying gold and silver across the isthmus. They took with them as much of the gold as they could carry, and buried the rest. On reaching the coast they were unable to find their ships, but Drake constructed a raft of tree trunks and, after some hours of difficult coastal navigation, made contact. They reached Plymouth on August 9th 1573 with the two ships laden with £. 40,000 of booty, worth about a million today.

By then a rich man, Drake came to the notice of influential members of the court, and eventually of Queen Elizabeth herself, to whom he related his adventures. With financial backing he then got together a squadron of five ships and about 160 men with himself as admiral in the *Pelican*, and on December 13th 1577 sailed from Plymouth for a secret destination. Only when the ships were driven past the Cape Verde islands did Drake reveal that his plan was a voyage to the Pacific. He quelled an incipient mutiny at Port St. Julian by the execution of Thomas Doughty. Abandoning the two smaller ships and renaming the '*Pelican*' the *Golden Hind*' Drake sailed through the Straits of Magellan. On emerging into the Pacific the three ships ran into a violent storm that lasted 52 days. The *Marigold* foundered with all hands and the *Elizabeth* lost touch with the *Golden Hind* and eventually made her way back through the Straits to England.

The *Golden Hind* weathered the storm and made her way northwards in search of Spanish treasure. The Spaniards were so confident that they alone sailed the Pacific Ocean that none of their Pacific ships had a single gun on board. The capture of just one ship, the '*Cacafuego*' on March 1st 1579 gave more treasure than the *Golden Hind* could carry. It amounted to 26 tons of silver, 36 kg of gold, 13 chests of money, and a quantity of pearls and other jewels.

Drake now decided that to return to England by the way they had come was too dangerous and that the easiest way home was across the Pacific and Indian oceans, round the Cape of Good Hope, and up the African coast. He sailed the *Golden Hind* northwards as far as San Francisco where he refitted the ship and at the same time claimed the land as *New Albion* for Queen Elizabeth. On July 28th

1579 he sailed to the west. After a long and arduous voyage, which included many stops at islands for refits, replenishment of food and water, and resting the men, the Golden Hind sailed into Plymouth on September 26th 1580, very richly fraught with gold, silver, silk, pearls, and precious stones. The total value of the booty was estimated at £. 1,500,000. Drake and his crew were also the first Englishmen to have sailed round the world. The Golden Hind was later taken round to Deptford, where the Queen knighted Drake on his own quarterdeck."

*(THE NEW CAXTON ENCYCLOPEDIA, Volume seven,
pages 74 and 75, Edition 1979. Published in LONDON,
ENGLAND)*

The Dutch and the French sailors and pirates did not lag far behind their Spanish and British colleagues, but to quote their individual instances from historical record would only prolong our narrative. Hence we consider that to demonstrate the role of piracy in world conquest by the European nations, instances of the Spanish Pizarro and the English Drake should suffice.

Plundering exploits of the European pirates in the New world aroused the European nations to aspire for world conquest. This awakening brought exploration in its wake, and the horizon widened for mercantile activities. But the expanding mercantile marine itself became the target of pirates. How mercantile marine equipped itself with appropriate defensive measures, and how in due course Mercantilism itself became offensive and aggressive is described in the next section.

1.5. MILITANT MERCANTILISM.

The organizational break down that followed the fall of the Roman Empire could guarantee neither the markets nor the security needed by large merchant fleets and so pirates multiplied freely. In the western Mediterranean the Portuguese were starting to expand commercially and politically during the fifteenth century. Spain and Portugal became the great mercantile powers during this period. Though the ship owners of Bristol showed a lively awareness of their opportunities for increasing the British trade, it was the Dutch who were the next general carriers of the world's trade during the sixteenth century. There was particular development in the French and Dutch navies and the British navy which was in constant conflict with its Dutch, French and Spanish rivals. About the relative naval position of Britain, the New Caxton Encyclopedia tells us on page 141 of its 14th Volume that:-

" Throughout the Middle Ages all English ships used in war were basically merchant ships normally used for trading or fishing. In time of emergency these ships were hired or taken over from their private owners to supplement the king's own ships which were likewise merchant ships owned privately by the king. Thus unlike the Mediterranean sea-powers, England had no fleet of galleys or other ships designed to be warships. Henry VIII (1509- 1547) was the first English king to build a fleet with the deliberate intention

of using it to destroy an invading enemy on the seas. Henry's Ship-builders revolutionized war at sea by building a ship so that it could securely carry permanent guns. In Henry's first ships guns were carried on top heavy 'castles' at bow and stern; then they put them below on the cargo deck and cut holes or ports in the ship's sides through which to fire them. Although only 34 out of 197 ships that saw the vanquishing of the Spanish Armada in 1588 were of the royal English fleet, they accounted for four-fifth of the fire-power. But while Henry had conceived the navy's role as to defeat a threatening enemy in the English Channel, Francis Drake made a great step forward by insisting that the best defence was to attack enemy ships in the ports from which they would set out."

[THE NEW CAXTON ENCYCLOPEDIA, Volume, 14 page 141, Edition 1979, published in LONDON.]

From the above quotation it is evident that Britain lagged behind other European countries in her naval defences and was anxious to make up the deficiencies quickly. British merchant marine, which used to be requisitioned in emergencies to defend the country, was equally deficient in her preparedness. The mercantile community lost no time to equip their merchant navy with suitable defence equipment for naval combats. Before learning how Mercantilism turned offensive and what it achieved thereby, it would be more appropriate to know something about the organization of the overseas traders and the commodities they traded in.

Instead of venturing out as private family enterprises without the patronage of the state, the European mercantile communities considered it safer to form corporate bodies under Royal charters to conduct trade outside their own countries. Thus East India Companies and West Indies Companies of different European nations were formed. The New Caxton Encyclopedia under the title of "East India Companies," in its 7th Volume, on pages 130 and 131 tells us the following:-

* East India Companies, Trading companies established in many European states in the 17th and 18th centuries for the benefit of merchants dealing with the Orient. Although companies of this type were founded in England, the Netherlands, France, Denmark, Scotland, Spain, Austria, and Sweden, only those of the first three were of real historical importance, since they played a vital part in the European colonization of the East.

The ENGLISH EAST INDIA COMPANY was formed in 1599 by a group of London merchants. Their charter, granted by Queen Elizabeth I on December 31st 1600, gave them the exclusive English rights over trade with the East, which meant in fact all countries between the Cape of Good Hope, round the world to the Megelian Straits. They were to have jurisdiction over any colonies founded by the Company. Their charter was revised by James I in 1607 and by 1612 trading had become established on the straightforward joint stock principle. The first trading posts or factories were set up in 1610-1611, and the initial probes in India were favourable, but the Dutch bitterly resented any attempt to share the rich spice trade of the East Indies. After the British set back in 1623, when merchants were killed at Amboina, the

company confined its operations to India.

At first the English company had difficulty in finding any goods suitable for export to India, although cottons, silks, indigo, and later tea provided a rich return trade. In 1635 the Great Mogul gave the company permission to trade throughout Bengal and in 1689 presidencies were established in Bengal, Bombay, and Madras. In 1694 a number of new London merchants were admitted to the company by act of parliament and the government got a loan of £. 2,000,000 from the company. This established the interdependence of government and company finance which led to the company having to provide large sums of money in the earlier part of the 18th century. But by the 1770s the government had to come to the help of the temporarily embarrassed East India Company.

By then its trading concerns had entered into considerable political responsibility in India. These brought their own problems which were only increased by Robert Clives' victory at Plassey, and the ousting of the French in the Seven Years War of 1756-1763. Lord North's Regulating Act in 1773 began the system of government supervision of the affairs of the company. The governor general had to be approved by the Crown and assisted by a council of four, and further regulations established a judiciary. William Pitts India Act in 1784 remedied some of the weakness of the earlier Act and firmly established the dual control principle, with a board of control in London. Robert Clive, the true founder of British power in India, and Warren Hastings, the first governor general, were followed by a long series of governors who in the course of less than a century, completed the conquest of the empire of the Great Mogul.

Politics had long overshadowed trade; and the 19th century saw great changes in the affairs of the East India Company. The tea monopoly was brought to an end in 1833, but the critical point came with the Indian Mutiny in 1857. It became apparent that, even if the company was just about able to do so, it was nevertheless undesirable for a private company to govern a subcontinent, and in 1858 the Crown took over the government and administration of India, under the management of secretary of state for India. THE DUTCH EAST INDIA COMPANY, created in 1602, was the result of the amalgamation of various small commercial enterprises whose trade was carried on chiefly in the East Indies. Its establishment was dictated by the need to oppose the Portuguese claim to monopolize trade in those seas. Within a few decades the company had supplanted the Portuguese and extended its own activity over the whole of the Indian Ocean, thrusting forward to the Far East and the coasts of Australia and New Zealand. Dealing exclusively with the production and sale of spices, the company had a rigidly monopolistic organization, in which production was limited to a few districts and destroyed in the others. It thus achieved enormous profits.

By the end of the 17th century its power was in decline. Owned by a small number of families, conducted according to rigid mercantilist principles, and undermined by the corruption of its officials, the company was unable to stand up to the competition from the other centres of spice production which had grown up in

areas outside Dutch control. In 1795 the company was compelled to renounce its trade monopoly with the East Indies and surrender its territorial possession to the Dutch state, and in 1800 the company was dissolved.

THE FRENCH WEST INDIA COMPANY was formed in 1664 under the dynamic administration of Jean Baptiste Colbert. It was granted the maritime and commercial monopoly for America and the western coasts of Africa. At the same time there was formed the compagnie des Indes Orientales, or French East India Company, which enjoyed the same privileges for the lands east of the Cape of Good Hope. Poor administration and the loss of the bases in the Antilles forced the West India Company to cease its activities in 1674. The East India Company, however, established thriving trading posts along the Indian coast and spread French political and commercial influence in the occupied areas. But it gradually reduced its sphere of activity to the supplying and fitting out of ships, and let out trading licences to third parties. In 1719 its amalgamation with the West India Company (Compagnie Occident), founded by John Law for the colonization of Louisiana, gave rise to the perpetual Company of the Indies (Compagnie perpetuelle des Indes) which absorbed the smaller companies and monopolized French trade on four continents. This company was at the height of its prosperity during the second quarter of the 18th century, but was abandoned by the French government during the Seven years War, and its activities came to an end in 1770."

[THE NEW CAXTON ENCYCLOPEDIA, Volume Seven, pages, 130 - 131. Edition 1979. London.]

For a closer view of how these companies operated in the new lands they visited for trading, achievements of an officer of British East India Company provide us a good specimen. From pages 167-168 of the 5th Volume of the New Caxton Encyclopedia we quote:-

"Clive, Robert; Founder of the British Empire in India (1725 -1774). Born of an old impoverished Shropshire family, the young Clive was notoriously dull at school and equally well known for his high spirits, indiscipline, and indifference to convention in his home town of Market Drayton. To the obvious relief of his family the young man sailed for India at the age of 18 as a clerk in the service of the East India Company. Arriving penny-less in Madras Clive became dispirited, for the moment and he tried to commit suicide, but when the pistol failed twice, he took it as a sign from heaven and within two years his longing for adventure was satisfied. He was taken prisoner when the French captured Madras in 1746, but escaped, and then changed from the civil to the military service of the Company to take part in the campaigns in south east India which continued after the signing of the peace in 1748.

Following a campaign against the Raja of Tanjore, Clive put forward a scheme in 1751 for the capture of Arcot, the capital of the Carnatic. While the bulk of the French forces were busy in the siege of Trichinopoly, Clive took Arcot with 500 men, holding it for two months against an army of some 10,000, after which the enemy withdrew. This was a turning point in Clive's reputation

and in the fortunes of British power in India, since it encouraged the Prince of Arcot to abandon the French alliance for the British.

After three years in England Clive returned to India in 1756 as governor of Fort St. David 160 km from Madras, but he soon moved north to Bengal, where the East India Company's chief centre of Calcutta had fallen to Siraj-ud-Daula, who had imprisoned the Europeans in what became notorious as 'the Black Hole of Calcutta.' At the beginning of 1757 Clive recovered Calcutta and then besieged the French fortress in Bengal at Chandernagore, which fell in March. Turning then against Siraj-ud-daula, Clive defeated him at the battle of Plassey in June 1757 with a much smaller army (800 British and 2200 Indian troops as against Siraj-ud-daula's army of about 50,000). Bengal was thus secure for the company and Clive left India in 1760 with the proud boast that he had laid the foundations of a great empire.

After his return to England he was made Baron Clive of Plassey. From 1764 to 1766 he returned to India as governor general. In Bengal he reorganized the management of the East India Company which was riddled with corruption, and he made considerable administrative and military improvements. He returned to England a sick man. With his landing a chorus of accusations broke out, charging Clive with bribery, embezzlement, and the general abuse of his position. The issue dragged on and Clive was not finally cleared until the House of Commons passed a resolution in 1773 exonerating him and praising him for his conduct of affairs. By this time he was a broken man, an opium addict, and thoroughly ill; the verdict had little effect on him, and in November 1774 he committed suicide."

[NEW CAXTON ENCYCLOPEDIA, Volume 5 pages 167-168, Edition 1979, Published in LONDON.]

Militant Mercantilism worked wonders like a magic wand. It turned out to be an amulet which threw open treasures of the world for Europe to grab. Under its banner all European nations marched out to conquer, subjugate and exploit natural resources of the other countries. They plundered civilized and uncivilized countries alike to establish their sovereignty everywhere, but their operational method differed from place to place. In most backward countries like the two Americas and Australia they settled down straightaway hunting and pushing the aboriginal into the far interior. In uncivilized countries of Africa they swarmed like invading warriors and occupied the land by force, subjugating the locals as conquered nations. In civilized countries like India and China, they took permission to setup trading houses at seashores for storing merchandise and performing normal exchange operations. But soon after getting a foothold they started meddling in local politics by taking sides with rival states and guiding their local feuds. At the end of skirmishes they occupied the vanquished state and imposed on the victor their over-lordship.

With such foxy tactics, clothed as traders, they occupied most of Asia and the Far East. Japan happened to be the only country

with enough foresight not to allow them entry into their islands even for exchange of goods. By exchanging goods from ship to ship, they disallowed the Europeans any foothold on their lands.

1.6. BANKING AND FINANCE.

Early banking functions of an elementary nature can be traced back to remote times. In ancient Babylon private persons entrusted their money to the care of the temple treasury. In ancient Rome the silver dealers changed money of different types and origins. In the Bible usurers and money lenders are mentioned. Because of its stability and scarcity gold has been regarded as a measure of wealth from the earliest times of recorded history. It was therefore natural that goldsmiths should be looked upon as suitable persons to be entrusted with the care of wealth. In the Middle Ages it became customary for people to acquire and hoard gold and to deposit such gold with a goldsmith for safe-keeping in exchange for a written receipt. When a payment became necessary the depositor, instead of running the risk and inconvenience of transferring money or gold, found it useful to deliver to his creditor the goldsmiths' receipt. The goldsmiths, in turn, found that only a small proportion of the gold deposited with them was withdrawn at any one time, and they therefore issued, as loan, additional receipts which were backed by the gold lying in their vaults. These additional receipts were redeposited with goldsmiths and the final settlement of the transaction became merely entries in their books of record.

The goldsmith's receipts were an early form of bank note, and as the practice of dealing in receipts grew the goldsmiths dropped their original function of workers in gold and became bankers. This form of development started in Lombardy in northern Italy. Goldsmiths from Lombardy eventually settled in the City of London. From them was derived the name of Lombard street, which is still the centre of banking activity in the City of London.

In addition to the issuing of receipts for gold deposited with them, the early bankers began the practice of discounting bills of exchange. That is to say they would pay cash for a bill before its maturity, the payment being for a slightly smaller amount than that shown on the face of the bill. They would then hold the bill until it matured, when they would collect the full amount from the debtor. The difference between the amount paid and the amount collected represented the interest on the money during the life of the bill and therefore the banker's profit. In discounting bills, the bankers finally assumed the function of credit houses, which is the main activity of banks in modern times.

Bank of England is the bank which now plays a leading part in British and international finance. It was found in 1694. William III was engaged at the time in an expensive war with France, and taxes were failing to yield the necessary supplies. The funding system, whereby the government borrows money in anticipation of the yield of taxes imposed to pay interest on the loan, was already

in use informally, and William's financial adviser, Charles Montague (later Earl of Halifax), suggested, that it should be adopted in a permanent form. Of the various schemes proposed he accepted that put forward by William Paterson, a gentleman with a considerable fortune and great influence in the City. A public bank was formed by means of a subscription for a £. 1,200,000 loan to the government. The subscribers formed a corporation called the Governor and Company of the Bank of England. Among its charter privileges was the right to issue bank-notes to the extent of the total capital.

The formation of the bank met with considerable opposition, from both Whigs and Tories, and also from the goldsmiths, who were already successfully issuing 'notes'. Political necessity overcame opposition, however, and the Act was passed, and Britain stepped forward to consolidate the capitalist economy in anticipation of an industrial revolution.

1.7. ON THE THRESHOLD OF INDUSTRIAL REVOLUTION.

World dominance by European nations was motivated by an urge to grab and exploit global resources: mineral wealth, raw materials and cheap human labour. Their colonial policies served these objectives admirably. In settled American colonies vast virgin lands rich in natural resources were freely available for development. To tap them plenty of cheap human labour was all they needed. Black Africa could supply it in abundance for mere trinkets. Negro slaves were therefore transported to America by thousands to toil there on farms, railroads, and in factories for bare subsistence. They contributed towards American development with their sweat and blood, but they still await for their rightful place in society.

Colonies of European settlers were properly developed with modern production methods for optimum production, but no development was carried out in the territories of subject nations. In such dependencies local labour continued to produce with crude implements in old fashion. The raw materials they produced were dispatched in bulk to Europe for commercial and industrial exploitation. The trading policy of the Mother States aimed at dictating the purchase price of the raw materials as well as the sale price of the finished goods. To implement this policy raw materials of the world were shipped without any price settlement to the marketing centres of the mother states to be priced and sold there and there alone. The producing countries had no say in fixation of prices. They had only to accept the throw away prices fixed in those markets. For imports of finished goods from Mother States the dependencies had to pay the dictated price without a grumble. There was *laissez-faire* for the master nations only, but none for the slaves.

The educational policies of the colonial interests were equally

befitting. In settled colonies technical know-how was taught as a first priority, but in occupied territories law and literature of the Mother State, without any technical know-how, were taught to produce mental slaves, clerks and civil servants. European industrialization divided the world into haves and havenots along the line of masters and slaves.

ADAM SMITH (1723-1790) campaigned for the vested interests of the industrial class and was adored as the father of the science of political economy. Professor Eric Roll observes that:-

"It has often been said that Adam Smith represented the interests of a single class. This is undoubtedly true not only in an historical sense but even objectively Economic progress was dependent upon the establishment of the independence of the industrial capitalist. In helping to create an economic structure in which alone the supremacy of enterprise was possible, Adam Smith could rightly claim that he was furthering the welfare of the whole community.

When Smith wrote, England was already the most advanced capitalist country. With a large accumulated capital she was preparing to consolidate industrial leadership over the rest of the world. Although it was not until the middle of the subsequent century that England could truly be called "the workshop of the world", she was already beginning to establish that position for herself in Smith's days. And the policy which Smith advocated was one which was designed to quicken that trend".

*(A HISTORY OF ECONOMIC THOUGHT BY ERIC ROLL
PAGE -151).*

Creation of an economic structure to ensure supremacy of a specific class of society has always been the prominent economic strategy of the so-called free economy ever since the Jews developed usurious lending. This witchcraft has invariably been labelled by the dominating class as the only science of economics. Professor Eric Roll has no hesitation in asserting that:-

"It is important to stress here that political economy as a science begins at a time when the foundations of industrial capitalism were already well laid. There is a surprising unanimity of opinion among historians of economic doctrine on this point, and many writers have even gone so far as to ignore completely any earlier economic thought, or to refer to it only in very slighting terms."

*(A HISTORY OF ECONOMIC THOUGHT BY ERIC ROLL.
PAGE-20)*

A glimpse of the salient features of this so-called science of political economy might be helpful.

1.8. SALIENT FEATURES OF CAPITALISM.

Nobody imposes capitalism on any country from outside. It develops by itself within the country out of internal social conditions. Every one needs necessities of life for his subsistence and survival. Therefore, people work to create these necessities out of indigenous natural resources available to them. Application of

wisdom and effort to varying degrees of one's knowledge and skill produces varying results for each, which split society into haves and have-nots in due course. As technical knowledge for creating utility products develops, production processes become team works needing organizations to handle them properly. An economic enterprise is such an organization with a managing authority at top, which pools capital and labour force, plans production and sale, and distributes the wealth so produced amongst various factors of production. This process of production and distribution of wealth under free market economy is called capitalism.

Guided by self-interest rather than social interest, and operating in a so-called open market rather than a centrally planned economy, the primary objective of a capitalist enterprise becomes pooling of more and more wealth for itself, instead of creating more and more utility goods and employment opportunities for the public. With personal gain as its goal the enterprise indulges in productive as well as non-productive exploiting practices indiscriminately, totally unmindful of its consequences for society. Salient features of capitalism cover various fields of such economic activities, which are described below. Since the peculiar organizational set-up of the capitalist enterprise itself is also a salient feature of capitalism, we commence our description with it.

1.8.1. Limited Liability Corporation.

Formerly constitution of a business enterprise used to be simple, straight-forward and sound: a sole proprietorship or partnership of a few, sharing all responsibilities and liabilities of the enterprise amongst themselves. But to minimize responsibility, to limit liability and to bring all enterprises within easy reach of whosoever wanted to grab them, constitution of a limited liability corporation was drawn-up in various European countries and with bureaucratic blessings all enterprises were made to recast themselves on that pattern.

The constitution of corporate bodies was framed so as to divorce managerial responsibilities from ownership, to reduce owner's interest to receipt of dividends at about market rate of interest, and to vest management into a few hands, who had full powers to bungle and be absolved of all responsibilities. The constitution provided all facilities for enterprising speculators to acquire control of any business enterprise they liked, to milk it dry and then to throw it away for picking-up a new one.

The share capital of the corporation was divided into a large number of small units called the shares. The share holding carried no scope for display of productivity potential since the shareholders had not effective say in production or management. The liabilities of the shares were strictly limited to their nominal values, and the unlimited liability or loss incurred by the corporation passed neither to the shareholders nor directors or managers who bungled. By declaration of insolvency it passed on to the creditors.

automatically.

To an observant eye, enactment of such a Company Law appears to be a slick swindling device let loose upon the unsophisticated trusting public. The speculative deals and deeds of the entrepreneurs only confirm it. The formidable edifice raised for such dealings is called a stock exchange.

1.8.2. The Stock Exchange.

The stock exchange is a business house where stock, shares and debentures of corporate bodies are traded in as commodities, and market fluctuations are made the source of profit. Not only banks and big business with surplus funds carry on this trade, investment corporations are also floated specifically to boost it up. The stock exchange appears to act as a barometer for market values of investments superficially, but in actual fact this is the place where all speculative tactics are deployed to create artificial fluctuations for greater margin of profit. For hunters of effective control over a particular line of business or some particular corporation, stock exchange acts as an excellent game preserve. David Ricardo, the greatest exponent of classical political economy was a Jewish stock broker of the London Stock Exchange.

Investment corporations and stock exchanges claim to be prime boosters of national investment, but their actual contribution to fresh investment in productive lines is almost nil. They promote nothing but speculative trading in a hypothetical commodity which has no significance for those who believe in genuine national production and development, and who hate picking pockets.

For better or for worse the stock exchanges and the investment corporations are there as important institutions of capitalist economy, and monetary funds for their sustenance are provided by the money market.

1.8.3. The Money Market.

Money remained a stable medium of exchange for millenniums without any convention simply because it consisted of commodity with its own intrinsic worth universally acknowledged. But bank deposits operated through cheques and bank notes acting as paper currency devalued money. They increased the quantity of money reducing its purchasing power proportionately.

To re-establish stability in money's worth state Governments had to intervene by restricting bank deposits and providing gold backing to paper currency. The paper currency maintained a new stability for so long as it continued to receive full gold backing in reserves. But nibbling at gold reserves undermined that stability once again, and paper gold destroyed it altogether.

Debasement of money was an obvious corollary of usurious practices and inflation its natural outcome. Capitalist economy thriving on credit could expect no better results.

Emergence of gold as a vehicle of exchange was the result of

universal confidence in the intrinsic value of gold. Manoeuvring by stages this confidence was gradually shifted to paper on the explicit understanding that National Governments will not betray the public confidence. After its shameful betrayal modern economists audaciously assert that:-

"Anything in which people have confidence can serve as money. In fact anything that carries out the functions of money can be regarded as money. This is what is meant by the saying that 'money is what money does'".

*(MONETARY THEORY AND PRACTICE BY J.L.HANSON
4TH ED. PAGE 11)*

The long trek of money from tangible gold to intangible confidence and beyond was neither accidental nor evolutionary. It was designed by machinations of usurious economy. The story of betrayal of confidence by national governments and International Monetary Fund is deferred for subsequent critical analysis. It suffices here to say that bastard bank money, credit entries in bank books and a variety of credit notes and bonds in various garbs constitute affluence of money, and trading in these deluding documents is called the money market in capitalist economy. Trading in money actually means trading in various forms of credit documents.

1.8.4. To Pelf and Power Supreme.

The process of creating vested interests simplifies itself in a society with an economic structure outlined above. Starting as a factory worker, a salesman or even with a humbler lot you exert, earn and save to put-up a routine little business of your own. With devotion and exertion you provide it with a sound footing and convert it into a private limited company of your family members.

As soon as the efficient working of your concern catches the public eye, you float a public limited company, execute with it a pre-incorporation contract for sale of your business at dictated price and appointment of your family company as its managing agents for twenty years or so. Your vested interests are now firmly established in this public company which you control and manage yourself with expanded bank credits.

Now you create an investment cell in your managed company, invest borrowed funds in speculation on stock exchange, pick-up a paying venture and purchase its controlling shares to grab it all. You repeat this process over and over again with a little foresight and planning and also keep an eye on some bank's shares as well. You grab them all as soon as you can.

Within a couple of decades you own your bank, lend depositor's money mostly to your own concerns and progress with a band of hired managers. Soon you become one of the few families who possess, manipulate and control most of the national wealth. Now you form cartels in various lines of production and distribution, and you monopolize different sectors of economy in national and

international spheres.

The power of pelf allures you to become a leading politician. You buy votes, win elections and climb higher on the rung of political ladder. Now you are in a position to influence politico-economic policies of your country, and you meddle with them and try to twist them to serve your personal and class interests at the expense of society.

If most of us behave like this, the credit goes to the politico-economic structure we covet, own and cringe to. Any attempt to change it with a better system must hit at the roots of this structure itself. An economic structure founded on self-interest and raised on exploitation of the working class people was bound to breed hatred in the minds of workers against their exploiters. This hatred was fanned in mid-nineteenth century by socially minded people who pleaded the worker's cause in the press. When this movement gathered strength, it brought forward many socialist leaders.

1.9. SOCIALIST REACTION.

Factory production methods brought adverse changes in the family life and working conditions of the craftsmen. Before the factories appeared in Europe, craftsmen worked in their own homes with their wives and children, enjoying the freedom of self-employment and pleasure of artistic creation. They managed their enterprises themselves and were economically self-dependent. The factory destroyed their pride of performance, killed their initiative, snatched their self-employment freedom and disturbed their family peace. Like starving slaves they were forced to line-up with their wives and children at the factory gates, begging for employment with no bargaining power. The sanitary conditions in factories were sub-human, the labour supervision was harsh and brutal, and the pay scales were miserably low. Workers were befooled with the Wages Fund theory and baffled with the so called Natural Law of Wages. Having no bargaining power they had to submit, exhaust themselves with overwork and die in harness.

Karl Marx was not a lone prophet of socialism nor its sole exponent. Sismondi, Proudhon, Hodgskin and others were his immediate predecessors. Marx's importance lay in his conjuncture of a future society likely to evolve out of the class conflicts generated by capitalism, and his concrete steps to herald it. He published his "Communist Manifesto" in 1847 and his constant effort thereafter to form communist cells and parties in every European country contributed more to make him immortal than his book "DAS KAPITAL" published in 1867. Marx explained that values were created by labour to whom the capitalist paid only bare subsistence and expropriated the entire surplus value for himself. This could stop only with the destruction of the capitalist class. A bloody revolution to establish the dictatorship of the proletariat was therefore inevitable. He urged workers of all countries to unite and wrench all means of production to establish their own dictatorship.

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Marx and his communist party worked mostly underground to create and consolidate communist parties in Europe and America. The movement attracted anarchists to its fold; stray acts of sabotage appeared here and there, but no significant political upheaval was seen anywhere till the First World War (1914-18). In October, 1917 Lenin succeeded to establish the first Socialist State in Russia with the help of the Russian army revolting against the Tsar.

Soviet Russia consolidated herself to become a formidable power within a couple of decades of the formation of Socialist Republic and began to spread her tentacles through the Communist International into other capitalist countries, with a view to spread socialism throughout the world. Communist parties formed by Marx and Engels in different countries had been maintaining mutual contacts through occasional gatherings at international level. These gatherings gave birth to an organization called the Communist International. With the formation of the USSR the Communist International got a big boost through state patronage.

The First World War crippled the victor and the vanquished alike and need for speedy economic recovery forced even the capitalist countries to shed all pretensions of Laissez-fair and submit to a variety of economic controls in national interest. Germany, Italy and Japan adopted Fascist methods with tight controls. The national revival in other European countries aimed at the restoration of old Imperialism for continued colonial exploitation. But Russia campaigned for the freedom of subjected nations and condemned Imperialism consistently through the Communist International and other forums. This moral support won for her the sympathies of exploited nations. Socialist States that appeared on the globe after the Second World War in China, South East Asia, Latin America and elsewhere, had all their prominent leaders trained in Russia during the years between the two World Wars.

Although Russo-American alliance ultimately crushed the Fascist Axis Powers in the long drawn Second World War (1939-1944), the war also undermined the foundations of Imperialism in capitalist sphere. Europe was split into the East and the West along the Berlin Wall. Many subjected nations achieved political independence. China started her Long March to Socialism. The two super powers started a cold war to re-define their new spheres of influence in the Third World. Indo China and the Middle East became hot spots for testing their latest weapons through inspired local wars.

But a direct clash between the two super powers of U.S.A. and U.S.S.R. was discreetly avoided as if by some secret understanding. Subsequent developments showed that there was nothing antithetical about the two contending economic systems and that they could not only coexist but also co-respond as shown by the Russo-American detente, their mutual economic deals and joint

outer space ventures. The long spell of cold war was only a smoke screen to keep the under-developed Third World scared and yielding to the process of exploitation. However, due to global devastating effects of the Second World War economic phenomena went through significant changes in both the socialist and the capitalist spheres of the post war world.

1.10. POST-WAR WORLD ECONOMY.

The treaty of peace signed in 1919 after the First World War established a 'League of Nations' to prevent further wars, but the Second World War crippled this organization. Nations united against the Axis powers in the Second World War formed a "United Nations" in 1942 to fill up the gap. After the war this new organization brought into its fold the defeated nations as well, but the five founder members America, Britain, China, France and Russia had reserved for themselves the right to veto any proposal and thwart its implementation. The veto power implied that this world forum was a pious garb to continue the game of world dominance. Two out of the five founder members became super-powers and started regrouping other nations behind them as camp-followers. A brief outline of the post-war world economy is given below:-

1.10.1. THE WORLD BANK.

Credit is the string which binds the needy and his lender into an unequal partnership whereby the stronger abuses his bargaining power to exact undue advantages. As this handy device of exploitation operates through the network of banking system, need for a World Bank to control this network at international level was felt by the leading developed nations.

Prior to the meeting at Bretton Woods, the British and American treasuries had each worked out their schemes; Lord Keynes being mainly responsible for the British plan. Both favoured the setting-up of a new international monetary institution, the introduction of an international currency and the use of gold as a standard of international value.

Keynes desired the proposed institution with powers to grant overdrafts to member nations in much the same way as a commercial bank, to which the Americans did not agree. They wished to relate International Monetary Fund quotas and, therefore, credit facilities - to the amount of gold held by a country and not, as Keynes suggested, to its share of world trade.

The Bretton Woods conference agreed on 27th December, 1945 to establish International Monetary Fund (I.M.F.) and the International Bank for Reconstruction and Development (I.B.R.D.) or World Bank. The members of the IMF, who happened to be non-communist countries only, agreed to announce the parities of their currencies in terms of gold, and on the basis of their gold contents pound sterling became equivalent to 4.03 U.S. Dollars.

The IMF created a Pool from the contributions of the member

countries, these contributions being placed to the credit of the Fund at the members' Central Banks. Each member had to contribute an amount to the Pool equal to its quota, not more than 75% of the contribution being in its own currency and the remainder being entirely in gold or in gold and U.S. Dollars. The purpose of the Pool was to enable a country with a temporary debit in its balance of payments to purchase from the IMF foreign currency in exchange for its own, upto a maximum of 25% of its quota in any one year. If at any time the Fund had a supply of member country's currency equal to double its quota, then that country could obtain foreign currency from the IMF only in exchange for gold.

The IMF began operations in March: 1947. As the Fund's accounting was maintained in dollars, the Special Drawing Rights, or SDR's unit was also fixed one dollar valued at \$35.00 per ounce of gold. In the same year 1947. General Agreement on Tariffs and Trade (G.A.T.T) was signed at Geneva by twenty three nations to reduce tariff barriers and promote trade amongst themselves.

1.10.2. THE DOLLAR DIPLOMACY.

The rise of U.S. Dollar as an international currency dates from the First World War. The Second World War shattered the economics of all the belligerent nations except America, which being far away from the theatre of war, continued to help European nations in comparative safety, with war materials and fighting forces. Throughout the war her economy remained geared to war production, and switched over to reconstruction aid thereafter, whereas the war shattered Europe had to resurrect itself from debris heaps.

The lead thus gained by U.S.A. over other nations in trade and commerce enabled her to dictate terms of trade in her own favour and to accumulate balance of payment surpluses. The American Dollar thus easily established itself as the most leading international money unit, followed only by the pound sterling, which on account of the vastness of the British Common Wealth remained the runner up. As a result of American aid to other countries and American investments in many parts of the world foreign holdings of U.S. Dollars increased enormously during the post-war decade of 1945-55. Mr. Hanson tells us:-

~Then came the development of Euro-dollars. These are claims to U.S. Dollars held by financial institutions and commercial undertakings outside the United States. They date from 1958, when that country began to experience balance of payments deficits for the first time in half a century. During 1960-67 the Eurodollar market rapidly expanded, London being the main though not the sole European centre of dealings in them. In spite of their name they are not restricted to Europe. The main participants in the Eurodollar market are banks, central, commercial, merchants, investment and it is due to the increased importance of this market that U.S. Banks have opened branches in London and other European

centres in recent years. It was estimated that in 1969 Eurodollars totaled \$30,000 million, more than half being held by central banks and another quarter by commercial banks. As in foreign exchange markets business is done by telephone usually for large amounts of a million dollar or so, many arbitrage transactions now take place in Eurodollars with the result that they now have considerable influence on the exchange rates of the leading convertible currencies. At the present day a large part of international trade is financed by Eurodollars. When it is cheaper to do so, import merchants often borrow them to make payments to their suppliers..... Thus the Eurodollar has become an integral part of the international financial system. But it has clearly complicated the task of central banks in carrying out the policy of the monetary authorities. It may be too that through the Eurodollar market changes in U.S. monetary policy may be transmitted more rapidly to other countries.

By the 1960, therefore, the U.S. Dollar had become the more important of the two international currencies. Indeed, by 1969 foreign holdings of these currencies exceeded the gold reserves of both the United States and the United Kingdom - a potentially dangerous situation should there be a run on either currency".

*(MONETARY THEORY AND PRACTICE BY J.L. HANSON.
FOURTH EDITION, PAGES - 308-9).*

During 1960, the central banks of ten countries-U.S.A., U.K., West Germany, Japan, France, Italy, Holland, Belgium, Sweden and Canada - started cooperating together without a formal organization, and became to be known as the "Group of Ten". The link between them is the Bank of International Settlement (B.I.S) in Basle, established in 1929 to deal with reparations arising out of the First World War. Its assets consist of gold and currencies of the associating Central Banks, who solve their foreign exchange difficulties through transactions with B.I.S.

The Federal Government of U.S.A. had banned hoarding of gold and trading in it within the States in 1934, and had built-up a stockpile of gold at Fort Knox to back the dollar currency. This stockpile at its peak showed the value of its gold at \$23,989 millions in October, 1948 at \$35.00 per ounce. It continued to fluctuate and dwindle due to balance of payment deficits every now and then. Since 1969 the foreign indebtedness of the United States moved around \$30,000 millions, but at the end of June, 1971 the value of Fort Knox stock-pile fell to \$10,000 millions.

The pound sterling devalued twice in September, 1949 and in November, 1967, but the dollar diplomacy resisted devaluation till December, 1971. But then Nixon took the dollar off the last vestiges of the gold standard and let it float in the open market. The price of gold rose to the incredible neighbourhood of \$400 an ounce.

1.10.3. INTERNATIONAL LIQUIDITY.

Trade, an act of exchanging goods needs a liquid form of wealth for speedy operation and money performs this job. But money reduced itself to paper currency and bank credits in course of time.

Currencies of industrialized nations then began to compete amongst themselves for the coveted position of leading international monetary unit, and U.S. dollar won the race. To maintain the tempo of international liquidity U.S.A. printed more and more dollar bills and flooded European markets with them. These Eurodollars did boost the international liquidity but also pressed the market value of dollar down.

Lord Keynes' plan for the IMF intended to promote international liquidity through a supra-national bank money:- the SDR or paper gold. The IMF aspired to replace gold with SDR, as currency reserve but with partial success. Gold continued to glitter brighter, however, the SDRs helped to improve the international liquidity. During the 1960 the world monetary reserves increased by 30 percent. In 1970, 53 percent of these reserves were in gold whereas ten years earlier gold comprised two thirds of world monetary reserves. Mr. J.L. Hanson tells us:-

"More gold has gone into industrial uses while an increasing amount has been hoarded by people living in those countries where the law still permits it. Since 1943, however, the price of gold has remained unchanged at \$35 per ounce, but the United States as the largest holder of gold has persistently refused to agree to any increase in its price inspite of strong pressure to do so, especially from France. To raise the price of gold to keep in line with the rise in the prices of other commodities would substantially increase the world's monetary reserves. There are, however, many people who would like to ease gold completely out of the international monetary system. Nevertheless inspite of efforts to increase other forms of international liquidity, it seems likely that gold will remain for some time yet as an important component of the world's monetary reserves. The IMF, for example, still requires a gold tranche from its members."

WORLD MONETARY RESERVES (IN \$ '000 MILLIONS)

	1958	1970
Gold.	38.0	37.0
U.S.Dollars.	5.0	20.5
Sterlings.	7.5	7.0
Other Currencies.	1.5	3.5
I.M.F. Facilities.	3.0	6.0
TOTAL:	55.0	74.0

(MONETARY THEORY AND PRACTICE BY J.L. HANSON. FOURTH EDITION. PAGES, 309-310).

The above table depicts how speedily the dollar rose to dominance as a world monetary reserve demonstrating its role in international liquidity.

1.10.4. THE DOLLAR DILEMMA.

Faith in gold as a supra-national currency is deeply ingrained in trading community and state governments are also inclined to retain some link between gold and paper currency. This is why

currencies stuck to gold exchange standard after leaving the gold standard. Although deficit financing continued to dwindle gold reserves, developed nations retained convertibility for goodwill and prestige. By pegging the dollar to gold at a fixed price of gold in dollars U.S.A. managed to bestow the status of gold on dollar bills, and kept Eurodollars in circulation on convertibility premise till 15th: August, 1971, when President Nixon suspended convertibility to save the vanishing hoards of gold at Fort Knox.

In the meantime, as the leading international currency dollar had become a significant component of the world's monetary reserves. When its convertibility was suspended it got a severe jolt, as by then it formed about 28 percent of the total world monetary reserves. Universal pressure forced its devaluation within a few months. The Federal Government devalued dollar in December, 1971 by raising the official price of gold from \$ 35.00 to \$ 38.00 per ounce. this devaluation could not satisfy many other nations particularly the Germans and the Japanese who felt that the dollar was still over valued. Within thirteen months of the first devaluation the dollar was forced to undergo another ten percent devaluation and in February, 1973 official price of gold was raised from \$ 38.00 to \$ 42.22 an ounce. U.S. trade deficit stood around 75 billion dollars at that time.

South Africa and the Soviet Union are the two major producers of gold. U.S.S.R. is not a member of the I.M.F. and the World Bank. Her currency runs on managed production and prices. She allocates gold to her currency reserve and industrial uses as need demands, and exports gold to capitalist markets when prices become attractive; but South Africa is bound by the IMF to sell gold to the Fund and the central banks of the capitalist countries according to their needs at pegged price first, and thereafter to sell the rest in free market. The double devaluation of dollar provoked devaluation of many other currencies and the loss of faith in dollar kicked up demand for gold for monetary reserves as well as for private hoarding. Gold prices began to soar higher and higher touching the ceiling of \$ 400 an ounce at one time, receding thereafter to float round about \$ 350 or so.

The devaluation epidemic accelerated inflation; the price hike gave birth to wage increase and wage increase provoked further inflation. This vicious circle turned into a spiral. Tariff walls, acting as trade barriers promoted smuggling which increased corruption, necessitated by maintenance of the bureaucratic standard of living. The inflation spiral engulfed the capitalist world, shattering the monetary system and spreading moral depredation. Perplexed over what it should do, the world was dancing over the horns of the dollar dilemma.

1.10.5. THE PETRO-DOLLARS.

Oil producing countries of the Middle East were content with the meager royalties of oil for so long as the inflation had not taken

a serious turn, but with rising prices of imported consumer goods and luxuries and with the pressing need for national development they were obliged to nationalize their oil industry and increase the price of oil. This enraged the Western powers who use oil as an industrial raw material and for transportation. Oil producing countries complained about the high prices of imports and asked for mutual price reduction. They also complained about the ceaseless depreciation of dollar which reduced their oil revenues and requested for part payment in gold. Continuous support to Israel by Europe and America, and their connivance at her occupation of adjoining Arab territories enraged the Arabs and the oil issue adopted a political hue.

When Western powers threatened to freeze the petrodollars of oil-rich Middle East countries, lying in European and American banks, these countries found it safer to invest their surplus funds in the underdeveloped countries of Asia and Africa. Migration of petrodollars from West to East reduced Western monetary resources, increased the price of gold, and created new problems for the international monetary system.

With the dollar devaluation of February, 1973 the gold prices shot upto \$ 90.00 per ounce. As the central banks of all the nations and International Organizations were estimated to hold a total of 36,000 tons of gold about one half of all gold produced during the past 400 years the national Governments began to insist that either the official price of gold be raised or gold be abandoned as the corner stone of the international monetary system, and Special Drawing Rights, the abstract unit of IMF known as paper gold be used instead.

Gold price hike received another boost when the American government repealed her Gold Act and allowed private citizens to own gold bullion from 1st January, 1975. By December, 1974 gold had touched the \$ 200.00 per ounce ceiling. In January, 1975 IMF agreed to abolish the official price of gold and sell one sixth of its gold holdings in the open market. U.S.A. began to sell some of her Fort Knox hoards, which temporarily had some depressing effects on its market price, but in the long run prices continued to soar. In July, 1982 prices moved around \$ 350 but by the end of October they rose beyond the ceiling of \$ 400 an ounce in almost all countries.

The oil weapon succeeded in tilting the International Monetary system which had denied for almost thirty years a fair deal to basic raw materials. The underdeveloped countries had lost faith in the system and were yearning for a change, the Group of Ten wanted only to amend it for setting the tilt right.

China, Russia and the East European communist countries are not members of the IMF or the world Bank. Their price structure and monetary units are managed so as to retain a stable economic progress inspite of all that happens in the capitalist world. They suffered no inflation which plagued only the capitalist countries.

big and small. the germs of inflation breed only in the capitalist soil.

The underdeveloped countries keenly felt the pinch of subtle yet extremely effective form of exploitation whereby the developed nations paid less and less for the raw materials and charged more and more for manufactured goods. They clamoured in vain year after year in the IMF and World Bank meetings for judicious treatment. In spite of majority their voice remained ineffective because the rules of these institutions had vested all the controlling powers and voting rights in the hands of those who owned most of the monetary wealth of the world—the Group of Ten.

The powerful minority of "Ten" was, therefore, not worried about what the poor nations clamoured about. They were only worried about the redistribution of voting rights necessitated by the oil crisis. The meetings of the IMF and the World Bank held in Jamaica in January 1976 increased the share of the O.P.E.C. countries from five percent to fifteen percent allowing them increased voting rights.

Capitalism and Socialism are cousins, having sprung from the common Jewish ancestry. The same Shylockian blood runs through the veins of both. One upholds the freedom to exploit fellow beings, the other usurps all freedoms. The basic human rights of unmolested freedom to exist is marred by the blood-bath they both arrange and enjoy with cool detente in world arena, like power-drunk Romans of by-gone days.

The last quarter of the twentieth century began with vagueness and uncertainties about the basic economic questions. The Third World nations, at the end of their tether felt smitten with rancour. To be or not to be, is the question which haunts them still.



CRITERIA FOR CRITICAL ANALYSIS

2.1. KNOWLEDGE: PHYSICAL AND SOCIAL SCIENCES.

Curiosity prompts people to pry into whatever they come across, and to build their notions upon the results of such prying. When these notions gain currency and acquire popularity, they are taken for granted and assumed to be true needing no further proof to establish their veracity. Bundles of such notions pass on to posterity as knowledge. A section of intelligentsia tries to check and verify these notions, but most of the people accept them as such. Some of these notions have developed into systematic branches of knowledge like astrology, palmistry, magic and the so-called occult sciences, although the veracity of their contents remains debatable still.

A particular branch of knowledge based on notions gained by systematic study and research, checked and rechecked by repeated experiments, and then systematically arranged to exhibit the operation of general laws in its own specific field, is called a science. Sciences are broadly classified into two groups: Physical sciences and social sciences. Physical sciences are those which deal with various forms of matter and energy; describing their products and explaining their physical and chemical properties alongwith the natural laws under which they operate in various phenomena and man-made artifices. Heat, Light, Sound, Magnetism, Electricity, Mechanics, Statics, Dynamics, Chemistry, Geology, Physiology, Botany, Zoology, Astronomy etc: come under the physical sciences. Social sciences are those which deal with various forms of human activity in diverse fields like Politics, Economics, Civics, Law, Jurisprudence, Civil and Military Administration, Education, Health and Sanitation, Languages, Music, Poetry, Arts and Cultures etc.

Economics, with which we are concerned in this book is a social science, which deals with the production, utilization and

distribution of wealth for the benefit of human individuals, groups and society as a whole within a country, and its exchange by that country with the rest of the world. As the subject is vast and covers many intricate issues, it deserves to be thoroughly understood before being critically analyzed.

2.2. ECONOMICS: ITS SCOPE AND OBJECTIVES.

Economics is the art and science of producing wealth, and using it in whatever manner the management of production decides to do so. As such the wishes of producers of wealth about its utilization play a significant role in determining the nature and structure of the economic system a developing society evolves.

About the wealth itself, it is universally acknowledged that the natural resources of a country or geographical region including manpower constitute the wealth of that country or region, and that the acquisition of technical know-how by that manpower to convert the raw natural resources into useful commodities, and use of that knowledge alongwith their efforts and exertions to produce useful commodities, is what production of wealth stands for. As such there is no dispute about the nature of wealth and the modes of its production amongst the economists of the entire world; and that is also the reason why this aspect of wealth is not at all discussed in text books of various economic systems. The differences arise only from the stage of distribution of wealth among its producing members, groups and classes, and are confined to how the distribution should be carried out. But as the contradicting stands spring from the basic differences with regards to freedom or control of individual's economic pursuits, they become the fountain-head of various economic systems. As it involves an ideological difference about what is right or wrong, the resulting economic systems become expressions of different ideologies that are, or have been, or would be in vogue at different epoches of history. So far history has known only three economic ideologies: Capitalism, Socialism and Islamic economic ideology, which we will examine critically one after the other to provide sound and reliable material to the readers for making their own judgments about each economic system.

Economics deals with wealth and man as its producer and utilizer. Its scope, therefore, encompasses not only the wealth in each and every form, but also includes each and every manner in which man produces, distributes, utilizes and consumes it. Such a wide scope is bound to call in the question of objectives for production and consumption of wealth. Apparently the objectives appear to be, and are also stated to be the satisfaction of human wants. Thus human wants and their satisfaction become pivotal issues for economic discussion; but text books on economics do not discuss them properly. They turn to demand and supply and drift to artificial creation of demand for what they are producing, irrespective of its necessity or utility for society. They do so because it helps them to accumulate more and more wealth for themselves.

This leads us to conclude that the objective of their economic pursuits is an increase in their personal wealth rather than the satisfaction of genuine human wants. Whether increase in personal wealth by itself is a healthy and legitimate objective of economic pursuits or not, thus becomes an important economic issue, demanding in turn the enunciation of true objectives of economic pursuits in clear cut terms.

2.3. MAN AND HIS ENVIRONMENTS.

Economics is a social science which deals with wealth and human behaviour in its pursuit. The study of human behaviour in pursuit of wealth is not so difficult as it appears to be, provided the study is conducted methodically. Method lies in systematic survey of the human body and human environments with a view to locate the sources of all human motives that urge him to behave as he does: to know which of these motives are inborn, originating from within the human body itself; which of them are externally induced by the environments to influence the inborn motives and modify them. This study is essential for a comprehensive and accurate critical analysis of human economic behaviour. Consequently we outline below its brief sketch for guidance.

Man is a biological unit with its own builtin mechanism for self preservation and racial reproduction. What he needs for this purpose are air, food, drink moderate climate and conjugal bliss. Nature has equipped him with such related urges which prompt him to seek means for achieving them. He gasps for fresh air and tries to get it. He hungers for food, thirsts for drink, perspires or shivers in harsh climates and is thereby coaxed to exert and produce food and drinks, construct houses for shelter and manufacture clothes for comfort. Finally he is lured to enjoy conjugal bliss in cozy embraces, mostly unaware of the fact that he is being yoked to perform the task of racial reproduction. These five are the only biological wants essential for individual and racial survival. Breathing is automatic and effortless, conjugation is a pleasure rather than exertion. The remaining three do need human wisdom and effort to produce the means for their achievement. Therefore, nature has equipped human body with devices of emotion; sensation and thinking to aid in the choice of appropriate action and in its execution. The five senses of touch, taste, smell, sight and hearing gather information to feed the brain. The brain thinks, decides appropriate action, and then directs the activities. In the meantime the emotions of hope and fear, of love and hate, of anger and compassion etc, provoke and facilitate the activities to be undertaken. In this way biology has completed function of providing human race with a complex of biological equipment to ensure procurement of the means of satisfying its biological demands under all circumstances.

It was the march to civilization prompted by increased knowledge, changing environments and racial multiplication,

which created social demands and provoked social or environmental urges. While biological urges are inborn, social urges are externally induced, and are therefore, acquired and subject to modification. To illustrate: our biological urges of hunger and thirst demand only food and water in whatsoever form, but our social urges of local tastes present them in a variety of dainty dishes and delicious drinks. Our biological urge of climatic conditioning needs houses and clothes to withstand the vagaries of weather but the designs of our architecture and the styles of our dresses are determined by our social urges of changing tastes. Again, all modern varieties of food, drink and wear are produced basically to satisfy our biological urges, but it is our economically inspired social urge that decides whether we should hoard these commodities for piling profits or trade in them equitably. Capitalism, Socialism, Imperialism, Democracy and Dictatorship are all different expressions of our social urge just as delicious dishes, tasty wines, glamorous garbs, cozy bungalows, pretty palaces, enchanting poetry, erotic sculpture and enthralling music are different products of our social urges.

As social urges promote social customs and living habits inspired by local environments and fashions in different countries, they vary from country to country, but by constant usage each country gets attuned to its own social norms, which eventually evolve as their culture. Cultures vary from place to place, and cultural differences raise barriers between nations.

Human society is a congregation of individuals. Being gregarious individuals live and work together, imperceptibly merging themselves into a close knit unit called society. Society cannot be normally decomposed into groups and classes without entailing putrefaction. Peaceful coexistence and respect for social demands is the only healthy role for individuals to play for balanced development of society. Abuse of individual's role gave birth to capitalism, and in revengeful reaction socialism chained individuals and obliterated their basic human rights. Only a balanced via media can offer rescue and succour. Individuals must respect collective social demands, and society must respect individual's right to freedom.

2.4. ECONOMIC AND NON-ECONOMIC ISSUES.

It is not difficult to define what an economic issue is, and then to use that definition as a criterion for judging whether any issue is economic or not. All those issues which affect the quantum of production or pattern of distribution of wealth become economic issues for obvious reasons; and therefore, fall within the domain of critical analysis. Prospecting, research, discovery, production methods and production relations, distribution technology and distribution channels, demand stimulation and market survey, propensity to consume and social taboos affecting production or consumption alongwith a host of similar issues are economic

issues on their own merits, because they affect either production or distribution or consumption in some way or other.

Capitalism neither defines an economic issue nor provides any other criterion for deciding whether a particular issue is economic or not, yet it dubs some issues as non-economic without giving reasons, but insists on treating them as such. Religious, moral and ethical persuasions for judicious economic behaviour are particularly chastised and great annoyance is displayed on their being treated as economic issues.

Whether an issue is economic or not is a question of fact, verifiable by direct observation without much ado. People get influenced by persuasive talk and ideas, whether fallacious or logical, grip the mind by constant indoctrination. As conviction ripens it starts moulding human behaviour. That is how preaching and taboos work. They cannot be regarded as non-economic issues.

Again capitalism regards three issues as economic, but does not discuss them analytically. They are private property, self-interest and laissez-faire. Capitalism takes them for granted, whereas they are economic issues deserving threadbare discussion.

2.5. ESSENTIALS OF A CRITICAL ANALYSIS.

In economic field critical analysis consists of examining with a penetrating and critical mind, all economic practices currently in force in any particular country or society, with a view to find out:-

1. How these practices originated and developed; which theories were advanced to prop and support them; and how valid or invalid these theories are.
2. In what manner these practices benefited and harmed various individuals, groups, classes and society as a whole.
3. How to safeguard individuals, groups and society from harmful effects of these practices, while retaining their beneficial effects intact.
4. How to eradicate harmful practices which cannot be rectified, and finally.
5. Which beneficial practices can be introduced in their stead or in addition to help society prosper; and how to introduce them without inviting any catastrophe.

As analysis aims at truth, it must be penetrating as well as impartial. It must penetrate deep into the heart of the issue, and split it into its component elements with a view to comprehend the nature of these elements and their contribution as motive force for creating the phenomenon under critical examination. Unbiased penetration is the pivot on which true analysis must revolve, since it is neither a mere description of superficial facts, nor only a skin-deep probe. It must penetrate deeper down into the core of

the problem to reveal its intricate mechanism and to display its causative forces and operations. It must explain the how and why of all that happens, alongwith the advantages and disadvantages of the happening to individuals, groups and society as a whole. Finally in the interest of social harmony, justice and fair play, it must suggest remedial measures for the eradication of existing social ailments. Without such a comprehensive scope and objective the analysis becomes a farce.

Open criticism of prevailing practices is prohibited in socialist countries, but it is allowed in capitalist sphere. As it is bound to endanger vested interests of the exploiting classes there, these classes use their influence to forestall such damaging exposures. Thus they have altered the very definition of economic analysis. They confine analysis to rationalization of the status quo, without any adverse criticism or suggestion for improvement. Writers of text books on capitalism submissively comply with this policy to save their own bread and butter. But scientific analysis cannot be fettered with any limitation of its nature, objective, or scope. It has to be all-embracing and can leave nothing unexplored.

To do full justice to his assignment, a competent analyst must have enough knowledge of human physiology and psychology, be conversant with changes in human behaviour under varying social circumstances and geographical situations, and be clever enough to understand how behavioural changes can be controlled and modified. Furthermore, he should be penetrating and impartial. He must be honest, daring and fearless. He should know that vested interests are likely to be on the look out either to gag or bribe him. He should face them with confidence and courage to perform his duties as a watch-dog for ensuring the welfare of his society. Societies which do not resist dominating selfish individuals and groups, and ignore their honest critics, soon produce imbecile corrupts, who demoralize society and obstruct progress on healthy lines. Never forget that God helps only those who help themselves.

Having presented an upto date panorama of economic phenomena through ages followed by criteria for critical analysis, we close here the first part of our book dealing with a preliminary survey. Part two conducts the critical analysis of capitalism, and part three that of socialism. The fourth part of the book deals with Islamic ideology in general followed by its economic aspect in greater details. Feasibility of Islamic economic ideology in modern context and its implementation in Islamic countries following capitalist practices, are vital problems facing the Muslim world today. Efforts have been made to tackle them wisely in the light provided by the Holy Quran and Sunnah.



Capitalism

CHAPTER THREE

CHARACTERISTICS AND COMPONENTS OF CAPITALIST ECONOMY

3.1. PRIME FUNCTION OF ANY ECONOMIC SYSTEM.

Economics is a social science which deals with the production, exchange, distribution and consumption of wealth by individuals, groups and society as a whole. Wealth consists of natural resources of a country, which are converted by human efforts and skill into useful commodities for the benefit of the people of that country. Natural resources and human effort and skill are, therefore, the two components of wealth. Natural resources are free gift of nature for the entire population of a country, and their conversion into utility products is the duty and responsibility of the people of that country. How efficiently or inefficiently they discharge this duty depends on how far they have correctly understood the nature and function of an economic discipline.

There is no dispute among economists, of various economic systems about the technique of producing wealth; differences arise only at the stage of its distribution amongst various members of the team engaged in joint productive venture. Since the object of production is the satisfaction of all legitimate wants of each and every member of society, rather than widening the wealth gap between the rich and poor, judicious distribution of wealth among its producers gains paramount importance. And only that economic system which ensures this objective most appropriately should be regarded the best economic system.

3.2. AUTOMATIC WILD GROWTH OF CAPITALISM.

Historians trace the ancestry of modern human race back to prehistoric cave men who led a wild animal life. They plucked berries off the fruit trees, caught and killed small animals and fowls for food, drank water from the nearby pool or stream, and lived in

caves to avoid the harshness of weather, though naked still. Their wants were few, being only those common to all other animals.

As they multiplied they felt shortage of food, and many of them had to migrate to other places. Realizing that natural combination of fruit trees, caves and water resources was rare to find, some of them settled down in plains along water courses, where long grasses grew with wild animals roaming about. Here they discovered that the seeds of some grasses were edible. They learnt to sow and pluck them for food. In course of time this led to cultivation of cereals. They also learnt to rear milch cattle and fowls for milk, eggs and meat, and they built mud-huts to live in. These were their initial steps towards civilization.

Being goaded to exert and produce means of subsistence by personal efforts awoke in them latent human powers, and broadened their vision. For the first time they realized that land provided all the natural resources they needed for conversion into useful commodities by their skill and effort. Land was, therefore, the mother source of all that was needed. Each family must have its own piece of land to work upon. Thus ownership of land by each family for joint exploitation by family members, was probably the first lesson in economics they learnt by experience.

The family piece of land was common to all; and, all had to work in common to produce collectively what they could, and to consume it as a family communal property. But this communal aspect did not last long. Production demanded tools and implements to produce, and consumption demanded pots and pans for distribution of prepared food. So one family member had to devote himself to iron-smithy and another to clay pottery in attempts to create what was needed. As their efforts bore fruits and their crude creations were appreciated, they were prompted to improve upon them. Thus division of labour within the family created occupational distinction which kept each member of the family tied to his own specific occupation and place of work. Being thus tied and anxious to improve their own quality of their workmanship, they remained cut-off from production of crops in the family field, where the rest of the family worked. This isolation kept away and gradually alienated the technicians from management of land and its produce, which was monopolized by the peasant members and their children not by any design and intention but as a consequence of division of labour.

It seems that in spite of this alienation the cohesive family tie must have remained intact for some time, and that equal status, right and privilege of the ploughwright, the cartwright, the clay-potter and the hide-tanner in the family must have been respected by tillers of land and Managers of produce, as evidenced by the fact that the craftsmen kept on supplying their products to all members of the family free and continued to receive plenty of land produce free, not as a barter exchange but as a matter of right and duty. However, this arrangement of mutual confidence and respect could

not continue indefinitely. A couple of generations might have tolerated it willingly without any rupture in the family tie. But subsequent generations, which opened their eyes under materially changed circumstances were not expected to retain the status quo congenially. The progeny of the tillers repudiated all claims of the craftsmen on land and its produce. They usurped the right of ownership in land of the progeny of the craftsmen and refused to acknowledge any family tie with them. The technicians and their children were treated as menials. However, the practice of supplying handicrafts and professional service in exchange for land produce remained intact as if sanctified by tradition.

This is how manual workers on land dubbed their own kith and kin as an inferior class of workers due to being technicians instead of tillers. Although it looks strange yet it is true that class discrimination was not initiated by capitalists or landlords; it was initiated by the labouring people themselves by the peasants who looked down upon the artisans without any rhyme or reason.

The craftsman of a particular family and a particular trade had found it helpful to contact and consult occasionally his counterparts in the neighbouring families for achieving efficiency in his trade by mutual discussion. Now that all craftsmen were expelled from their parent families, they formed closer contacts with their counterparts in other parent families suffering the same fate. And by inter-marriages with them they initiated new families of their own, based on professional affinity; thereby confirming the reclassification of society on professional basis.

The progress of autogenous march to civilization was slow like creepers growing wild on dilapidated building in wilderness, but it was steady and sure like any natural growth. Our objective is not to record its complete history, but only to pin-point the autogenous nature of its earlier stages.

3.3. INDIVIDUALISTIC BIAS IN APPROACH.

In our estimation the first characteristic of capitalist economy is its autogenous growth and the second is its individualistic bias in its approach to various economic issues. This bias has its own origin and history of development. The wild cave-men lived individual lives. They plucked berries and ate them individually. Even their sucklings were trained to do so after weaning. Self-help is an inborn tendency and it has been exhibiting itself from the very start. The pinch of hunger and thirst, desire to avoid the bitterness of heat and cold, and all other biological yearning are personally felt by individuals as such and displayed individually, not by any social congregation. It is the individual rather than society, who feels the urge and finds out means for satisfying his demands. His problems remain personal, and so his approach for their solution adopts a personal and individualistic bias. In spite of all the team work training man received through ages in various walks of life and fields of action, this individualistic bias persisted

showing that it was inborn trait and not an acquired attribute.

Even today all entrepreneurs engaged in large scale economic production feel motivated by self-interest to be guided by personal profit instead of any social welfare aim to decide whether to accelerate production or retard it. They fleece the sweating labourers and poor consumers alike without any compassion so long as it pays them to do so. Heredity appears to be the mother of this tendency, but the free enterprise attitude of the capitalist economy provides an excellent breeding ground for its development. Whatever be the origin of this human trait, it remains a characteristic of free trade economy, which insists on non-interference by the state in economic pursuits of the public.

3.4. THE PRIMARY SCHOOL OF PHYSIOCRACY.

Every phenomenon that happened before the advent of industrialization was attributed to natural forces. Nature itself was regarded as the fountain-head of all that happened. Human economic behaviour was also considered to be the product of natural forces residing partly within the human body and partly in the surrounding environs. Men had to struggle with their environments to extract their subsistence. Self-interest was their motive force, laissez faire was the natural environmental atmosphere to struggle in, and property was the fruit of this struggle. This way of thinking was named physiocracy and its followers were called Physiocrats. They believed that free enterprise acting in a competitive atmosphere, uninterrupted by state regulations, produced by itself a self-balancing social order in economic field. Hence self-interest, free enterprise and sanctity of private property were regarded the three basic elements round which the natural economic order revolved. Although Physiocracy is long forgotten, these three constituents still remain the basic principles of a free market economy. In spite of all its modifications, capitalism upholds still self-interest as the only legitimate motive force of all economic activities; regards the sanctity of unlimited private property as the most appropriate attitude of state and society towards the fruits of economic endeavours; and considers least interference by the state in individual's and group's economic exploits, as the healthiest state policy.

Since these three principles form the foundation stones of capitalist economy deserving prior and closer attention, we will discuss them in detail before taking-up any other economic theory or practice.

3.5. CHARACTERISTICS OF CAPITALISM.

Characteristics are such human tendencies which an economic system uses to develop itself, while components of any economic system are the devices and practices that system invents and develops to consolidate its own specific approach to economic problems. The basic difference between the two is that of a machine

and its motive power. While characteristics are impetuses and motivations with which a particular economic system operates, components are the tools that particular system develops to work with. Characteristics are the ideological concepts and components are the media through which those concepts exhibit themselves.

Tendencies are inherent in human nature in nascent state, and human activity brings them into play. The extent to which human activity uses or ignores them determines whether they are being over-developed or unduly curbed and inhibited. To nip them in the bud is impossible.

Human beings initiated their economic activities as individuals and this developed an individualistic bias in their approach to all economic problems. This bias tended to promote selfishness in them but the tendency remained restricted and controlled during the currency of barter as a medium of exchange. With the introduction of money as medium of exchange and storage of wealth, this restriction became inoperative. Now people could not only earn as much wealth as they liked, they could also store and accumulate it in countless hoards of gold and silver. This change of medium brought with it two new characteristics for the prevailing economic system. Production of commodities was formerly dictated by their utilities to satisfy human wants; their goal now changed into piling profits. The shift from utility to profit was engineered by money as a simultaneous medium of exchange and treasure of wealth. Consequently epidemic of wealth-increase soon followed in its wake as a new characteristic of capitalist economy.

The contagious disease of wealth-increase infected every country which adopted the monetary system, and formerly contained selfishness of the people now burst into covetousness and greed, and every individual became its prey. To increase one's wealth as much as possible by whatsoever means became a universally accepted economic norm. This craze infatuated people to such an extent that even the monetary system itself, which imparted these characteristics to the capitalist economy, could not escape its clutches.

In their frenzy for gold people started eating money and this suicidal game was initiated by the state authorities themselves. The authorities first started nibbling at the paper currency reserves, and when they were almost all consumed, they destroyed the confidence public had reposed in them as trustworthy bureaucrats. They failed to fulfil their promise to pay the public on demand genuine solid coins in exchange for the paper currency note which carried the promise.

The last and most damaging characteristic of the capitalist economy is its tendency to concentrate national wealth in fewer and fewer hands, and thereby to increase the wealth gap between the rich and the poor. Economists admit that in highly industrialized lands like America, England and other European countries 75% of the entire national wealth is owned and ma-

nipulated by only 5 percent population, while the remaining 95 percent of their adult population lives on only a quarter of the national wealth. The sad state of affairs depicted by these figures needs no comments.

The above mentioned characteristics are peculiar to capitalist economy alone. Socialists and Islamic economics do not possess them.

3.6. COMPONENTS OF CAPITALISM.

Production, exchange consumption and saving are the main economic functions common to all economic systems. The way these functions are performed differs from system to system. Norms and practices are established by each system to channel human conduct in its own desired way, and these norms and practices constitute the components of the respective economic systems. Capitalism wished to retain the free flow of self-interest and promoted such practices which could boost it up. Islamic ideology wished to restrain its free flow, and to disburse wealth more freely for the benefit of all by introducing its own norms for production, distribution and consumption. Socialism decided to pool all means of production under an all powerful central authority which could use wealth at its own discretion. Practices established by each system with its own objective in view differ materially. We are concerned here with the components of capitalist economy alone.

No institution is responsible under capitalism to provide employment for earning livelihood to all or any. Self-employment sought through self-help is the norm. If others need your services you can sell them, otherwise you have to start your enterprise with whatever resources you possess. Earn, save, expand your business and become a millionaire; there is none to stop you. Thus free enterprise becomes the first component of capitalist economy. Capitalism has evolved a specific form of free enterprise known as Limited Liability Corporation which limits the liability of its share holders and drives a wedge between ownership and management.

The second component of capitalism is highly developed credit system whereby finance for any enterprise can be borrowed from the banks on payment of interest as the cost of borrowing. The banking network is firmly established throughout the world. Its branches operate in all cities, towns and villages. Credit banks are founded on the practice of usury. On lending money the Banks extend a facility to others and they are naturally entitled to charge something for this service. Therefore, you pay a certain percentage annually for using the banker's money. As this business involved no risk of loss, the institution of banking developed fast and now it holds the entire economy of the world in its clutches.

The third component of the capitalist economy is its peculiar monetary system which always suffers from inflation due to its tendency towards deficit financing. Monetary systems all over the

world are the same in principle. You use money as a medium of exchange, and so long as the money retained its original shape of gold and silver coins, the intrinsic worth of the medium continued to remain self-evident, without involving any trust on the money issuing authorities. But when paper currency came into use, the intrinsic worth hid itself behind the gold and silver which the currency reserve chests concealed, and what people got was a mere promise printed on the paper currency notes to pay on demand gold and silver coins to the public in exchange for the notes. The shift of intrinsic worth from solid gold to mere promise involved confidence and trust in the honesty and integrity of the state authorities that they would not print and issue a single paper currency note over and above what the contents of the currency reserve chests justified. For so long as this honesty was maintained by the monetary authorities, paper currency remained as good as gold. When dishonesty stepped in, and paper currency beyond justification flooded the markets, it lost its value and inflation gripped the country concerned.

The fourth component of capitalist economy is the peculiar status this economy allots to and reserves for the labour force. It treats labourers as commodity instead of living human beings, which like any other dead commodity could be bought in the open market when needed, and discarded by dismissal when recession gripped the economy. Capitalism does not bother to consider that the dismissed human beings are as much entitled to survive and exist as the capitalist or the industrialist who dismissed them. That unemployment brings starvation and death in its wake does not disturb the equanimity of the guardians of capitalism. Stratification of human society between classes of masters and slaves, and subordination of the under-dog to the dominance of capital is a master piece, which only capitalism could produce.

Since capitalism thrives on market economy, its fifth component is a network of markets of various categories it has established for different economic pursuits. These markets are many and varied and each has become a giant in its own domain: the main division being the commodity markets, the money markets and the stock exchanges.

Commodities produced by a country - whether industrialized or developing-need organized arrangements for their disposal. These arrangements have been established separately for each commodity by the commodity markets. They collect their specific commodity from its centre of production and shift it to the wholesale market of that specific commodity for bulk storage and distribution, wherefrom the retailers move these commodities to their retail shops. Storage arrangements for bulk storage differ in each case. Perishable goods like meat, vegetables, fish and eggs need cold storage, while automobiles require huge marshaling yards. All the required facilities are provided by the concerned markets in a befitting way. Dealers in these commodities as

wholesale stockists make ample profit. Motor cars and electronic goods have developed excellent international markets of their own.

Money markets are equally important because they provide the needed finance to the producers, the traders and the states. As state revenues take some time to flow in, governments resort to money market for their short term and long term requirements. Money markets assume the shape of banking network and other credit institutions established for specific purpose.

Stock exchanges are business houses where stocks, shares and debentures of corporate bodies and government securities are traded in as commodities and market fluctuations are made the source of profit. Investment corporations are also floated to boost the activities of these exchanges.

Besides producing socially needed goods and rendering legitimate services, capitalist economy also resorts to producing other goods and rendering other services which decent people abhor on social or moral grounds, and which other economic systems refrain from. They are: production of narcotics, harmful drugs and commodities injurious to public health, and trading therein; production of pornographic films and literature with their exhibition and sale; traffic in females, running of brothel houses and gambling dens, and acting as call-girls, smuggling of contraband goods and drugs; and depriving others of their wealth by immoral means under legal cover.

As capitalism is founded on the triple alliance of private property, self-interest and laissez-faire, we will prefer to commence our critical analysis with these three items.



PRIVATE PROPERTY, SELF-INTEREST AND LAISSEZ-FAIRE

4.1. CONCEPT OF OWNERSHIP.

Man is a biological creature and his body requires certain nourishing materials for sustenance and growth. For so long as men found these materials available freely in nature during their pre-civilization wild life, they did not feel any desire to preserve them in personal possession for future use. But when scarcity taught them to produce necessities of life with their personal toil and skill, their toil begot two things: a tangible utility product and a conceptual notion of its ownership. This was the origin of private property and ownership. The institution of private property consolidated itself with the march of time and eventually it gripped the human mind so firmly as to become the fountain-head of all class conflicts and economic ills.

There is no biological foundation for the concept of ownership. It is entirely a product of the environmental circumstance. Since properties and products could be pinched by others, the real owners were obliged to assert their claims on them. "Acquisitive trait" and "grab instinct" are deluding terms without any foundation. Their assumption is fallacious. They have no trace in the human frame. In children grab sprouts from their inquisitiveness and fades away after their curiosity is satisfied. Children throw away even their play-things after their recouping physical exercise is over. In the grown-ups desire to possess springs entirely from the utility of the objects and from nowhere else.

4.2. VARIETIES AND FUNCTIONS OF PROPERTY.

Properties which do not belong to any particular person and yet belong to all collectively are called social, national, communal or public properties. The basic attribute of private property is that

its ownership vests entirely in a particular person due to his having earned it with his own exertions, or having received it as inheritance or gift from its rightful owner. It is the absolute nature of its ownership which distinguishes private property from public property. The owner is absolutely free to handle it as he likes: to hoard it idle, to consume it all, or to let it grow and multiply according to his own designs.

Individuals sometimes contribute from their own private properties donations for some specific purpose, and these donations are earmarked as trusts to be utilized for those purposes alone. They do not fall within the class of private property because no individual commands absolute control over them.

Functions are those actions which an object has potential capacity to perform. Such capacities are either inherent in the objects themselves or they are infused into them from outside. Living objects perform some functions voluntarily, but they can also be trained to perform some other functions as well. Inanimate objects like water, air, minerals and wealth possess potential capacities to perform, but being inert by themselves, they need an external motive force to operate them. In case of wealth and property it is their owner's motivation which puts them into action. Their owners decide and dictate what functions they should perform at any particular time. Therefore, to enlist various functions of wealth and property one must observe the economic behaviour of their owners very carefully.

A survey of men engaged in economic pursuits reveals that the owners make their wealth perform one or more of the following six functions:-

1. Procurement of life necessities.
2. Provision of luxuries.
3. Charitable role for the needy.
4. Opulence display.
5. Economic exploitation, and
6. Domination over others.

A more penetrating look will reveal a specific sequence in these functions as wealth grows in one's possession.

A pauper dreams only of a decent living and no more. A cozy house with enough money to buy necessities of life is all he cherishes and works for. He detests exploitation and domination as crimes, and he regards display of opulence as foolish. However, when he achieves his goal of decent living, he begins to feel that a few luxury goods will make life happier and respectable, therefore, he should achieve them too. Such aspirations and struggle to achieve them are considered healthy and normal by all of us; and everyone of us strives to achieve them as well-known and rightly cherished goals of this life.

Those who manage to acquire surplus wealth beyond this goal, encounter a new situation. The surplus wealth lying idle with them arouses in them desires for opulence display, and for dominating

and exploiting others with this surplus wealth; desires and aspirations they never felt before.

To locate the fountain head of such desires and aspirations is very essential for proper study of economics, but economists of capitalism have ignored it entirely, although it was not so difficult. Analyze the yearning and desires of each and every havenot as carefully as you can; you will not find any one of them yearning for unlimited wealth. It is only when the havenots leave their class to enter the class of haves with their savings, that they modify their desires and aspirations due to this shift. With change of class their class standard changes, and as they find themselves at the lowest rung of their new class, they yearn for more and more wealth to rise a few rungs upwards. Envy breeds greed and the vicious circle begins.

A little surplus wealth that we save prompts us to improve our standard of living, and as we do it we feel that some more wealth will help us rise still further. We adopt all available means to earn more, and many of us give-up all scruples and start treasure hunt with a frenzy. In this process exploiting and dominating over others becomes a new goal of our life.

Hence we can safely say that greed for wealth springs from the surplus wealth and it is whipped up by class consciousness in a capitalist society. As no such phenomenon is observed in classless societies, it can only be regarded a product of the prevailing capitalist economic order.

4.3. SELF-INTEREST AS A MOTIVE.

An hypothesis turned axiom states that men are motivated by self-interest to do what they do in their economic pursuits. As axioms are considered to be self-evident truths needing no proof, text books on Political Economy take this statement for granted and refrain from prying into its validity. Since the entire super-structure of capitalism is raised on this foundation, we have no choice but to examine it carefully and critically.

Motive is a force which induces men to act in that particular manner in which they do. As such the motive force of self-interest, if it does really exist, must be traceable either in the human body itself or in the surrounding environment in which people live and act. Before we embark on its search it would be better to find out from some English Dictionary what self-interest really means.

Self-interest is a compound word. Concise Oxford Dictionary tells us that 'self' means person's own individuality or essence, and also person as object of introspection or reflexive action; and 'interest' means concern, right, advantage and selfish pursuit for one's own welfare. 'Self interest' means actuated by or absorbed in what one conceives to be for one's own interest, concern or advantage.

This definition of self-interest makes it quite clear that the word 'self-interest' was not coined by any meditating philosopher as a

technical term. Laymen themselves started using it as a euphemism for selfishness, and its logical significance is, therefore, vague. It conveys only a popular concept which may or may not be true.

Self-interest being interest of the self as conceived by every individual independently, is bound to have a wide spectrum of its own, with struggle for existence at one end, plunder, murder, rape and domination at the other, and a lot in between. It can therefore, be logical to say that we exert submissively to earn, or that we rob, dupe and swindle, or that we gamble, smuggle, rape and murder because it is in our interest to do so; but to say that we are motivated by self-interest to perform any or all of these actions will be illogical and fallacious. Each of these heterogeneous acts can and might reveal on proper investigation separate motivation of its own. Therefore, it baffles one to see them all jumbled so hurriedly under a single catchy pseudo motive of self-interest.

What is self-interest? Is it a genuine latent motive force lying dormant within the human frame-work, awaiting for its opportunity to act?. Is it some environmental impetus residing somewhere in social environs, awaiting people to be lured into action?. Or is it only a euphemism for selfishness and greed, dignified and deified to beguile the credulous masses? Analysis demands its threadbare exposition.

4.4. ORIGIN OF HUMAN MOTIVES.

Human motives can possibly originate either from the human body itself or from its surrounding environments. Those originating from the body are in-born, biological in nature and permanent. They cannot be altered or eradicated by any means; although they can be harnessed and controlled by training. But those motives which originate from the surrounding environments are not permanent as they are externally induced, and therefore liable to change by changes brought about in the social environments of a particular society.

Biological motives are the products of bio-chemistry of the human body. They function to meet the five basic demands of the body essential for individual and racial survival. The five demands are air, food, drink, temperate climate and reproduction of the species; and the five biological motives are the urges of breathing, hunger, thirst, climatic conditioning by houses and clothes, and the sex urge.

Nature has equipped human body with additional machinery of emotions, sensations, and thinking to help in the activities of biological motives. The five senses of touch, taste, smell, sight and hearing gather information to feed the brain. The brain thinks, decides appropriate action and then directs the activities. In the meantime the emotions of hope and fear, of love and hate, of anger and compassion etc. provoke and facilitate the activities to be undertaken. Thus procurement of means for satisfying biological

demands under all circumstances is ensured.

It was the march to civilization prompted by the changing environment which introduced social demands and gave birth to social motives; but before taking them up it will be helpful to say a few words about the distinctive nature of the genius and the gregarious instinct of man, which gave birth to leadership.

Body chemistry of all human beings is the same but the permutation and combination of the chemicals in the genes differ slightly from person to person and this difference gives personal characteristics to each individual. Personal characteristics and individual differences vary to a degree and an outstanding person is called a genius. Geniuses are rare persons appearing once in a while amongst millions, and they cannot be regarded as normal samples of the species. However, their contributions towards moulding the environs and trends of the people are significant.

It is the gregarious instinct of man that rears families into clans and produces tribes, which eventually develop into communities and nations. Gregarious instinct buds from the urge for racial survival, while the urge for individual survival gives birth to ego. Ego or realization of its own identity by the self, is the nucleus of an individual's personality and struggle for existence. It develops self-importance to a certain degree and we display comparative preference of self over others as a matter of natural selection. Exaggerating this natural attitude in situations demanding choice, assuming it to be a general trend divorced from context, and deriving therefrom an independent motivation of self-interest is a mistake which we will elaborate upon subsequently; here we have only to point out that the self importance displayed by the ego in its own recognition develops to different degrees in different persons, giving birth thereby to leadership amongst the masses. A sprinkling of self-energized souls lead and the bulk of humanity follows in their footsteps. Some leaders twinkle for a while and vanish, while others shoot out with meteoric dazzle, agitating people to react in favour or against. Thus amongst the physical environ, a social environ also comes into existence along with its new demands and motivations.

Production of necessities and luxuries of life demand team-work which the gregarious instinct of man readily provides. But team-work entails an equitable distribution of the reward amongst all members of the team. Large scale team-work in factories and mines generate additional problems of discipline, law and order, residence, sanitation and recreation for the labour force, which the management is called upon to solve. At community level peaceful co-existence between all classes of society, dispensation of justice and providing educational, health and employment facilities for the public are some of the social demands, which those at the helm of the national politico-economic affairs are called upon to tackle. How well or ill they solve them reveals the quality of their social motivation. But, as we have explained earlier, all social demands

and social motives are products of variable social environs. They can therefore, be modified and altered by well considered revolutionary changes in the environments.

As social urges promote social customs and living habits according to local environs and fashions in various countries, they vary from country to country. But by constant usage each country gets enamoured of its own social norms, which eventually evolve as their culture. Cultures vary from place to place, and cultural differences raise barriers between nations, which are difficult to demolish.

The deeper we dig into human biology and environments the wiser we become about human motives of behaviour in all walks of life. Such probe confirms the vagueness of the so-called motive of self-interest. Whatever the self finds itself interested in, leads us to a definite source of that interest, which admirably explains its why and wherefore, without the distracting interpolation of 'self-interest' as a motive. The origin of self-interest as a motive by itself is traceable nowhere in human frame or in social environs.

4.5. INTEREST OF THE SELF.

A comprehensive list of all possible human interests can easily be prepared by observing people engaged in their respective occupations; but as money economy camouflages interests and we find everyone engaged in procuring wealth, we will have to be cautious in our quest.

Wealth divides people into three distinct classes of the have-nots, the haves and the affluents. Those who own no wealth and who must work constantly for subsistence or a bit decent living belong to the class of have-nots. Those who own enough wealth to pull on for a reasonably long time without earning more, belong to the class of haves. And those who own abundant wealth to lead a luxurious life without ever working for it at all, belong to the class of affluent. Since all the three classes, inspite of enormous difference in their wealth-status, continue earning wealth without indicating by their occupation where their real interests lie, our probe will have to dig deeper still.

There are a good many interests of the self besides earning a living. Our inquisitiveness yearns to unfold the mysteries of the universe and open the gates of knowledge and wisdom. Persons behind all discoveries, inventions and planning for progress were motivated by forces other than the so-called self-interest. Such persons have laid the foundations of various arts and sciences, and they keep on producing artists, poets, musician, scientists, inventors, technicians, industrialists, business managers, bankers, economists, law-makers and politicians. Our emotions also give birth to new interests. Persons who feel overwhelmed with anger and hate find pleasure in conflicts and develop interest in anarchy or warfare. They produce revolutionaries and war-lords. Some persons develop love, compassion and benevolence. They feel

interested in moral and social uplift and they become preachers, social leaders and apostles of peace.

Interests generated by intellect and emotions are easily enjoyed by the class of haves and the affluent too, but they are scarcely available to the have-nots, who remain submerged all the time in earning a living somehow. Scarcity of socially healthy forms of employment drives them to unhealthy pursuits. Pick-pockets and thieves are produced by empty stomachs, and lure of easy money turns them into robbers and dacoits.

All the interests of the class of haves are indulged in by the affluent class as well, but the affluents exhibit an additional interest besides; which is peculiar to them alone. They develop lust for wealth, an interest run amuck. Intoxicated with the existing wealth they thirst for more and indulge in a mad rush for gold. They justify it by assuming a new motive force, which they designate as the profit-motive.

To coin new terms for avoiding genuine explanations is a well-known evasive tactic of modern economists. Like self interest profit-motive is merely a deluding term which fails to explain the exaggerated covetousness of the affluents.

4.6. COVETOUSNESS, GREED AND SELFISHNESS.

Covet means desire eagerly usually what belongs to another. Covetous means eagerly desirous of another's property, grasping, avaricious. Covetousness, therefore, means an eager desire to grasp, get and keep usually what belongs to another.

As all desires are supposed to emanate from the human body and as covetousness is a desire, we are easily led to assume a grab instinct or an acquisitive trait having a biological origin. We have therefore, to ascertain whether any such tendency exists, and if so, where does it spring from, from human body or from social environs.

We all desire to get and keep a lot of things, but each under its own specific need, and not under any wanton desire to possess. To get and keep is not an end, it is only a means to some definitely known end, the satisfaction of our wants. To willfully ignore this definite end, and to keep on harping on the incidental means, is not helpful. The act of acquisition is initiated and performed in each case by a different motive and not by any single tendency to possess. Only hunger acquires food, thirst the drink, and nakedness the dress. No common grab instinct exists to acquire them all. The fact that we always acquire in limited quantities just enough to satisfy our current wants refutes the concept of a wanton desire to get and keep.

Covetousness as an eager desire to get what belongs to others is displayed either by pick-pockets, thieves and robbers, or by the affluent exploiting class. The former break the laws to satisfy their covetousness, while the latter amend them to serve their purpose. Both are motivated by greed for easy money, which is a product of

the capitalistic environments.

Greed means an insatiate longing for wealth. Wealth in moderate quantities and in convertible form is desired by all because it satisfies normal human wants. Being an all round purchasing power it can be used for healthy as well as unhealthy purposes. The havenots and most of the haves normally use it for healthy purposes only, but for haves with much surplus and for the affluents the surplus money poses the question of what to do with it. As there are no such haves and affluents in socialist countries, the situation arises only in the capitalist countries, where free enterprise is in vogue.

As wealth can buy other's services, it can easily exploit their economic dependence. They can also be bribed to co-operate for creating a nucleus of social power for the affluents. This prepares ground for political aspirations. Thus surplus wealth in free economy finds its own way to grow and exploit.

The craze for wealth-increase is the product of greed and the fountain-head of all exploiting practices. Productive employment of natural resources including manpower is the only source of real wealth, but it does not quench the thirst of the affluent, and their insatiate greed provokes them to evolve immoral and antisocial economic practices as well for diverting other's wealth towards themselves. This attitude stems from individual selfishness.

Selfish means deficient consideration for others; alive chiefly to personal profit or pleasure; actuated by self-interest (of motives etc), appealing to self-interest (selfish theory of morals that pursuit of pleasure of one kind or another is the ultimate spring of every action). This definition of selfishness, as given in the Concise Oxford Dictionary, confirms beyond doubt that 'self-interest' is a euphemism to dignify greed and selfishness, and to deify them for preservation of vested interests. Natural consequence of such vicious concepts is promotion of economic grab and the spread of power-politics, which have engulfed the capitalist world.

4.7. OUR THEORY OF ECONOMIC BEHAVIOUR.

The above discourse about property and self-interest leads us to propound a more logical theory about human behaviour in the field of economics. A comparative study of behaviour patterns of the three classes of havenots, haves and affluent reveals that the behaviour of each individual in pursuit of wealth is determined by the quantity of wealth he already possesses. It is found that this unfailing code of conduct is adopted by each and every member of the three classes of society invariably. It is further discovered that all members of a particular class behave alike, thereby producing a behaviour pattern for their class; and each individual follows this pattern more or less strictly for so long as he remains in that class. These studies also reveal that as a man ascends from a lower to a higher class by accumulating more wealth, he discards his old behaviour pattern for the new one. Havenots behave like haves on

entering the class of haves, and haves behave like affluent on becoming affluent; but the reverse does not happen. On becoming bankrupt by misfortune a wealthy man does not revert to the behaviour pattern of the havenots. He retains his existing behaviour pattern as before.

Except for the initial wealth gap there is no basic difference between a havenot and a have. But this gap has a pivotal significance. With some funds at their disposal the haves get a better start in life, and with something to fall back upon they acquire a better bargaining power for their productive potentials. Whereas the havenots start from a scratch as unskilled workers and quickly succumb to a subsistence return, the haves get educated and skilled as efficient hands before entering the struggle of life. And with funds to resist succumbing they wield effective bargaining power for their services and wares. Thus the haves earn much more, spend freely for a better standard of living and save to educate their children for still better jobs.

With this role the class of haves becomes the backbone of society and an uplifting force for the entire nation. To earn more, to spend more and to save more becomes their motivation for economic behaviour, and with this motivation they chalk out a behaviour pattern for the whole class. Their succeeding generations follow this pattern with a zeal and vie with one another for still greater wealth to enter the class of affluents.

The pivotal point of the behaviour theory is the significance of the initial wealth. Lack of initial wealth becomes a hindrance for the havenots; sufficient initial wealth gives a good start with bargaining power to the haves; and abundant initial wealth infuses into the affluents a craze for wealth-increase, which, provides a fertile soil for exploitation and domination to germinate and spread. To protect Society from the baneful effects of unlimited private property, State interference is essential.

4.8. LAISSEZ-FAIRE.

To forestall the state interference in economic freedom slogan of laissez-faire was raised by the exploiting mercantile and industrial classes. They claimed that free interplay of self-interest of mutually contending parties in open competition produced a state of self-balancing equilibrium naturally. This natural equilibrium is bound to be disturbed by state interference as the interference always takes the form of imposing restrictions on the free flow of economic forces. States should therefore, refrain from interfering in the economic activities of the public.

This argument presumes that:

1. The interplay of mutually contending forces in an economic strife is unhampered and free from hurdles for all contenders alike.
2. The self-interests of all contenders are equally effective.
3. The struggle always ends in a state of well-poised equi-

- librium and not in a subjugating turmoil, and
4. The arena of the combat is neither designed nor managed and controlled by any of the contending parties.

The facts refute all these assumptions. An economic strife wherein contending parties are all equally free from handicaps is a rarity. Every contending party has its own peculiar advantages and disadvantages. Their interests vary both in nature and intensity. The struggle always ends in the domination of the strong over the weak, and the well-poised equilibrium is nowhere to be seen, because the arena of capitalist strife is owned and managed by the capitalists, the most powerful contending party.

How can the state authorities remain silent spectator if labour is yoked like slaves, if moneylenders become Shylocks, and if entrepreneurs fleece consumers mercilessly? Any sensible government is bound to step in for peace and progress. Wisdom permits state interference when situations demand. None believes in laissez-faire today. Social welfare and economic development have now become the prime responsibilities of the state and development plans are being drawn and executed everywhere under state guidance and control.



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DEMAND, SUPPLY AND PRICE

5.1. THEORY OF DEMAND.

Books on political economy start with the discussion of demand, supply and price. The discussion opens with the analysis of consumer's behaviour or demand. After analyzing the utility of a commodity Alfred Marshall reached the conclusion that the marginal utility of a thing to anyone diminishes with every increase in the amount of it he already has. He called it the law of diminishing marginal utility. The ratio in which one could substitute one goods for another without being left either better off or worse off was called one's marginal rate of substitution between the two, and the law of diminishing marginal rate of substitution stated that as a consumer substitutes X for Y, the amount of Y he will surrender in exchange for a unit of X diminishes as his rate of consumption or stock of X increases and that of Y is reduced.

These two laws were much extolled by the economists who took great pains to explain them with the help of graphs and differential calculus, extending their application to the field of production and distribution as well. The laws held their sway during the post-Marshallian period for some decades, and then came under fire. It was argued that the laws assumed that utilities were measurable and that the marginal utility of money to the consumer was constant. Both these assumptions were false. Goods are not divisible into small bits to enable marginal calculations, and most of us being slaves of customs and fashions consume irrationally. In actual fact there is not much of conscious calculation and careful weighing to justify Marshallian approach.

Professor J.R. Hicks pointed out that utility is a mental phenomenon which cannot be measured quantitatively. He also said that the marginal utility of money increases as a consumer spends more of his income. His own approach to consumer's behaviour is called the indifference curve technique. He explained that the consumer has a scale of preferences and the utilities, or satisfac-

tions, can be compared as being greater or less or equal. The consumer formulates his scale of preferences independent of market prices, keeping in view the list of commodities in order of their power to satisfy his wants. From this list one combination of two commodities gives him greater, smaller or equal satisfaction as compared to another combination. An indifference curve represents satisfaction of the consumer from two commodities and it is drawn on the assumption that for all possible points on an indifference curve the total satisfaction or utility remains constant and the consumer is indifferent to all the combinations exhibited on the indifference curve.

But Hick's indifference curve also invites serious objections. It is unrealistic to assume the consumer capable of retaining a host of scales of preferences and working out permutations and combinations for a lot of indifference curves orally. Further the indifference curve can at most analyze consumer's behaviour in respect of two goods only; for three goods three dimensional diagrams are needed which are difficult to understand and handle, and when more than three goods are involved geometry altogether fails. That is why Professor D.H. Robertson said that the indifference curve technique is merely the old wine in new bottles. Professor Armstrong and others also expressed their dissatisfaction with Hick's approach.

Apart from these two defective approaches no satisfactory theory of demand has so far been propounded by capitalism.

While discussing demand economists talk about the elasticity of demand and the consumer's surplus as well. There is tendency to purchase less when prices go up, and to purchase more when prices go down. This fluctuation in demand is called the elasticity of demand and it provides a cue to producers for sales promotion.

The concept of consumer's surplus was put forward by Marshall. The excess of the price which a consumer would be willing to pay rather than go without the thing over that which he actually does pay is called the consumer's surplus. Some economists call it illusion. They say that the price in the market is a fact which one must accept. What the consumer is called upon to decide is how much he will buy. If there is a surplus the consumer will be induced to buy more and more of that commodity till the surplus disappears. It simply cannot exist.

5.2. THEORY OF PRODUCTION.

On the side of supply the conventional theory of production tells us that four factors join hand to produce goods for satisfying human wants. They are land, capital, labour and enterprise, and the rewards of their contribution to production are called rent, interest wage and profit respectively.

The process of production actually means converting natural resources into useful products. Technology enables labour to perform this act, but the vast variety of natural resources and the

complexity of the technical knowledge of each have entitled each technology to become an independent branch of knowledge. Economics, therefore, deals only with the production relations between the various factors of production, i.e. the organization of an enterprise, and procurement of land, labour and capital to run it. By virtue of his being the creator of the enterprise the entrepreneur plays the dominant role in it.

Sole proprietorship and partnership between various persons remained the popular forms of business organization for ages but the creation of Joint Stock Company with its peculiar constitution revolutionized the organizational set up of the Western economy. Its limited liability and transferable shares promoted capital accumulation through daring ventures. These corporations created Stock Exchanges, evolved holding companies and industrial combines which introduced cartels.

Before setting up a new business enterprise or expanding an existing one, economies of scale are carefully considered as small, medium and large scale industries have their own advantages and disadvantages. A combination of factors of production which gives the minimum average cost and maximum average profit is the objective of every entrepreneur, and the theory of production provides guidelines in that direction.

The theory discusses the laws of increasing, decreasing or constant returns applying to different industries in accordance with the dominance of one factor of production or the other. The law of diminishing returns operates in agriculture and extractive industries like mining and fisheries where the land factor dominates. But for manufacturing industries which are dominated by capital, the law of increasing returns operates for so long as they do not expand beyond control. An industry is subject to the law of constant returns when, whatever the output or scale of production, the cost per unit remains unaltered or increased investment of labour and capital results in a proportionate increase in the output. Use of natural raw materials tends to diminishing returns in industries whereas use of machinery and of man-made raw material tends to increasing returns. The quantum of production which balances one with other gives the optimum production. These laws are only indicative tendencies which however, help the entrepreneurs to achieve a desired output with the least cost combination of inputs, which is called the equilibrium.

Another technique developed to show the equilibrium of factors of production to a producer is called the iso-product curve, which is a parallel concept to the indifference curves of the theory of demand. Iso-product curve shows the various combinations of two factors which yield the same quantity of a product making the producer indifferent to either of them. These curves are therefore called product indifference curves as well.

The force behind supply is the cost of production. Supply has functional relationship with price. The law of supply says that other

things remaining the same, as the price of a commodity rises, its supply is extended, and as the price falls its supply is contracted. The demand curve slopes downwards whereas the supply curve rises upwards. The point of their intersection determines the price.

5.3. THEORY OF PRODUCT PRICING.

In product pricing we are concerned with an industry as a whole and not with the individual firms composing it. Price of a product is determined by the intersection of the forces of total market demand and total market supply of all the firms in the industry. The individual firms will be considered to have attained equilibrium position at that price output where marginal revenue is equal to marginal cost for the entire industry. This in a nutshell is the theory of product pricing under perfect competition.

It is noteworthy that the equilibrium price is established at the level at which the demand curve intersects the supply curve or at which quantity demanded is equal to the quantity supplied. At any price higher than the equilibrium price, the quantity supplied will exceed the quantity demanded and the competition between sellers will force the price down to the equilibrium level. Similarly at any price lower than the equilibrium, the quantity demanded will be greater than the quantity supplied and competition between buyers will push the price upto the equilibrium level. The element of time however plays an important role in the determination of market price.

Market price is the result of momentary equilibrium between demand and supply. This period is so short that output cannot be varied in response to changes in demand. The firms can sell only what they have already produced. In case of perishable commodities like fish the whole stock must be sold whatever the price, but in case of durable goods if the prices are falling some part of the stock can be held back, though no additional stocks can be immediately produced if the prices are rising. Thus short-run market price prevails till it is replaced by the long-run market price established by increased production brought about through expanding the existing facilities or introducing new ones.

5.4. PRACTICE DEFIES THEORY.

Writers on economics elaborate the above mentioned orthodox theories in so many lengthy chapters couched in such technical terms as if they are expounding some inevitable natural phenomenon to explain therewith the intricate process of production and exchange of commodities in real life. But the gulf between theory and practice speaks for itself. The theory has nothing to do with what is actually happening in real life. It is only a jargon to confuse creative imagination of the novice and recruit dull and docile disciples for the cult of status quo.

It is almost impossible to incorporate the concept of the margin into the daily calculations of our business enterprises. Not many

business-men know what we mean by marginal cost or marginal revenue still less how to estimate them. The marginal quantities frequently depend on so many changing factors that it is very difficult, if not impossible, to estimate them. How can we construct a true demand curve which depends on the unknown reactions of so many competitors and consumers?

In actual practice a businessman takes the prevailing market price of a commodity as an undeniable fact and estimates the quantity he can sell at that price. Then he works out the probable cost of its production and decides whether the resultant income will make it worth his while to start production. The concept of margin neither enters his mind nor interferes with his calculations.

In real life entrepreneurs eliminate competition by forming holding companies, industrial combines and by cartel agreements. They multiply profits through managing agency, wholesale commission and monopoly, tactics legalized to raise prices and fleece consumers. For reducing production costs, home markets are created to subdue prices of raw materials produced in dependencies and underdeveloped countries. And above all speculative deals are legalized to bring about artificial price fluctuations for piling profits. It is futile to expect any correlation between demand, supply and price where all these tactics prevail.

As 'free economy' is not really free, under its schooling programme economists are tutored in their formative stages to misrepresent and mislead. They are trained to avoid factual analysis, to ignore genuine causative forces and play upon less relevant influences. Sometimes uncautious teachers blurt out the truth. Mr. H. Speight, a senior lecturer in economics at the University of Leeds, England, in his book 'Economics, the Science of Prices and Incomes' writes:-

"To explain completely the price of wheat, the wages of an electrician, the state of the balance of payments, or the degree of unemployment, we should probably have to consider politics, the historical background of social institutions, psychology, perhaps even religious beliefs, and a host of other influences. These non-economic factors cannot be handled with the techniques which the economist uses; they need different kinds of tools, which the economist has not been trained to handle. One could argue that economists have not developed the most appropriate techniques, that they have habitually and for generations isolated the less important or less relevant influences. One could assert that economic phenomena could be better explained by class antagonism, or by the technological environment, or by some law of historical development, than by the principle of maximization within the framework of diminishing marginal substitutability and diminishing marginal productivity. There may be grounds for such an assertion, but most economists think otherwise; and the function of a text book is to present its subject as it exists today".

(ECONOMICS BY H. SPEIGHT. PAGE-292).

Our assertion that instead of a threadbare analysis they try to

rationalize the status quo, thus stands vindicated. Will any liberal analyst of the so-called free economy exercise his personal freedom to explain why most economists think otherwise and why the function of a text book should remain confined to presenting its subject as it exists, refraining from constructive analysis? We appeal to all economists of the capitalist economy to come forward and vindicate their conduct.

5.5. CONSUMERS AND PRICE CONTROL.

Free economy is entirely free to fleece the consumer without any redress, and price controls set-up by the state authorities are mere eye-wash. If the ex-factory cost of a commodity is X, its fabulous sales promotion expenses multiply it many times and the 'ix' cost of sales is recovered from the consumer without hearing his grievances. The total price computed by the producer is accepted by the state authorities without any effort to eliminate superfluous expenses, and announced to the public as approved retail sale price, which the consumer must pay.

Take for instance the enormous amount of wealth being spent daily on competitive advertisements for various brands of cigarettes, cosmetics and tooth pastes throughout the world, which the consumers are compelled to pay. If properly spent, this wealth could feed and clad millions of poor people. Economic system which upholds such wasteful expenditure and also permits destruction of surplus agricultural produce merely to maintain high prices in world's speculative markets is a caricature of an economic system and a downright fraud. It deserves universal condemnation.

A loose relationship of cause and effect does exist between demand, supply and price, but modern sophistications of our economic practices have blurred this relationship beyond recognition so much that it seems futile now to rediscover it.

Priority for national prosperity over individual gains requires us to keep the collective benefit of all upper-most in our minds, while approaching the issues of demand, supply and price. The analysis of demand should cover all human demands in the order of their priorities. Biologically essential demands should attract our attention first, and production of supplies to satisfy them should be arranged before catering for socially inspired non-essential demands. Food, clothing and housing are the three primary demands of all human beings, and how to provide them on least cost basis for the total population of a country should become the first responsibility of every conscientious government.

At the very beginning of this chapter we pointed out that the economists open their discussion about demand, supply and price with the analysis of consumer's behaviour. How sad it is to note their failure to discover that consumers wanted basic necessities of life on priority basis and they wanted them at minimum cost of production and delivery. This fact was so evident that it needed no analysis of consumer's behaviour at all. Yet the economists con-

ducted the analysis, not to help the consumer but to help themselves by selling superfluous goods to them at fabulous prices. The fault lay in their selfish approach. With a little shift in their approach as demanded by foresight and a little compassion for the needy and poor consumers they could have benefited the consumers and themselves alike by the simple technique of increased sales at reduced price; a technique they always use at their annual clearance sales.

5.6. MARKETING COMPLEXES.

For promoting commerce and trade a variety of marketing complexes have been built all over the world to accommodate various commodity markets, money markets and stock exchanges. They provide business space and other facilities to traders in their respective lines and otherwise help in boosting their trade activities. Although they only carry goods from factory gates to consumer's doorsteps, their service charges increase the retail price of goods appreciably. It would be appropriate to consider here the extent of this increase.

Experience tells us that it takes a couple of years to construct and complete a marketing complex and another year to attract a team of suitable businessmen for leasing out all its shops on long term basis. Thus a marketing complex needs borrowed capital for these three years at about 15% interest or so, to be built and leased out. The terms of the lease stipulate for a definite cash consideration for handing over possession of the premises, and also for an annual rent. Long term lease deeds do not convey full right of ownership as sale deeds do; but since they convey the right to transfer lease to another person, consideration charged for handing over possession to the lessee almost equals to sale price. This is calculated on the total construction cost of the market including all facilities with three year's interest thereon as mentioned above; split up into cost per square foot of total leasable area, alongwith a reasonable profit on the outlay. The rent is charged on normal commercial rates prevailing in the adjoining areas.

Construction costs in developing countries during the decade of eighties moved around two hundred rupees per square foot of covered area without interest and profit. Three year's compound interest at 15% raises the figure to three hundred, and twenty percent profit thereon for the builder's enterprise raises it further upto Rs. 360/- per square foot. Normal size of a shop in such countries covers an area of about 500 square feet, commanding a lease-hold cash consideration of Rs. 1,80,000/- which the lease holder invests. If he needs another rupees 1,20,000/- for purchase of commodities to trade in, his total outlay becomes Rs. 3,00,000/-. It is evident from the practice of annual clearance sales every-where that turnover of the entire stocks takes a year to complete. This means that the trader has to pay about Rs. 45,000/- towards interest on his borrowed finances. This is evidently his marketing

expense on a stock-in-trade of Rs. 1,20,000/- valued ex-factory. Carriage expenses to the two (wholesale and retail) markets are in addition but we ignore them as the maximum possible amount of interest has been taken into account. In actual practice interest is calculated on daily balances which get reduced as traders deposit their daily sale proceeds into the bank the very next morning.

The trading expense of Rs. 45,000/- on an outlay of Rs. 1,20,000/- gives us a figure of 37.5% on the ex-factory price. If the wholesale dealer charges profit of 15% and the retailer of 25% on their respective outlays, the consumer has to pay 77.5% over and above the ex-factory price of articles.

The marketing institution renders a genuine service to the consuming public by carrying goods from the producer's premises to the consumer's shopping centre, and they are entitled to a legitimate service charge. A charge of 7.5% over the ex-factory should be considered reasonable; but a charge of 77.5% is surely exorbitant.

The above discussion concerned only the real and tangible commodities. The non-tangible tokens like monetary currency notes and documents of title pertaining to loans, stocks and shares will be dealt with subsequently at their appropriate places.



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DOMESTIC AND FOREIGN TRADE

6.1. FUNCTIONS OF COMMERCE AND TRADE.

In the previous chapter we discussed in detail the capitalist theories and practices about demand-supply-price relationship, and explained how their practices defy their theories which act only as smoke-screens to hide their motives. Actually they are motivated by greed to increase their wealth by fleecing the labourers and the consumers with artificially increased prices they themselves dictate. The operation which completes the fleecing process is called trade. Trading is, no doubt, an essential economic function, but the way it is performed decides whether it has been socially beneficial or harmful. Which trading functions are vital for national economy and which of them are superfluous and harmful needs a careful consideration. Let us review the trading activities prevailing in capitalist markets to segregate one from the other. But before doing it, to earmark the vital functions of trade first would be more helpful.

Trade is an economic operation for exchange of goods and services, whereby commodities are moved from their centres of production towards their centres of consumption, by people desiring increase in their wealth through this helpful service. The operation involves buying commodities with the help of a cash reserve at suitable times and places, moving them to suitable places at appropriate times, or keeping them in stock awaiting suitable occasions, and then selling them at enhanced prices. In this process the cash reserve goes through the cycle of money-commodity-money ($M \Rightarrow C \Rightarrow M$) continuously, and yields a profit at the end of each completed circuit.

The motive behind the trader's pursuit is monetary gain rather than any social service, consequently trading practices do entail many anti-social acts. Yet the trading community as a whole does perform the helpful service of bringing in contact the consumers with the commodities they need to satisfy their wants. As such

traders rightfully deserve some suitable reward for this service. From collective social viewpoint this is the only vital function of traders in domestic trade. In foreign trade their vital function is to earn and preserve foreign exchange for their country. All unhealthy trading activities both in domestic and foreign trade must be firmly controlled by the state.

The scope of foreign trade is wider still, and it includes not only the transfer of goods but a lot more. Industrially advanced countries produce besides consumer goods producer goods as well, which consist of equipment and machinery for producing consumer goods. Underdeveloped countries buy such producer goods to initiate their industrial development. But the underdeveloped countries possess neither the funds to buy producer goods with, nor the technical skill to operate these machines. The manufacturing countries have therefore, to provide both of them to sell their products. They sell machinery on credit, which means transfer of capital, and they also send experienced technicians to erect and run the machines, and to teach the local labour how to operate and maintain them in their absence. In this way qualified technical labour also migrates for a short period from the developed to the underdeveloped countries alongwith the capital.

Underdeveloped countries are deficient in many other fields besides industry. They have to train their people in medical, engineering, defence, legal and administrative fields. So they send their students abroad to acquire these wisdoms from advanced countries of Europe and America. Partially developed countries which inherited from their previous masters institutions teaching these arts and sciences, train their own students as well as students from other backward countries in such institutions. But instead of serving at home after training, most of these students migrate to rich countries where they get better paid than at home. Not only skilled labour, totally unskilled labour also migrates to industrially developed countries in search of jobs, where they are welcomed as cheap labour compared with the indigenous one. Since all these human movements give rise to international flow of money, they fall well within the lap of international trade.

6.2. IMPLICATIONS OF FOREIGN TRADE.

Domestic and foreign trades appear to be similar superficially, but as you penetrate deeper into the foreign trade, implications of serious nature come to light. Which commodities can a country export and in what quantities needs a careful consideration, and finding buyers for them is a fairly difficult job for the developing countries. Then to make compromising adjustments between your own import needs and what the buyers of your commodities are likely to offer in exchange becomes a ticklish question. When the choice of buyers and import items is made, the stage for settling the terms of trade arrives. Apparently it appears to be a simple matter of negotiation between the two countries, but actually it

becomes an irksome operation in view of diverse sophisticated devices various countries use for safe guarding their own interests. Whatever be the motives these devices turn out to be trade barriers in effect.

Terms of trade are the terms and conditions upon which two countries decide to exchange goods they intend to buy from and sell to each other. These terms detail the quantities and qualities of the specified commodities being exchanged, the prices at which they are bought and sold, the periods and places of deliveries, and the currency in which accounting will take place and balance of payment settled.

Amongst the barriers of trade, tariffs are the most common ones. A tariff is a prohibitive tax imposed on imports to discourage them for various reasons like protection of one's infant industry from foreign onslaughts, or to shelter one's established industries from foreign cut-throat competition, or to check wasteful consumption of imported luxuries, and to increase state revenues. Tariffs have become favourite weapons of every country, and most of them use tariffs rather indiscreetly. Consequently the U.N.O. managed to introduce the General Agreement on Tariffs and Trade (GATT) amongst the nations of the world.

Industrially developed countries dictate their own terms of trade for importing raw materials from the under-developed areas, but for these backward countries sale proceeds of their exports are the only foreign exchange assets to import foreign goods and technical services with. In view of their scarcity as compared to import demands, these assets are to be used most judiciously. Various devices are available for controlling foreign exchange depending on the policy of the state and situation of the occasion. To preserve one's economic freedom and to develop with a steady pace, judicious control of the foreign exchange is very essential.

To chalk out a wise import policy is, no doubt important, but to succeed in its implementation is still more important. To fix priorities for import is comparatively easy, the difficulty lies in its execution. The opulent class and the trading community are usually the first to oppose a frugal policy, and experience shows that bureaucrats easily succumb to their agitation. If by some miracle a wise import policy gets executed, smuggling nullifies its effects. In spite of being an illegal and immoral occupation, smuggling flourishes defying all restriction, and commands a fairly big chunk of the international trade. No free trade country has so far been able to eradicate it.

The implications of international trade for national currencies of the world are no less important. The value of any national currency lies in its purchasing power which depends upon the intrinsic worth of the contents of its currency reserves. Gold contents command a higher value than a foreign currency content, and a reserve of hard foreign currencies commands a better value than soft foreign currencies or local government securities. Al-

though foreign exchange earned with one's current exports does not formally form one's national currency reserve, it acts as such momentarily by becoming the immediate source of buying imports with, thereby upholding the purchasing power of one's national currency abroad. Successful foreign trade thus becomes an emblem of prestige, helping nations to raise their heads proudly and keep them raised defiantly amongst the comity of nations.

6.3. FREE-TRADE VERSUS PROTECTION.

A policy of no restrictions on the movement of goods between countries is known as the policy of free trade, while restrictions placed with a view to safe-guarding home industries constitutes the policy of protection. According to Adam Smith the term 'free-trade' is used to denote "that system of commercial policy which draws no distinction between domestic and foreign commodities, and therefore, neither imposes additional burdens on the latter, nor grants any special favour to the former". Free-trade does not require the removal of all duties on commodities, it only insists that they should not be imposed for protection at all. They may, however, be imposed exclusively for revenues.

Adam Smith recommends that if a foreign country can supply us with a commodity cheaper than we ourselves can produce, it would be better to buy it from them with our export earnings. The only exception he insists upon is that of our own defence industries which should be protected at all costs because defence is more important than opulence.

The doctrine of free trade is an extension of the doctrine of division of labour to the international field. Smith points out that individuals find it in their own interest to employ their industry in a way in which they have some advantage over their neighbours. So he argues that what is prudence in the conduct of everybody can hardly be a folly in the conduct of the nation as a whole. The free-trade theory rests on a policy which enables every country to devote itself to those forms of production for which it is best suited on the basis of comparative advantages.

The term 'protection' is used to denote a policy of encouraging the home industries by the use of national boundaries or by the imposition of high custom duties on foreign products. The object is to build-up national industries for development through self-sacrifice and self-help for achieving national progress and economic freedom. The following arguments are advanced in favour of protection:-

1. Conservation of national resources demand some sort of protection. If a country continues to export its exhaustible materials in raw state, it may be seriously handicapped when such materials get exhausted. But if these materials are processed within the country, national wealth, employment and the pace of development will increase.
2. If an industry is given a reasonable period to develop

unhindered by foreign competition, it will reach maturity and will be able to enjoy the various economies of scale, and ultimately it will be able to stand on its own legs without protection.

3. For achieving a balanced economy a nation should have a variety of means of production and employment. Dependence on one or a very few industries is full of risks, both politically and economically. Depending on imports during war and other adverse circumstances is dangerous. Therefore, development of one's own industries and their diversification is absolutely essential.
4. Industrial development through protection increases employment. Conversely if protection is not given to old established industries, foreign competition may ruin them and create unemployment in the country.
5. Defence of one's country demands priority over economic prosperity. Therefore, development of defence industries is essential for peaceful economic development. Hence the need for protection.
6. For a stable and sound industrial structure, key or basic industries must be developed first of all, and that is possible only with the help of protection.
7. Protection also becomes necessary against unfair competition from abroad arising from dumping, depreciated exchanges and bounties etc.
8. Protective duties, if moderately imposed fetch some revenues to the state as well.

Thus the policy of protection is indispensable particularly for the developing nations. However, it entails some drawbacks as well. It creates vested interests, it produces lethargy and it encourages corruption. These evils must be carefully guarded against to reap full benefits of protection.

6.4. TARIFFS AND SUBSIDIES.

We have observed that protection is essential for economic development and growth in backward and underdeveloped countries. Protection adopts various forms, tariffs and subsidies being the most widely used. Imposition of tariffs produces the following eight effects, all of which deserve detailed consideration. They are:

1. The protective effect.
2. The consumption effect.
3. The revenue effect.
4. The redistribution effect.
5. The terms of trade effect.
6. The competitive effect.
7. The income effect, and
8. The balance of payment effect.

For purposes of protection tariffs may be imposed on imports.

exports or both as the situation demands. Tariffs imposed on imports have no effect on the foreign offer price; they only make imports costlier by raising their internal prices, thus indirectly inducing their domestic production. An import tariff is prohibitive when the protective effect is sufficient to expand domestic production to the point where it will satisfy domestic demand without imports. Similarly tariffs lower the internal price of the export goods, encouraging their processing instead of exporting them in raw state. The protective effect of an import duty is almost always favourable for an industry or a region dominated by a single economic activity.

The consumption effect is almost always adverse. As the consumer is obliged to pay more for each item he purchases, he tends to consume less for reducing purchases. Thus regions can be adversely affected by the consumption effect. The only valid argument for a universal application of tariff is the infant industry argument, which is based on external economies or on imperfect competition due to imperfect knowledge or difficulties of entry. If a tariff imposed on a goods attracts into its production entrepreneurs previously unaware of the opportunities available or induces them to accumulate capital (or land or labour) in the amount required to achieve the economical scale of operation, the tariff may be said to be justified. However, another and more desirable method of calling attention to these opportunities is to extend subsidies. Subsidy lowers the price to the consumer instead of raising it, and thereby helps to broaden the domestic market. But its disadvantage is that it requires revenue instead of raising it. It must however, be recognized that the infant industry argument, inspite of its abuse, is valid. People should not be permitted to abuse it at all, and protected industries must function without protective tariffs after a reasonable period of protection. If a protected industry develops to the point where it can compete in world markets, it is a sure sign of its having grown up to survive without protection.

The revenue effect has its own significance. Governments must raise revenue for a variety of public purposes, and from times immemorial foreign trade has been an object of taxation. The less developed a country is, the more likely it is that a substantial proportion of government revenues comes from tariff duties. This is less a matter of equity in taxation than of administrative convenience. Goods are easier to tax than the abstraction called 'income'. And as the flow of goods is constricted at ports of entry, foreign goods are more readily taxed than domestic ones. A tariff for revenue only is one where the protective and redistributive effects are missing. A tariff for revenue only can be on goods which are not produced at home at all; or one where an equal tax is imposed on domestic production to eliminate the protective and the redistributive effects.

Tariffs redistribute income among factors in different pro-

portions in production of different goods. Just as free trade raises the price of the abundant factor and lowers the price of the scarce, so a move away from free trade raises the price of the scarce factor and lowers the price of the abundant. Tariffs tend to raise prices for consumers and increase the profits of the protected producers, thus redistributing the consumer's surplus among the producers. The state uses its revenue income from tariffs on public works and to pay the civil servants, thereby redistributing it mostly among the salaried classes. More specialization increases total product, but it redistributes income in favour of capital and against labour. Government policy may however, deliberately strive to alter the distribution of income in the general interest.

Tariffs affect terms of trade one way or the other. Under appropriate circumstances a tariff will enable the country to obtain its imports cheaper. In case where the elasticity of demand and supply are roughly the same in both countries, the tariff will partly raise the price in the importing country and partly lower the price in the exporting country. If the price in the exporting country is lowered the importing country gets the product cheaper. It is true that the consumer in the importing country has to pay a higher price, but this is offset, so far as imports are concerned, by the revenue effect. If the supply is very inelastic in the exporting country and the demand fairly elastic in the importing country, the imposition of a tariff will have only a small protective effect, i.e. imports will not be much changed but they will be obtained much more cheaply. If the supply in the exporting country is very elastic, then the imposition of a tariff cannot improve the terms of trade at all. The gain in terms of trade from imposing a tariff depends on the elasticity of the foreign offer curve.

The competitive effect of a tariff is really an anti-competitive effect as competition is stimulated by tariff removal. Domestic industry tends to become sluggish, fat and lazy if foreign competition is kept out for long by tariffs.

Tariffs cut spending abroad. The income not spent abroad will presumably not all be saved. Most of it will be spent at home. With idle resources tariffs raise domestic spending and national income. Hence under conditions of less than full employment, this will raise money and real income as well as employment; but with full employment it can only raise money income through inflation leaving real income worsened by the altered allocation of resources. While the income effects of a tariff under appropriate situations are recognized, tariff reduction as an anti-inflationary device becomes a good means of cooling off an overheated economy, by mopping up the money supply with imported goods.

Whether a tariff will improve the balance of payment position of a country or not is a difficult question to answer in general. The adverse balance of payment situation demands simultaneous action on different fronts, imposition of tariffs being only one of them. Broadly speaking improvements in balance of payment position

demands plentiful earnings in foreign exchange and frugally preserving them to reduce the adverse balance. To the extent imposition of tariffs can help in piling up foreign exchange by increasing exports and reducing imports, it displays the balance of payment effect. J.K. Galbraith, a noted economist, believes that tariffs are a useful instrument of balance of payment regulation.

When every nation imposed tariffs in its own economic interests, the race converted tariffs into weapons of retaliation, which disrupted international trade. The U.N.O. was obliged to persuade nations of the world to adopt General Agreement on Tariffs and Trade (GATT). This agreement helped in regulating tariffs to some extent, but the abuse of tariffs continues.

Protective tariffs do not suit all industries alike. Some specific industries need protection in a different way. Take foodgrains as an instance. Modern mechanized agricultural farming methods produce food grains in plenty but at a fairly high cost of production. If they are sold in the open market, their sale price will rise beyond the reach of labouring and salaried classes which form the bulk of every country's population. Wise economic policy is therefore, to keep their prices pressed down to a reasonably low level. And this can be done only by subsidizing the farming industry to make up its losses. Other cases deserving subsidy can be picked up by the local authorities in every country. The basic difference between tariff and subsidy lies in the fact that while tariffs bring revenues to the state, subsidies consume state revenues. However, each protective device serves its purpose in its own specific way.

6.5. TERMS OF TRADE.

The basis of international trade is the fact that different products require the use of different resources in different proportions, and that these resources are unevenly distributed by nature. In every country some resources are relatively abundant and cheap, while others are relatively scarce and dear. The development of international trade alters these scarcities and abundances.

The share of a country in the gain arising out of international trade depends on the terms of trade. By terms of trade we mean the terms at which two countries trade with each other. It indicates the quantities of goods bought and sold and the price at which they are traded. It refers to the value of a country's exports which have to be given in exchange for its imports. It indicates the rates at which a country exchanges its own goods for that of another. Within the limits set by the ratios of comparative costs the actual rate of exchange of domestic goods for foreign goods will depend upon relative intensities of reciprocal demand. The terms of trade are of great economic significance to a country. If terms of trade move in a country's favour, it will increase gain from its international trade and raise its level of incomes. It will be quite the reverse in a country for whom the terms of trade become adverse.

Tariffs can be used to turn the terms of trade in our favour as follows:

If we impose a tariff, the price of the foreign production in our home market will rise and sales will fall, and the foreign producer can only build his sales upto their old level again if he is prepared to offset the tariff by a reduction in his own selling price. This is perfectly correct—but the foreigner is not compelled to react in this way; he may instead try to find other markets to compensate for the loss of sales here, without reducing his price. Our ability to make the foreigner pay the tariff can thus be seen to depend on two factors—first the size of his market in this country as a proportion of his total sales, and second the availability of alternative markets else-where and the time and expense required to develop them.

6.6. FOREIGN EXCHANGE.

The discharge of international obligations involves mutual exchange of different national currencies. A transaction involving exchange of different currencies is called a foreign exchange transaction, and it forms an indispensable part of the international trade. While trade in goods is called 'visible' trade, trade in services is called 'invisible' trade. Transport facilities by sea and air, insurance of risks of various types including life insurance, facilities of travel and entertainment for tourists from abroad, interests on foreign capital, profit and dividend on foreign investments are all invisible items of foreign trade. Transactions of 'unrequited' payments also come under the invisible class. These are payments for which nothing is given in return, and they consist mainly of legacies, charitable gifts, and remittances from emigrants to their relatives back at home. Remember that an export of capital is equivalent to an import of goods and services, and an import of capital is equivalent to an export of goods and services though nothing is given in return on the occasion. Of course the right of repatriating the capital and its periodic income return is always reserved.

In every country exporters need to sell and importers need to buy foreign exchange against local currency. These buyers and sellers collectively constitute the foreign exchange market. There are three functions of a foreign exchange market. It clears payments between countries; it provides credit for the foreign trade sector both within and between countries; and it provides hedging against exchange risks. The forward market used for hedging does not fundamentally alter the behaviour of the foreign exchange market. The credit function of the foreign exchange market developed the Eurodollar market.

Various theorists have tried to explain how rate of exchange between two currencies evolves itself. After the First World War a Swedish economist, Gastav Cassel came up with the Purchasing Power Parity theory which states that if you compare the internal free trade prices of some random sample commodities, expressed

in their own national currencies, the comparison will, by equating their purchasing power parity settle the mutual rate of exchange between various national currencies. Keynes pointed out two basic defects in this theory. He said that it did not take into consideration the elasticities of reciprocal demand, and that it ignored the influence of capital movements. According to Keynes rates of foreign exchange are determined not only by the price movements but also by the capital movement, the elasticities of reciprocal demand, and many other forces affecting the demand for and supply of foreign exchange.

The balance of payment theory explains the rate of exchange better. In the final analysis the demand for and supply of foreign exchange is nothing else than the demand for and supply of foreign goods and services. The supply of foreign exchange arises from the credit items in the balance of payment statement while the demand for foreign exchange results from the debit items. In other words the debit and credit items in the balance of payments constitute the demand for and supply of foreign exchange. A deficit on current account must be paid off by drawings on one's foreign exchange reserves, or by exporting gold, or by borrowing for short term from the IMF or from the creditor countries. An adverse balance of payment position increases demand for foreign exchange, which will tend to decline the external value of the domestic currency. A favourable balance of payment position will increase the supply of foreign exchange, and demand for domestic currency abroad will increase. The result will be that the external value of the domestic currency will appreciate. This is how the balance of payments determines the rate of exchange.

States have exercised a growing control over the movements of exchange since the First World War for various reasons. The object of exchange control is to fix it at a level different from what it would be if the economic forces were permitted free interplay. Exchange control is enforced when there is a serious imbalance in the economy of the country relative to the outside world. It may be that the country's gold reserves are being depleted, or that the balance of payments is persistently adverse; or that there is a flight of capital from the country; or that foreign exchange is to be conserved for large payments abroad. In all these circumstances a free exchange would be either embarrassing or prejudicial to the object in view, and exchange control becomes an imperative necessity.

There are three possible courses to adopt for controlling foreign exchange:

1. to depreciate one's currency.
2. to overvalue or appreciate it, and
3. to avoid fluctuations by maintaining a stable rate of exchange.

By devaluing one's currency lower than what its value would be in a free exchange market, exports are stimulated, imports are discouraged, and internal prices rise relative to prices prevailing

outside. This course is adopted to cure depression. The course for overvaluation suits a situation when a country finds it necessary to make large purchases from abroad for development or reconstruction after war. If a country is suffering from inflation, the exchange value of the national currency will go down when exchanges are left free to move. A policy of overvaluation is also in the interest of a country which has to meet a large debt in foreign currency. Under the third course the exchange rate is neither undervalued nor overvalued, but only fluctuations are avoided; the aim being not to rigidly fix the exchange rate but to avoid sudden changes only.

Exchange control is exercised either by regulating international movements of goods through tariffs, quotas, bounties, change in interest rates etc; or by the purchase and sale of foreign currency at specified rates in order to maintain a particular range of exchange fluctuations. But these are ways in which exchange is only influenced, not actually controlled.

Exchange restriction is exchange control proper. For this purpose three things are done:

1. All foreign dealings are centralized in the country's central bank;
2. The national currency cannot be offered for exchange without previous permission; and
3. To enter into an unauthorized foreign exchange transaction is made a criminal offence.

The usual procedure is to order all exporters to surrender claims on foreign currency to the central bank, and ration the foreign exchange thus obtained amongst the licensed importers. Exchange control thus involves import control as well.

A word here about arbitrage and swaps might be helpful. Arbitrage is the practice of buying and selling a currency simultaneously to take advantage of spreads in the price for it in separate locations, or as between the spot and forward market for different time periods. The arbitrage takes no exchange risk. Arbitrage makes one market of two whether it be the market for, say, sterling in New York or dollars in London; or the market for spot and forward sterling against dollars. With freely available and plentiful arbitrage funds, the forward rate will tend to the interest differential.

"Swaps" are a means whereby two sets of monetary authorities can acquire claims on each other. Swaps could be irreversible, but in actual practice they have been almost entirely temporary transactions which are reversed after a fixed period of time under the terms of the original contract. Indeed, the term 'Swap' in the foreign exchange market means that a forward contract is involved. Thus the central bank swaps include a spot exchange of currencies with a contract to reverse the exchange at a specified future date.

6.7. BALANCE OF PAYMENTS.

The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time. The purpose of keeping this record is to inform governmental authorities about the international position of the country so as to guide and help them in reaching decisions on monetary and fiscal policies on the one hand, and trade and payments questions on the other.

It is customary to divide a balance of payments account into four parts. First comes the visible trade account, next is the invisible. These two together make-up the current account. Third there is the capital account and fourth the financial account. The sectional balancing by itself would be a miracle which happens rarely, but the account as a whole must balance. The items in the capital account are of two kinds. The first are called 'autonomous' items, and the second are called 'accommodating', 'compensatory', 'balancing' or 'induced' items. Only the autonomous items can be said to originate in voluntary investment and lending; the rest, as their various names imply, are required to fill in the gap and to make the balance of payments balance. Such a gap can be filled temporarily in one of the following ways:

1. By loan or gift from foreign governments.
2. By selling one's foreign assets and investments.
3. By persuading foreigners to accept payment in local currency and to invest it in local securities.
4. By drawing on one's reserves of gold and foreign currencies.

Any of these methods of making one's international accounts balance may be responsible for the appearance of an 'accommodating' item in the balance of payments, but none of them is a permanent solution. Loans run out and must eventually be repaid. One cannot expect overseas suppliers to go on piling unspent local currency indefinitely. They will some day demand either local goods or foreign currencies to spend elsewhere. Neither the foreign assets nor the reserves of gold and foreign currency of any country are inexhaustible, and retaining a minimum level of these reserves is essential for smooth working of international finance and payments. The only permanent cure for an adverse balance of payment position is to earn more and spend less, to produce more, export more and import less, saving thereby your foreign exchange to fill up the gap. It is wise to remember in international trade that no creditor nation can derive any benefit from its foreign credits except by the imports of goods and services, and no debtor nation can pay its debts except by the export of goods and services.

The difference between the value of commodity exports and imports is known as the balance of trade. It is called favourable if

the value of exports exceeds the value of imports, otherwise it is called unfavourable. Visible items are those which are duly recorded at the custom's barriers, while invisible transactions are incapable of being so recorded. Balance of payments on current account refer to the balance on current transactions, visible and invisible. As against this balance on capital account refers to the inflow and outflow on account of capital transactions, like the inflow and outflow of foreign capital, repayment of past debts, or repatriation of capital to the home country. By combining the deficits and surpluses (as the case may be) on current and capital accounts, we get the balance on overall account or overall balance of payments.

Equilibrium is that state of balance of payments over the relevant time period which makes it possible to sustain an open economy without severe unemployment on a continuing basis. When the balance of payments of a country is in equilibrium, the demand for the domestic currency is equal to its supply. The demand and supply situation is thus neither favourable nor unfavourable. If the balance of payments moves against a country, adjustments must be made by encouraging export of goods and services or other forms of exports, or by discouraging imports of all kinds. Equilibrium in the balance of payments, therefore, is a sign of the soundness of a country's economy. But disequilibrium may arise either for short or long periods. A continued disequilibrium indicates that the country is heading towards economic and financial bankruptcy. Therefore, every country must try to maintain balance of payments in equilibrium. To know how this can be done involves the study of causes of disequilibrium.

There are five, all well known, methods of correcting an adverse balance of payments:

1. To stimulate exports and/or check imports. To encourage exports the level of costs in the country may have to be brought down. This may involve cutting down of wages and interest rates and other incomes, and also contraction of currency to bring the prices down. Exports are also encouraged by granting bounties to manufacturers. Imports may be discouraged either by total prohibition or by imposition of import duties, or by adopting the quota system.
2. Another method is to depreciate the external (exchange) value of the home currency, thus cheapening domestic goods for the foreigners. This course has serious limitations, because other countries may start doing the same.
3. The third method is to deflate the currency. As currency contracts, prices will fall, which will stimulate exports and check imports. But deflation entails dangers. If prices are forced down while costs, which are proverbially rigid (like wages in countries with organized trade unions) do not follow suit, the country may face a serious depression and

unemployment.

4. The fourth method is of devaluation. When a currency is devalued, i.e. its metallic content is reduced its value in terms of foreign currency decreases. This cheapens home products for foreign countries, whereby exports are stimulated. As imports become costlier than before, they are discouraged, and in course of time the balance of trade turns in favour of the country, and corrects the balance of payments.
5. Finally there is the method of exchange control. We know that deflation is dangerous; depreciation has a temporary effect and may provoke others also to depreciate; and devaluation hits the prestige of a country. These methods are, therefore, avoided and instead, foreign exchange is controlled by the government as explained previously.

It must be admitted that once a disequilibrium has arisen, it tends to persist and correction of the balance of payments position becomes a difficult job. Developing countries find themselves in a very tight corner while conducting trade with the developed countries in such a situation.

6.8. INTERNATIONAL FINANCE.

As a medium of exchange money expedited trade, and as a store of wealth it promoted and spread both trade and industry. By extending credit facilities to those who possessed aptitude for trade or industry but lacked necessary finance to adopt such pursuits, money has been creating new jobs for the unemployed and promoting national development simultaneously. By now money has become the hub round which all economic activities revolve throughout the world. The discovery that wealth is necessary to produce more wealth led to the creation of credit institutions and the spread of banking network, which involved every country of the world, great or small, into debts. These credit institutions not only feed the national economic activities, but international trade and finance as well.

Like all national monetary units with their own peculiar names and values, international monetary system also demands an international monetary unit with its own specific name and value. But world has so far failed to produce it. In the meantime American dollar and British pound sterling have been playing the role of international money with partial success. Almost all countries of the world adhered to the Gold Standard which stabilized the parities of their respective currencies on the basis of their gold contents. Thus gold acted as international money guiding the activities of the foreign exchange markets smoothly throughout the world till the outbreak of the First World War in 1914. The ravages of war forced the belligerent nations to suspend the Gold Standard and finance their war efforts with fiduciary issue of their paper currency in abundance. Continued debasement of money during

the period between the two World Wars rendered a death blow to the Gold Standard. Discarding gold the nations replenished their reserves with dollars and pounds sterling—the two currencies which commanded international respect.

The two World Wars benefited America most. Americans could help the belligerent from a safe distance without being bombed at all. So the Americans geared up their civilian and armament factories for optimum production, and fleets of ships loaded with them moved towards the theatres of war to help their Allies. European gold shifted to America in exchange, for increasing the hoards of gold preserved at Fort Knox, as American currency reserve. The American dollar became the strongest and the most coveted currency of the world. In due course it dominated over the foreign currency markets of the world and so people began to regard it as international money. When the International Monetary Fund and the World Bank started their operations, they adopted dollar as their monetary and accounting unit.

Credit institutions operating on international scale, finance their borrowers in whichever currency they demand. These institutions keep a part of their reserves in gold and another part in currencies other than dollar, while the bulk of reserves consists of American dollars. Their gold reserve hedges their speculative deals in various currencies, which they indulge in partly to manipulate the foreign exchange market and partly to benefit by its fluctuations; their main business, of course, is to extend credit for international trade and development. These institutions originated after the First World War, but they developed soon after. Some of them have become mighty strongholds of foreign exchange during the second half of the twentieth century, and now they influence the movements of international finance. However, their contribution towards promotion of economic cooperation between the rich and the poor countries deserves some comments.

The rich countries are very much interested in mobilizing the international finance because they own surplus wealth which they want to use for acquiring more wealth by lending it to the needy nations. The motive force behind this attitude is the profit motive which needs no censure because it is this very human tendency upon which the entire super-structure of the capitalist economy is raised. The act of international lending brings the rich and the poor nations together to cooperate in executing a credit contract, though with different motives and expectations. The borrower wants to stand upon his own legs with the help of borrowed finance, and to pay it back soon after. Therefore, he expects more liberal, humanitarian and sympathetic terms of the credit contract, which he feels the lender can well afford to extend; but being in a weak bargaining position, he fails to get them. The results of such economic deals become evident after a decade or so. The borrower tides over his adverse balance of payments position temporarily, or installs a few industrial units, but in the meantime the debt

multiplies many times with compound interest. Events of current economic history confirm that this sort of economic cooperation invariably turns the borrowers into economic slaves, not only physically but mentally as well. With begging bowls in hand the borrowing nations approach the lending nations for alms and mercy, which the lending nations promise but forget. So the spiral of this so called international economic cooperation continues to increase the burden of debts, like the international inflation, year after year without abating.

The poor countries should realize that the beggars cannot be the choosers; and that the gap between the rich and the poor countries will not be filled at all by the rich nations of the world. The remedy of their ills lies elsewhere.



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SHARING THE PRODUCT

7.1. FACT AND FICTION ABOUT PRODUCTION.

In the previous chapters we discussed the nature of wealth and how it is produced from natural resources by human effort and skill. We also reviewed the various theories and practices used by capitalist economy in this connection. As distribution of wealth amongst its various factors of production is the next step which follows in consequence, we will discuss sharing of the product in this chapter comprehensively. But before distribution it would be wiser to make sure that production has actually taken place.

Since production of wealth must precede the act of sharing, it becomes essential that first of all we should devise and record for public guidance a foolproof method to establish with certainty whether any production of additional wealth has actually taken place or not under the stated economic activity. In every country one sees a large number of people engaged in some pursuit or other which brings them abundant wealth, yet it remains debatable whether these pursuits are really productive of wealth or not. As examples we may quote the practices of trading in stocks and shares, of betting at race courses, of gambling in casinos and at private parties, and of speculative trading in future goods. None of them increases wealth of society or nation by a single penny although they fetch abundant wealth to some. On account of their superficial profitability on individual level, both society and state tolerate and permit such pursuits, nevertheless they remain unproductive on the national scale, because they add nothing to the wealth of the nation as a whole. Therefore, a sure test to judge whether any economic operation is productive or not is to judge it from the collective social angle and to ascertain whether any increase in national wealth has been brought about by that operation or not, regardless of any increase in individual's wealth. If no increase has been brought about in national wealth, the operation is an unproductive swindling device which despoils some

to enrich some others, without creating any wealth at all. As such it causes enormous national loss by breeding corrupt habits and by wasting valuable national efforts and resources. Hence the only infallible evidence of production having taken place is the increase in national wealth. And we may define production as the operation of economic endeavours resulting in an increase in national wealth.

Although this definition appears to be satisfactory, it will remain defective without an important qualification. This definition will permit occupations like large scale cultivation of poppy, hashish, bhang, marijuana, charas and other intoxicating herbs, and extraction of toxic drugs therefrom for international trade, as acts of legitimate and genuine production. But the havoc created by these drugs in ruining the health of millions and producing countless drug addicts throughout the world, has raised a universal demand to ban such production. To satisfy such just demands an amended definition can be phrased somewhat like this: Production is the process of converting natural resources into useful products and services, and the dispensation of these products and services for increasing national wealth in such a way as to avoid all possible harms to the public.

A definition howsoever perfect in itself cannot by itself change the trend of our economic behaviour. The motive behind such behaviour must be curbed and restrained by other effective means. For so long as profit motive remains to be the sole motive behind the act of production, producers will continue digging profit from all avenues unmindful of any damaging consequences for the nation. National interests however, demand controlling such unbridled profit motive which does not hesitate even to create spurious demands for marketing nefarious products like pornographic and obscene literature and films displaying rape, robbery, murder, brothel houses and gambling dens. Only effectively carried out legal prohibition of such products and occupations can contain the savage display of the profit motive. These bitter facts of our economic behaviour should convince us to appreciate that free enterprise without proper check and control is socially harmful.

7.2. FACTORS OF PRODUCTION.

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Natural resources of a country are the only potential sources of wealth, and they become wealth only when they are converted by human efforts and skill into products of utility. As such natural resources and man-power are the only two logical factors of production, and their expansion into a still greater number is in fact a sub-division of one factor or the other. The capitalist division of factor into four: land, capital, labour and enterprise, is the product of an undue stress on the fact of ownership. Instead of promoting regard for fellow-beings, cementing human ties, and developing a spirit of teamwork, the capitalist division has split society into various classes of haves and havenots, sown seeds of

hatred, and widened the gulf between them.

Natural resources are too numerous and too diversified to permit their condensation and confinement into the term of land alone. From the unfathomable depths of oceans and bowels of earth natural resources rise up through the atmosphere, the stratosphere and the space beyond, piercing into the sun and the stars. All and sundry that lies beneath it and above it within the geographical boundaries of any country comes under the natural resources of that country, whereas land is only a part of it all. To limit economic discussion of all the natural resources to land alone is grave injustice to modern economics.

The treatment of manpower, the second natural factor of production by the capitalist system is also quite whimsical. All human beings have almost identical biological and social demands to satisfy, therefore they deserve more or less equal opportunities to do so. But by conceding supremacy to capital and enterprise, capitalism has driven the de-facto producing labouring classes into a blind alley, provoking them to revolt. This treatment gave birth to socialism which has become so powerful now as to threaten the very existence of the capitalist world. Unless secular capitalism condescends to treat all men alike, and adjust its approach to human problems more judiciously, the antagonism between the two economic systems will soon annihilate the human race.

7.3. MARGINAL PRODUCTIVITY.

The concept of the margin is perhaps regarded to be the most important concept in economic theory. This concept was first introduced by Marshall. He called the unit of a thing which a consumer is only just induced to purchase as his marginal purchase, because he is on the margin of doubt whether it is worth his while to incur the outlay required to obtain it. The concept of margin is now widely used in production. Productivity is obviously important in determining the prices of the factors of production. Just as an entrepreneur maximizes his profit when he equates marginal revenue and marginal cost, he also maximizes profit if he equates the marginal productivity of each factor with its marginal cost. In view of its universal application we will discuss the marginal productivity theory at some length before taking up individual factor pricing.

By the marginal productivity of a factor of production we mean the addition made to total production by the employment of the marginal unit, i.e. the unit which the employer thinks just worthwhile employing. At the margin of employment, the payment made to the factor concerned is just equal to the value of the addition made to the total production on account of the employment of the additional unit of a factor. If for instance the prevailing wage is less than the marginal productivity, then more labour will be employed. Competition among employers will raise the wage to the level of marginal productivity. If on the other hand

the marginal productivity is less than the wage, the employers are losing and they will reduce their demand for labour. As a result the wage will come down to the level of marginal productivity. In this way by competition wage tends to equal the marginal productivity. This applies also to the other factors of production and their reward.

Factors of production also tend to move from those uses in which their marginal productivity is low to those in which it is high. Thus a given supply of a factor of production is distributed in such a way that its marginal productivity is equal in all the uses. We can therefore say that the price of a factor of production is determined by its marginal productivity and this marginal productivity is the same in all its uses. Hence in a position of competitive equilibrium:-

1. the marginal productivity of a factor of production is the same in all employments,
2. the marginal productivity of a factor of production is measured by the price of the factor of production, and
3. marginal productivity of various factors are proportional to their respective prices.

The theory explained above is true only under certain assumptions which make the theory unreliable and render it inapplicable to actual conditions of life. The theory is criticized on many grounds. It assumes that all the units of a factor are so homogeneous that any one unit is as good as any other whereas in actual fact units of land, labour, capital equipment and entrepreneurial skill are all heterogeneous, making substitution futile and determination of marginal productivity impossible.

It is also assumed that different factors are capable of being substituted for one another so that at the margin it is possible to use a little more land or a little more labour or capital in place of another factor. In actual practice it is not always possible to effect such substitution.

It is further assumed that the amount of a particular factor that is used can be continuously varied so that it is possible to apply a little more or a little less of the same factor. If this cannot be done, as is often the case, the use of the factor cannot be pushed to the point at which its marginal productivity becomes equal to its cost.

As a product is the result of cooperative efforts of all the factors of production, it is impossible to separate the share contributed by each at the margin. In actual practice marginal productivity of any particular factor becomes indeterminate.

As Hobson also pointed out it is not possible to vary the use of factors in most cases. The proportion in which factors are used is determined by technical conditions of the business, the existence of fixed capital and the number of operative labour required. Many machines, for instance would require one labourer and two of them would become uneconomical. Since we cannot vary the use of a factor, how can we determine its marginal productivity? It should

also be remembered that the theory can claim validity only under perfect competition. In real life, since competition is not perfect, actual rewards paid to the factors of production do not confirm to their relative marginal productivities.

7.4. LABOUR AND WAGES.

Let us take-up labour, the most exploited factor of production first. Of all the four factors of production the labour factor possesses a singular peculiarity possessed by no other factor. Whereas land, capital and enterprise have separate entities of their own, existing quite apart from and independent of their owners, the labour has no such separate entity of its own and it cannot exist apart from and independent of the labourer himself. Labour is only a manifestation of the labourer's potential capacity lying dormant within the labourer himself. The two combine and merge into one, like soul and body, to make a single entity and represent the same identity.

This peculiarity of labour has a pivotal economic significance, which has been willfully concealed and intentionally ignored by the capitalist economists. Whereas land, capital and enterprise need no nourishment to exist, and in fact, create nourishment for their owners so that they too may subsist without doing any work at all, the labourer must invariably exert and work to continue subsisting. This necessity imposed by the struggle for existence on the labour alone, has been the source of ruthless exploitation of man by man. The theories of wages propounded by economists from time to time reveal how this handicap of the labourer was exploited by the owners of the other three factors of production: the landlord, the capitalist and the entrepreneur. Let us review the wage theories one by one.

7.4.1. SUBSISTENCE THEORY OF WAGES.

This was produced by the French Physiocrats, according to which wages tended to settle at the level just sufficient to maintain the worker and his family at minimum subsistence. If wages rise above this level, the workers are encouraged to marry and to have large families. The large supply of labour thus produced brings wages down to the subsistence level again. If wages fall below this level, marriages and births are discouraged and undernourishment increases the death rate dwindling the supply of labour. So wages rise again to the subsistence level. The German economist Lassalle called this theory the Iron Law of Wages.

This theory is a masterpiece of fallacious reasoning because unskilled labour has always remained in a state of over-supply at all times everywhere, rendering the issues of demand, supply, marriages and reproduction irrelevant. Sex urge is in no way related to one's income, and even the penniless paupers indulge in cohabitation to satisfy it, unmindful of the consequences. The theory has therefore, no legs to stand upon. It was propounded to

baffle the ignorant labourers and their sympathizers. But history has done well to preserve it as a relic of ruthless exploitation of the helpless labouring class.

Large scale unemployment is a persistent phenomenon under the free economy, but it does not influence the fixation of the minimum wage, which becomes a matter of negotiation between the representatives of the employing and the labouring classes. Subsistence wage theory was only an early device to fleece the sweating labour when ignorance prevailed.

7.4.2. WAGE FUND THEORY.

J. S. Mill is the propounder of this theory. He said that wages depended on the proportion between population and capital. According to this theory the wage fund or the circulating capital set aside for the purpose of labour on the one hand and the number of labourers seeking employment on the other, combined to decide the wage level. Wages therefore, cannot rise unless either the wage fund increases or the number of workers decreases. But since the theory takes the wage fund as fixed, wages could rise only by a reduction in the number of workers.

When the subsistence wage theory crumbled under the labour pressure to raise minimum wage to a level consistent with the cost of living, economists were pressed to formulate some new wage theory to pacify the labour. J.S. Mill then came forward with his wage fund theory. He explained that due to all-round scarcity of capital, its allocation to various demands had to be fixed economically. Hence the wage fund was fixed and could not be increased. His theory was short-lived as he could not explain why funds for wages remained fixed while they were available in abundance for ever expanding industrialization. The soap-bubble of wage fund burst.

7.4.3. RESIDUAL CLAIMANT THEORY.

An American economist Walker thought that rent, profit and interest are determined by definite laws, but there was no similar law operating for wages. According to him, out of the total production, after rent, interest and profit have been paid, the remainder should go to the workers as wages.

This theory has also been rejected by most economists on various grounds. It has several defects. In the first place it does not explain how trade unions are able to raise wages. Secondly it ignores the influence of supply of labour on wages. Thirdly one fails to understand why the same law of supply and demand that explains the remunerations of other factors of production, should not be applied to wages as well. Finally residual claimant is not the worker but entrepreneur.

7.4.4. MARGINAL PRODUCTIVITY THEORY.

*This theory and its claim to fix the rewards of various factors of production, have already been considered in the previous sec-

tion. The theory states that under conditions of perfect competition every worker of same skill and efficiency in a given category will receive a wage equal to the value of the marginal product of that type of labour. It is a static theory based on a number of unreal assumptions like perfect competition, perfect mobility of labour from one employment to another, homogeneous character of all labour, constant rates of interest and rent, and given prices of the products. Further it takes the supply of labour for granted whereas productivity being also a function of wages, low productivity may be the cause of low wages, which may tell on the efficiency of the workers, lower their standard of living and ultimately check the supply of labour. That wages are determined by the relative bargaining strength of the two parties condemns this theory outright.

7.4.5. MODERN DEMAND AND SUPPLY THEORY.

This theory admits that labour has certain peculiarities due to which it cannot be regarded as a commodity, still it insists that wages are very largely determined by the interaction of the forces of demand and supply. According to this theory the labouring classes found early in the industrial advancement of various countries that unless they improved their bargaining positions by forming trade unions, they remained in danger of serious exploitation by the employer class. With improvements in the bargaining position of labour, brought about by trade unions, the demand and supply theory can now appropriately tackle the issue of wages and explain them.

But the fact still remains that it has failed to do so. The demand and supply is propounded on a very big presumption in economic situation: scarcity of resources and abundance of demands, but the case of labour is quite the opposite. While labour supply is always in abundance and will ever remain so, job opportunities remain scarce under free economy. Therefore, the conventional theory of demand and supply is a misfit. It cannot deliver the goods.

Thus we find that no theory of labour and wages has been able to do justice to the issue so far. Now let us express our views on the subject.

Unemployed labour is ignored by the economists as it does not become a factor of production for so long as it remains idle. We will consider this class of labour separately under a subsequent section dealing with Manpower and Employment, at the tail end of this chapter. Employed labour has a very wide spectrum exhibiting all colours and shades of the labouring classes. In that spectrum one observes a conspicuous common attribute peculiar to all types of labour. Every one of them must exert and work to subsist, whereas the owners of the other three factors of production need not do so. How machinations of capitalism have inserted this discriminatory wedge between labour and other three factors of production deserves serious consideration.

Nature imposed the obligation to work for subsistence and

survival on every member of the human race without any exception whatsoever; but the capitalist economy manoeuvred to get the landlord, the capitalist and the entrepreneur exempted from this obligation leaving the labouring classes alone to carry not only their own loads, but the loads of others as well. Evidently it is the ownership of land, capital and enterprise which entitles them to earn rent, interest and profit without undergoing any personal productive exertion that bestows this privilege on them, helping them to prosper and thrive in idleness. The next pertinent question demanding consideration is whether ownership of property, ipso-facto, carries the right to shirk personal productive exertion and become a parasite for society.

Regarding the question of wage itself we might remind that production of wealth is a process of converting natural resources into goods of utility by human efforts and skill. As such those who exact share in produce without any contribution towards production, actually try to pinch it out of the shares of those who produce it. Thus the wages usually paid to labour remain only a fraction of their rightful quantum. To claim the rightful wages effectively, labour must first unite in trade unions to acquire parity of bargaining power with the employers. In such sectors of production where this parity is achieved by labour, settlement of wages becomes a matter of free negotiation between the two parties, and the outcome naturally deserves to be called a fair wage. In such sectors of production where this position is not achieved, labour should continue its efforts to achieve it, since the labour remains underpaid without achieving this goal. Agricultural labour in developing countries usually suffers a setback as promotion of trade unionism amongst tenants of agricultural lands is not feasible, and bureaucrats usually favour the landlords. However, enlightened bureaucracy can help the tenants by introducing land reforms.

In short, to wrest a fair wage from the employer is a matter of practical politics, where theorizing is of no avail. In this political struggle, however, the trade union officials and the management become equally haughty, and as a result industry suffers a setback.

7.5. LAND AND RENT.

In colloquial English, the word rent can refer to any periodic payment made regularly for the hire of a goods. Examples are the rentals paid for the hire of automobiles or television sets and the rents paid for houses, flats, shops and the like, where these are not bought outright. In economic theory, on the other hand, rent means something different. The term is applied only to payments made for factors of production which are in imperfectly elastic supply with land as the main example.

According to the modern economists the type of payment ordinarily known as rent may, of course, include a payment for the hire of land. The total rent of a house will usually include a sum

large enough to cover the annual value of the land on which the house stands, but it is payment for other things as well. The landlord has invested his money in the materials of which the house is built and he expects a return on that investment. The 'economic rent' takes account only of payments for the use of land. It excludes any return of a landlord's capital investment in buildings.

This 'economic rent' is sometimes described as a 'surplus' because it does not result from any effort or activity on the part of land owner. This idea that rent is a reward for the mere ownership of a factor of production and not a payment for efforts expended is both well-known and important in economic theory. Adam Smith commented that 'the land owners like all other men love to reap where they never sowed'.

One of the earliest explanations of the nature of rent and which is still regarded as coming very near to the truth was provided by David Ricardo. Professor H. Speight says:

"To Ricardo, an early nineteenth century economist, who was the father of our present ideas on rent, it meant one thing and one thing only: a payment for the use of the original and indestructible powers of the soil".

(ECONOMICS BY H.SPEIGHT. PAGE-267).

In Ricardo's own words, "Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil". He defined "economic rent" as the true surplus left after the expenses of cultivation as represented by payments to labour, capital and enterprise have been met.

The Ricardian theory of rent has been widely criticized. First of all it is pointed out that there are no original and indestructible powers of the soil. Good lands after being constantly cultivated lose their fertility to a large extent and get exhausted. Secondly land fertility in terms of agricultural produce equally depends on the ability of the farmers, on crop rotation and on the methods of production used. Ricardian theory ignores them all, and merely asserts that superior things command superior prices without explaining why.

Another theory attributes rent to the scarcity of land instead of its fertility. It argues that if land, whether good or bad, were to be in a state of abundance, there would have been no question of paying or receiving any rent. Even if all land were homogeneous rent will still arise owing to its scarcity. The marginal productivity theory stresses not on the scarcity but on the relative profitability of the various uses the land can be put to. In agricultural uses the scarcity of the produce of the land and not of the land itself determines its rent. And in cases of other uses of land the relative profitability of any particular use determines the quantum of the rent. If cash crops are more profitable than food crops, or if residential, commercial or industrial uses of the land fetch more

rent, the land will drift to the most profitable use, according to marginal productivity theory.

The above in a nutshell is all that modern textbooks on economics teach us about land and rent. Let us now offer our own comments and views on the subject.

In early stages of economic development land and buildings were the only two major items let out on hire. Therefore, the word rent was used for both without any discrimination. However, as agricultural produce remained the dominant economic product under feudalism, and as lands continued to be cultivated mostly by tenants, rent in cash or in kind remained to be biggest source of the landlord's income for centuries. Although industrial development attracted land towards other uses as well, agriculture retained its supremacy in the use of land. This historical background of rent deluded Ricardo to regard rent a product of soil, and even now it lures modern economists to segregate the rental of a house into two separate components an economic rent of the land and an investment income of the building. But such hairsplitting is a mere fantasy on the part of the theorists which no house owner ever indulges in. Healthy theorizing does not accept such idle reveries for the obvious reason that a building once constructed becomes a single unit with the land it stands upon, and is therefore, treated as a single item for all economic purposes.

All leasable things can be distinctly separated into two different categories:

- a. Those which are ready to serve, and need no further economic operation to be performed on them to make them immediately yield the benefits they were meant to provide to the lessee. Automobiles, television sets, refrigerators, airconditioners, residential houses and flats, and commercial shops belong to this category.
- b. Those which by themselves in their present condition offer no immediate benefit to the lessee, unless he performs additional economic operations on them to reap the benefits of his toil and investment. Agricultural lands, forest tracts, mountain stretches concealing mineral wealth, and ocean belts along the sea-shores full of marine wealth belong to this category.

The nature and the extent of the benefits available from commodities falling under category (a) are well defined and they can be derived with certainty immediately on the transfer of possession of the commodities concerned. As no unknown factor demanding speculation remains in such cases, the determination of the periodic use-value or rent becomes a matter of mutual negotiation with full knowledge and without any risk or hazard. But the case of commodities falling under category (b) is not so simple. It is full of doubts, hazards and intricacies.

Category (b) commodities entail many complications. The benefits expected from them are vague, undefined and not im-

mediately available on mere transfer of their possession to the lessee. In each and every case they demand some specific economic operation to be performed on them before they can yield any benefit. And this economic operation invariably entails investments of capital, labour and enterprise. As only the undefined amount of sale-proceeds of the end-products produced from commodities under category (b) provide the income for distribution amongst the various factors of production involved, fixation of rental of such commodities beforehand becomes a wild speculative guess, and its imposition beforehand becomes an act of extortion like the imposition of interest on credit. The spirit of much extolled free enterprise demands that every factor of production should offer its unconditional co-operation in the act of production first, and then share the produce equitably when it materializes, instead of taxing in advance.

Rents of residential and commercial buildings are usually on the high side, but they become extortive in another way. The owners of such buildings demand and receive from the lessee a separate cash consideration on the plea of handing over possession of the premises with full freedom to sublet. This consideration more or less equals the cost of construction without land. Such unhealthy and extortive practices call for state intervention and imposition of effective rent controls.

Economists sometimes try to locate rent elements within the rewards of other factors of production, and they also talk about the 'rent of ability' in various persons and professions. But such musing lead to nothing. They only distract student's attention from more important economic issues, and, therefore, deserve no consideration.

7.6. CAPITAL AND INTEREST.

That factor of production which is considered to be the most significant one by free trade economy, and which bestowed its own name upon that economy by calling it capitalism to highlight its own dominance over other factors of production, is called the capital; and its reward for taking part in production is called interest. As a genuine factor of production capital justifiably deserves to be considered here in this chapter but we preferred to discuss it later on, under the monetary system, since interest is invariably charged on every little bit of money that is lent even for purposes of consumption. Production has never been the prime object of lending, nor even a condition for charging interest.

The word capital implies enormous size, and production is not considered as its aim; hence neither of them is a necessary condition for lending as it is daily observed in the money market. Money is lent in all quantities big and small, and interest is charged irrespective of how it is used. Since interest is related neither to capital nor to production, appropriate place for its discussion is with money after the monetary system is explained.

7.7. ENTERPRISE AND PROFIT.

An enterprise is an organization set-up by an organizer to fetch him profit. The organizer is called entrepreneur. He is prompted by the profit motive to set up and run his enterprise just as a banker opens and runs his bank to earn interest. Entrepreneurs play leading role in the capitalist mode of production. They bring together other factors of production and harness them to produce.

An entrepreneur specializes in the work organization. He may own no land or capital and he need not labour in the ordinary sense of the word. All he needs must possess is the ability to organize. He gets land on rent, borrows capital, engages labour, and uses each of them in the right proportion to yield best results. This organizational aptitude and courage to shoulder the risk of uncertain results are the two essential qualities of an entrepreneur, and their exercise fetches him profit.

Profits differ from rewards of other three factors in three respects:

1. Profit is a residual income and not a contractual or certain income like rent, interest and wage.
2. There are much greater fluctuations in profits than in the rewards of the other factors, and
3. Profits may be negative whereas rent, wages and interest must always be positive.

The analysis of profit, therefore, presents a special difficulty. It is difficult to frame a simple theory of profit which would include the small independent trader, the small holder of investments, the large employer, and the share holder of a joint stock company, while excluding responsible managers. However, theories of profit have been propounded from time to time, so let us examine them.

7.7.1. RENT THEORY OF PROFIT.

Walker regards profits as rent of ability of the entrepreneur, but like Ricardo's theory of rent, this theory is defective as it does not explain the real nature of profits, nor accounts for their size.

7.7.2. WAGE THEORY OF PROFIT.

Professor Taussig suggests that profits should be regarded as a particular form of wages. But this view cannot be accepted as it ignores the risk bearing aspect of the entrepreneur, while labour takes no risk. Further there is much greater element of chance gains in profits than in wages. A small fraction of the profit can be considered as reward of the entrepreneurial labour, but not the whole of it. The bulk of profit is always due to imperfect competition.

7.7.3. MARGINAL PRODUCTIVITY THEORY.

According to this theory the supply of entrepreneurs of exceptional ability is always short and it is not easy to increase it; but their demand is always great in modern conditions of pro-

duction. As the marginal productivity of entrepreneurs is high, their profits will be high. According to this theory the greater the factor of uncertainty and the greater the scarcity of employers of ability, the higher will be the profits. But it can be argued against this theory that the employer performs a complex set of functions and the element of uncertainty refuses to be standardized. The employers cannot be increased or decreased in minute doses since they constitute a large unit. Withdrawal of one unit may disorganize the whole business enterprise. Thus it becomes difficult to increase the marginal net product of the services of the entrepreneurs.

7.7.4. DYNAMIC THEORY OF PROFIT.

American economist J.B. Clark advanced the view that in a static world where everything remains the same, profits tend to disappear under the force of competition. Under such conditions as each factor secures what it produces, and cost and selling prices tend to equalize, there can be no profit beyond wages for the routine work of supervision. But ours is a dynamic world and some changes are constantly taking place. The clever entrepreneur foresees these changes, becomes a pioneer and somehow by invention or otherwise he lowers the cost and makes profit. The changing world offers limitless opportunities to the farsighted, daring and clever entrepreneurs to make profits by turning the facts of the situation in their favour. It is only because the world is dynamic that it is possible for them to keep the lead and reap the profit.

But against this theory Professor Knight argued that change may cause a situation out of which profits will be made, if it brings about ignorance of the future. Thus only those changes which cannot be foreseen and which cannot be provided for in advance will yield profit and not others. Therefore, it cannot be the change which is the cause of profit that abounds.

7.7.5. RISK-BEARING THEORY OF PROFIT.

F.B. Hawley says profit is the reward for bearing risks and responsibilities. There are certain risks that can be foreseen and provided against in the cost of production, but there are other risks that cannot be foreseen. It is for undertaking such risks that the entrepreneur is rewarded. Against this it is argued that profits do contain some remuneration for risk-taking yet the high profits made by the entrepreneur cannot in their entirety be attributed to the element of risk. They are not in proportion to the risk undertaken. Furthermore nowadays enterprises adopt the form of a limited liability corporation to limit the liability of the inactive shareholders to the extent of their share-holding, while the unlimited liability due to loss incurred by the gambling managers and managing agents is passed on to the creditors by declaring insolvency. Thus while the entrepreneur absolves himself of all consequences due to risk-taking by such devices, how can he attribute to risk-taking the huge profits he otherwise earns?

7.7.6. UNCERTAINTY-BEARING THEORY.

Professor Knight insists that it is uncertainty bearing rather than risk-bearing which is the special function of the entrepreneur and leads to profit. According to him risk-taking is the responsibility of the insurance companies, but the genuine economic risks of marketability of the product due to shifts in demands are unforeseen and unpredictable. Knight calls them uncertainties and not risks.

Against this it can be said that uncertainty is not the only factor that limits the supply of entrepreneurs, nor is it the sole function of the entrepreneurs. Uncertainty bearing can not be elevated to the status of a factor of production. Profit is an element of real cost borne by the consumer. It happens to be the reward of a lot of duties performed by the entrepreneur. It must be borne in mind that it is the combination of uncertainty bearing and capital which brings a reward to the entrepreneur in the form of handsome profits. Capital alone by itself is inert and lifeless, and uncertainty bearing without capital has no meaning, since it is only the capital which can be exposed to risk and bears the loss, while the entrepreneur can go scot-free pleading insolvency. The issue of enterprise and profit is intricate and tangled demanding an unbiased analysis.

An enterprise is a device for attracting wealth towards the entrepreneur by indulging in actual or fake productive activities. As actual productive activities genuinely produce additional wealth, the entrepreneur obviously becomes entitled to claim and receive a share out of it, alongwith other factors of production. But as the fake productive activities produce no additional wealth, the apparent drift of some wealth towards the entrepreneur can only result from misappropriating others existing wealth by tactfully pinching it from its rightful owners. That it is as much a criminal act as stealing needs no elaboration. Instead of legally prohibiting such antisocial activities, they are encouraged to thrive under the cloak of free enterprise; and you can see them flourishing in the shape of gambling at casinos, of trading in stocks and shares at the stock exchanges, and in the commodity markets where future trading is done in commodities which the traders neither own nor possess.

We do not appeal against these activities on moral grounds since morality has no place in secular economics. Scarce national resources meant to serve ever-expanding national wants can hardly afford to be squandered the way they are done by the free enterprise. To derive maximum benefits out of the scarce national resources, careful production planing and execution becomes essential, and to shoulder these responsibilities a powerful agency becomes indispensable. As only state authorities can create and empower such an agency, immediate state interference in economic affairs becomes unavoidable. The nature and extent of this interference is determined by the existing politico-economic

situation and public awakening.

You cannot get rid of private enterprise in countries developing under capitalistic environments, but you can tame them to be mindful of what the national interests demand; and so desist from wasteful competitive advertisements and from charging excessive profits. At present free enterprise charges from ten to twenty times the ex-factory cost of commodities of daily use simply because the consumer's wants can be exploited to whatever extent they like. There is no limit to their profits because they have imposed a seller's market on the consuming public and the bureaucrats avoid interference. A perusal of your television display for a single day to watch commodity advertisements followed by an exchange of views with any cost accountant will convince you that our inferences are correct.

No theory of profits can justify the fabulous profits being charged by the free enterprise. Only an iron hand can control and contain them. If you conduct an enquiry in any country to find from the entrepreneurs what their concept about the profit is, the overwhelming majority will tell you that they want to share the wealth being actually produced and not to pinch others' wealth. So why not be straightforward in economic theory and avoid camouflaging vested interests?

7.8. MAN-POWER AND EMPLOYMENT.

To broach the subject of employment for the masses under a chapter concerned with sharing the product looks odd; but in spite of its oddity we dare it, because creation of jobs for the unemployed masses is a subject beyond the scope of capitalism which believes in everybody for himself and devils take the hindmost. However, since the issue is vital for national development it had to be wedged in somewhere.

There are two closely connected basic economic truths which none denies, yet nobody remembers. The first asserts that a country can prosper only when the skill and efforts of its manpower convert its natural resources into goods of utility; and the second asserts that to earn his subsistence every member of the country's population needs a job for productive employment. It is essential to transform these abstract truths into tangible realities for national prosperity and therefore the country ought to take the following three steps to achieve that goal.

1. To survey and investigate the existence of its various natural resources, and to fix priorities for prospecting and utilizing them in the order of their availability and significance in satisfying basic human wants.
2. To educate and train sufficient manpower in the appropriate technical fields so as to equip them with essential know-how for tapping the available natural resources.
3. For providing jobs to everybody a two-pronged action is necessary to create sufficient jobs and to impart befitting

training to people for filling them.

All the above-mentioned three steps are spade-works of great magnitude, demanding a vast amount of capital and zealous enterprise with no prospects of any return for decades. Private enterprise will naturally shun such an endeavour. Therefore, the state authorities have no choice but to shoulder these responsibilities if they cherish national prosperity.

Free enterprise is goaded only by profit motive and therefore, it always overlooks what the nation demands. To reap sure and quick returns the entrepreneurs swarm around the market places for trading in the existing local produce and imported consumer goods. The result is that development of natural resources suffers a setback and lags behind for a few decades till the state steps in to give the lead. This slow and expensive pattern of development under free economy invariably exhibits itself in the same order in all developing countries, and provokes the dictating autocrats in some to adopt the socialist way of development. The third world thus gets split into two fields of influences and turns into hotbeds of intrigues and cold war between the protagonists of the contesting economic systems.

To wheresoever the march of history leads a country, its intellectuals will surely agree that the process of national development outlined above must be pushed ahead. How to go about it, and from where to find the financial resources are matters of detail to be pondered over according to local conditions. However, a general pattern of planning as given below might help.

To spread literacy and to impart education from primary standard upto graduation level in universities is a normal function of the education department of every country. Among other faculties addition of a special faculty for survey, investigation and prospecting of natural resources in every university will push our plans ahead. As soon as existence of any particular resource is discovered, colleges to impart appropriate technical know-how upto university degree level should be opened to admit students. Since job opportunities would be waiting to welcome such graduates, there will be no dearth of desirous students. Simultaneous progress to push prospecting ahead on sites is obviously essential.

Population of developing countries generally spreads over rural areas with some patches of concentrations in the scattered towns and cities. A small fraction of the rural population rushes to towns and cities in search of jobs and they get themselves employed there somehow, but the bulk remains in hamlets and villages of their birth. The cheapest and most easily available employment for such rural population is offered by open stretches of pastures and cultivable virgin lands with patches of natural forests. Rearing of sheep, goats and cattle on pastures and cultivation of foodgrains on the virgin soil can create employment and produce wealth. These lands should therefore, be allotted to these people free of

cost on the sole condition of development. Canal water courses and tubewells can also be provided where possible. Sale of agricultural implements, seeds and fertilizers on credit against farm produce will provide further help. Horticulture and poultry-farming can also be encouraged. All these occupations are practicable with a little private capital and state patronage. Exertive efforts on the part of the people can bring them prosperity within a decade or so.

The state can educate this rural population by asking them to provide accommodation for schools, and posting teachers at the expense of the education department. The rural population can also be guided to construct link roads between villages on self-help basis, and advised to dispose their farm produce through cooperative societies of their own, bypassing both the moneylender and the commodity brokers. Similarly cottage industries can also be encouraged in these areas by the state.

If industry is developed properly, it opens a new field for creating jobs to absorb idle and unskilled masses. Industrial development does not necessarily mean putting up huge industrial complexes involving enormous initial capital outlay and entrepreneurial risks. As undeveloped countries are deficient in financial and technical resources, ambitious plans for large-scale industrialization do not suit them at all. If adopted they involve the country into debts which multiply and pile-up quickly to make the borrowing country an economic slave of the lending nations. A humbler start is always possible and much wiser to adopt, since it can be initiated with one's own resources and expanded when means permit.

Patronize your local artisans and make them the nucleus of your budding industry. Artisans have always kept their family trades alive ever-since the dawn of civilization. No country however backward has ever remained without them during any period of history. They continue still to build houses as masons, to make furniture as carpenters, to mould pottery on the potter's wheel, and to manufacture cloth on their family handlooms. They continue to tan hides and skins for leather works and to make shoes and leather goods of sorts. They extract various metals from their ores still in their own crude fashion and make swords, daggers, knives, spears and other ironwares, brass-wares, and household utensils. And they make gold and silver ornaments to adorn the fair sex everywhere. These artisans are the building blocks with which any backward country can raise its industrial edifice. They are the real backbones of industry. Using them as nucleus you can initiate your industrial evolution with your own financial resources in a humble way, without seeking entrapping aids from outside.

The fact that the seed of industrial development germinates best in the minds of the artisans themselves can be verified by a practical test. Introduce a 'pride of performance Award' for any one trade, and induce every individual artisan of that trade to compete for winning it. You will observe the desire to excel guides every

artisan to use better tools and working methods for improving the quality of his products to win the award. All-round demand for better tools thus increases in that particular trade. Similar awards for all other trades will boost similar demands for better tools everywhere. Better tools being the first essential requirement of every industry, their demand openly declares that mechanical engineering is the real pioneering industry which can herald industrial progress in any country.

Therefore our industrial development must commence with the use of foundry and forge, with pattern-making and die-casting and with the manufacture of lathe, shaping and boring machines for producing improved tools and implements of diverse design to serve our national requirements.

Local artisans must be encouraged and helped in all possible ways. Trade associations can be formed to pool their resources and to bring them closer in the shape of joint stock companies for their own uplift. They should be made to realize that they must raise their production standards upto the level of medium scale manufacturers of the modern type. It should be impressed upon them that they have to widen the scope of their manufacture, and improve the quality of their products so as to make them presentable in the international markets. Financial and advisory help should be freely extended to them by the state, where necessary, and quality control of all their products should be rigidly imposed.

By such and other suitable measures cottage industries can be modernized and raised to the level of medium scale industries capable of earning foreign exchange for the country.

Sometimes national requirements demand such industries which the private enterprise of the developing countries is unable to put-up due to lack of funds or courage. Fertilizers, cement, paper, sugar and chemical industries using indigenous raw materials might be quoted as instances. In all such cases the state is obliged to come forward, take the initiative and shoulder responsibilities. An appropriate way to meet this situation is to set up a National Industrial Development Corporation under state management and control.

The share capital of the Industrial Development Corporation will have to be contributed entirely by the state out of funds earmarked for national development. Civil servants experienced in statecraft and financial management can serve on the Board of Directors alongwith one or two experienced industrialists. Foreign qualified technical graduates with outside experience in related technologies should be engaged to head each industrial division like coal, iron, oil and gas, fertilizer, textile, cement and chemicals. To guide and help in the choice of suppliers of machinery for various projects and its erection some foreign adviser will have to be engaged on contract basis. Turn-key contracts would be more advisable for the first two or three projects as they would provide training for the corporation officials in the art of dealing with

foreign suppliers; but these contracts should be minutely scrutinized by experienced lawyers with the help of engineers to ensure that all holes are well plugged. Experience makes man wiser. The directors, officials and technical engineers of the corporation will learn a lot in the first decade, and this knowledge will help them to economize on the subsequent projects.

Industrial projects are put up under the public sector simply because the private capital remains hesitant in new ventures. Such projects take time to become profitable, but they do pay in the long run. The policy of the National Industrial Development Corporation should be to disinvest and sell these projects as soon as they start paying. Private entrepreneurs will buy any profitable concern gladly. Funds realized from disinvestment can be re-employed for putting up new projects in the public sector. The state policy should aim at industrial development only in such fields where private entrepreneurs fear to tread.

We may close this chapter reiterating the undeniable truth that factors of production have first to produce what they want to share amongst themselves; since sharing without production is plain misappropriation of previously existing wealth. This is an act of stealing howsoever smartly executed. Furthermore, the freshly produced wealth should always be shared equitably. The policy of grab adopted by any factor in abuse of its bargaining position is a crime against fellow-beings, which encourages others to act in similar fashion. As it promotes greed and spreads corruption it should always be avoided. The sooner we respect these truths, the better.



NATIONAL INCOME

8.1. KEYNES AND MACRO-ECONOMICS.

Macro-economic analysis looks at the economy of a country as a whole and not at its parts as micro-economic analysis does. Till the decade of 1930s economists usually assumed that general unemployment was impossible, but the Wall Street crash in 1929 belied this assumption, which was based on J.B. Say's law of the markets. J.B. Say (1767-1832) was a French economist who spread the idea that supply created its own demand. And this hope inspiring idea was readily accepted by all as a true explanation of the working of the economic system throughout the nineteenth century. It underlay most economic writings implicitly prior to the publication of the 'General Theory of Employment, Interest and Money' by John Maynard Keynes in 1936.

Mr. Keynes pointed out that general equilibrium analysis showed that every part of the economy was connected with every other part, and that the repercussions of a change in one part of the economy on conditions in another could not be ignored. It was therefore, unreasonable to regard the demand for consumption goods and investment goods independent of each other under general equilibrium. In micro-economics it was assumed that if saving increased, i.e. if demand for consumption goods decreased, the demand for capital goods would rise because entrepreneurs had more money to spend on investment goods. In partial equilibrium analysis this is a valid procedure; but in general equilibrium it is no longer legitimate. One had to look in detail at the links between consumption and investment more carefully. Keynes explained that the condition of complementary relationship continued for so long as there was less than full employment. With unemployment it was possible for a rise in investment expenditure to pull up consumption expenditure and vice versa. However, once full employment is reached there are no longer resources available to meet increased demand. A rise in consumption will now be

competitive with investment. If it occurs, the only way of avoiding inflation because overall demand is now greater than overall supply is for investment to be cut. The fact that the economy is asymmetrical in this way is important. With unemployment consumption and investment are complementary; with full employment they are competitive. Thus to comprehend the facts of the situation completely, micro-economic approach is inadequate, macro-economic approach becomes necessary.

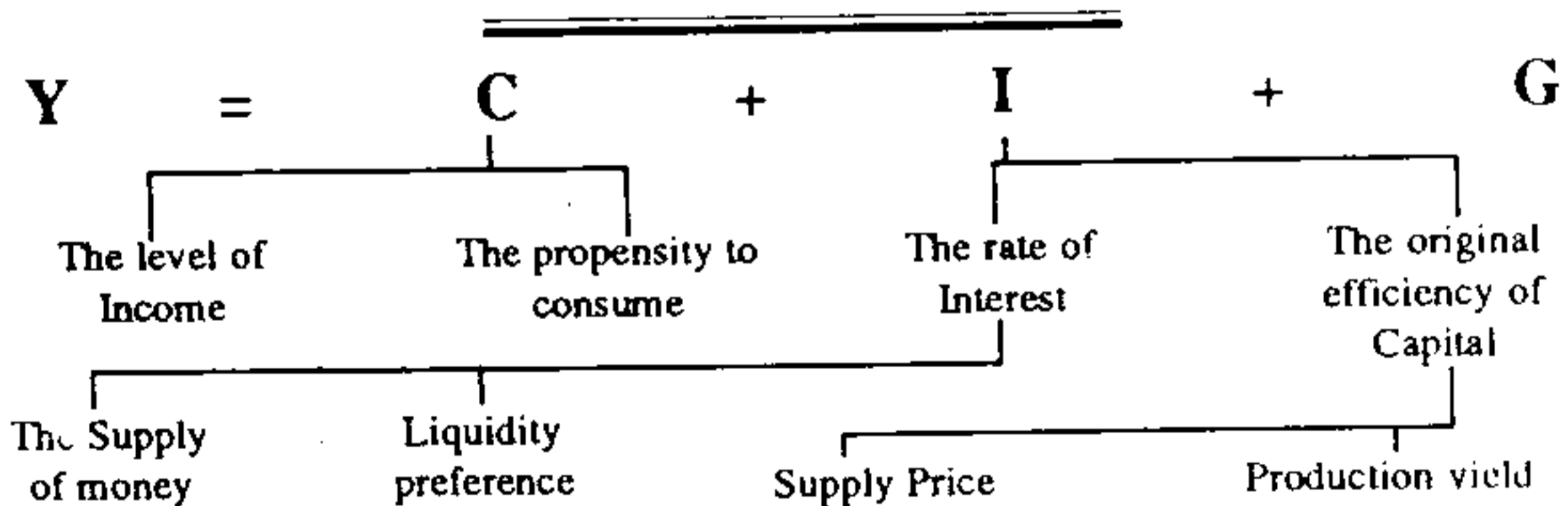
It is quite safe to assume that employment is a function of income. When a community has a large income it has high employment, when its income is small, employment is low. But looking at a country's means is another way of looking at the situation. Income is also equal to the sum of its expenditure on both consumption and investment goods by individuals, firms and the government. Therefore, in order to explain why income and employment are high or low, we must consider the nature and the size of these three items: consumption, investment (both public and private), and government expenditure on current account. These are the items of expenditure on which income depends.

Consumption, investment and government expenditure on current account depend in turn on various other factors which are, therefore the ultimate determinants of the level of activity. Keynes stated the relationship between these variables in an equation reproduced below. This gives in a rather crude form the relationship between the important variables in macro-economic system.

$$Y = C + I + G$$

The equation simply states that the GNP, or income 'Y' is made up of consumption, investment and government expenditure on current account. Figure 1 shows in detail how these components of income are determined.

FIGURE: ONE



8.2. MEASUREMENT OF NATIONAL INCOME.

Since incomes of the factors of production arise from the production of goods and services, and since incomes are spent on

goods and services produced, three alternative methods of measuring national income are possible.

8.2.1. PRODUCT METHOD.

This method approaches income from the output side. Under this method the economy is divided into different sectors such as agriculture, mining, manufacturing, small enterprises, commerce, transport, communication and other services. Then the gross product is found out by adding up net values of all production that has taken place in these sectors during a given year. In order to arrive at the net values of production of a given industry, the purchases of the inputs of this industry from producers of other industries or sectors are deducted from the gross value of production of that industry to avoid double counting. The aggregate of net values of production of all the industries and sectors of economy plus the income from abroad will give us the Gross National Product (or G.N.P.). By subtracting the total amount of depreciation from the figure of G.N.P. we shall get the Net National Product or National Income.

As this method of estimating national income enables us to trace the origin of this national income aggregate to the different sectors of the economy, it is called national income by industrial origin. The one great advantage of this method is that it reveals the relative importance of the different sectors of economy by showing their respective contribution to the national income. This method of calculating national income can be used where there exists a census of production for the year. In many countries figures of production of only important industries are known. Hence this method is employed alongwith other methods to arrive at the national income.

8.2.2. INCOME METHOD.

This method approaches national income from distribution side. In other words this method measures the national income after it has been distributed and appears as income earned or received by individuals of the country. Thus under this method national income is obtained by summing up the incomes of all individuals of a country. Individuals earn income by contributing their own services and the services of their property such as land and capital to the national production. Therefore, national income is calculated by adding up the rent of land, wages and salaries of employees, interest on capital, profits of the entrepreneurs (including undistributed profits of joint stock companies), and incomes of the self-employed people. This method of estimating national income has the great advantage of indicating the distribution of national income among different income groups, such as landlords, capitalists, workers etc. Therefore, this is called national income by distributive shares.

8.2.3. EXPENDITURE METHOD.

This method arrives at national income by adding up all the expenditure made on goods and services during an year. Income can be spent either on consumer goods or investment goods. Thus we can get national income by summing up all consumption expenditure and investment expenditure made by all individuals as well as the government of a country during an year. The gross national product is found out by adding up:

- a. What private individuals spend on consumer goods and services. This is called personal consumption expenditure;
- b. What private businesses spend on replacement, renewal, and new investment. This is called gross domestic private investment;
- c. What the foreign countries spend on the goods and services of the national economy over and above what this economy spends on the output of the foreign countries, i.e. exports minus imports. This is called net foreign investment, and
- d. What the government spends on the purchases of goods and services, i.e. government purchases.

The best way to arrive at national income will be to employ all the three methods mentioned above so as to permit their cross-checking for ensuring greater accuracy and throwing more light on details.

When we start measuring the national income of a country, we come across a few problems. The first problem relates to the treatment of non-monetized transactions such as the services of house-wives to the members of their families and farm output consumed at home. On this point the general agreement seems to be to exclude the services of housewives while including the value of farm output consumed at home, in the estimates of national income. This however, gives rise to certain anomalies. For example if a man employs a maid-servant for his household work, payment to her will appear as a positive item in national income. If the man were to marry the maid-servant shortly thereafter, she would be performing the same services as before without any payment. In this event the value of national income would go down though the real amount of goods and services performed remains the same as before.

The second difficulty arises with regards to the treatment of the government activities in the national income account. On this point the general opinion is that the administrative functions of the government like justice, defence, and general administration should be treated as giving rise to final consumption of such services by the community as a whole, so that contribution of government activities will be equal to the amount of wages and salaries paid by the government. As regards capital formation by the government, this is treated at par with capital formation by any

other enterprise.

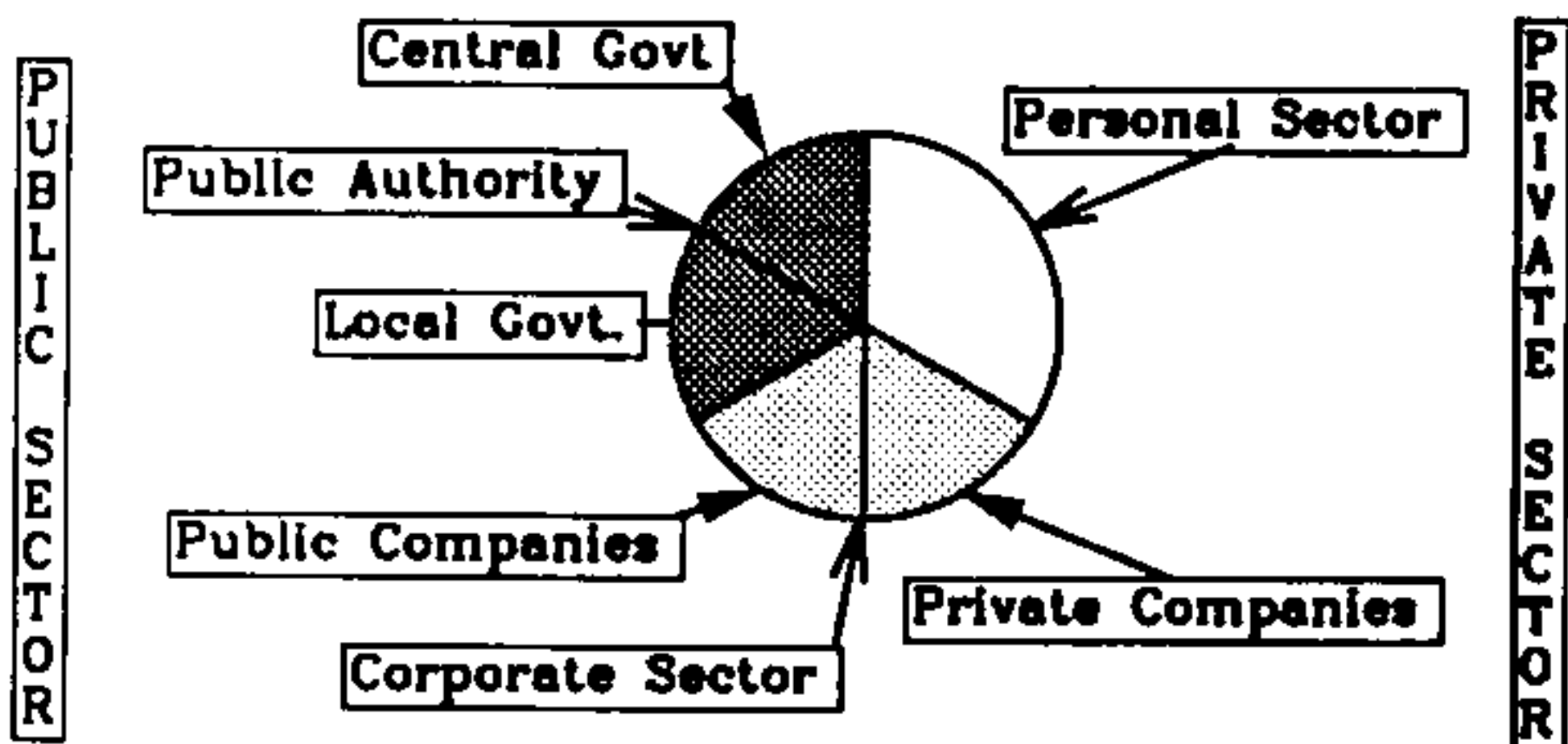
The third major problem arises with regard to the treatment of income arising out of activities of the foreign firms in a country. Should their income form a part of the national income of the country in which they are located or should it belong to the national income of the country owning the firm? On this point the IMF viewpoint is that production and income arising from an enterprise should be ascribed to the territory in which production takes place. However, profit earned by foreign branches and subsidiaries are credited to the parent concerns.

The underdeveloped countries face some special difficulties in estimating national income. The first difficulty arises from the prevalence of non-monetized transactions so that a considerable part of output does not come into the market at all. Agriculture still being in the nature of subsistence farming in these countries, a major part of the output is consumed at the farm itself. The national income statistician has, therefore, to face the problem of finding a suitable measure for this part of the output. Because of illiteracy most producers have no idea of the quantity and value of their output, and they do not follow the practice of keeping regular accounts. This makes the task of getting reliable information from a large number of petty producers all the more difficult. Further, occupational specialization is still incomplete in these areas, so that there is a lack of differentiation in economic functioning. An individual may receive income partly from farm ownership, partly from manual work in industry in the slack season etc. There is a general lack of adequate statistical data and this makes the task of estimation all the more difficult.

8.3. COMPONENTS OF NATIONAL INCOME.

National income accounting begins with realizing the fact that mixed economy with public and private activities can be divided into various sectors as shown in the Pie Chart in Figure 2

FIGURE: TWO



A careful look at that figure will reveal that the pie chart exhibiting the entire economy consists of two main sub divisions and three main components. The two subdivisions are the Public Sector and the Private Sector, while the three main components are the Personal Sector, the Corporate Sector and the Public Authority Sector. It will also be evident that the private sector includes the Personal Sector and the Private Companies Sector; while the Corporate Sector includes the public and the Private Companies both. The Public Authority Sector comprises the Central as well as the Local or Provincial governments. Now let us consider each sector beginning with the Personal one.

The income and expenditure of the Personal Sector is shown in Table 1.

TABLE 1. PERSONAL INCOME & EXPENDITURE FOR THE YEAR X

INCOME	£. (m)	EXPENDITURE	£. (m)
Wages & Salaries	30,000	Consumers expenditure	40,000
Agricultural produce	10,000	Taxes on Income	5,000
Rent	1,000	Contributions to Govt. benefit	3,000
Interest	3,000	Personal savings	6,000
Dividends	2,000		
Personal business profits	4,000		
Benefits received from Govt.	4,000		
TOTAL:	54,000		54,000

On the left hand side we list the sources of private income. The biggest proportion is from wages and salaries (£. 30,000/-) followed by the sale proceeds of the agricultural produce (£. 10,000). A substantial amount of income comes from rent (£. 1,000), interest (£. 3,000), dividends (£. 2,000) and profits from personal business (£. 4,000). Then there are the social security benefits paid by government to those who are retired, ill, or unemployed (£. 4,000). These represent income for those who receive them, but we can see on the expenditure side of the account a substantial contribution towards these benefits (covering exactly 75 percent of them). These contributions come from those who have not yet retired and are neither sick nor out of work. The total of all these incomes sums upto (£. 54,000).

Now we turn to personal expenditure side. Most of this is expenditure on consumer goods: food, clothing, accommodation, consumer durables (like car, television, washing machine, radio etc) and travel, entertainment and holidays etc. It may be noted that cars bought by the personal sector are considered as consumer goods, while cars bought by business are regarded as part of investment. Similarly while the benefits availed from living in houses and other accommodation is consumer's expenditure.

expenditure incurred on constructing houses is classified as investment.

It should be remembered that the total annual income is not at the disposal of the individuals to spend as they like. Taxes on income and contribution to government benefits have to be provided against on priority basis. Thus the disposable income on our above-mentioned account will be £. 46,000 (i.e. £. 54,000 minus the provisions of £. 5000 and £. 3000). People use this disposable income mostly as consumer's expenditure, and save a part of it. In the above table £. 40,000 have been shown as consumed and £. 6,000 as saved. The standard definition of saving in macro-economics puts it as income minus consumption expenditure.

Now let us move to the next sector. The Corporate Sector is divided into private companies and public companies as defined in the Companies Act. In the overall distribution exhibited in the Pie chart, private companies form a part of the private sector and public companies form a part of the public sector, but as Corporate Sector of the economy the two combine to form the Corporate Sector. Commercial banks which pay interest to their depositors and dividends to their shareholders are also included in the Corporate Sector, although they are incorporated under the Banking Act instead of the Companies Act. Table 2 displays the income account of the Corporate Sector and the appropriation of the income. Every item in this table is self-evident needing no comments. As profits of the Corporate Sector represent the final results of all their economic activities, detailed accounting of those activities is ignored to avoid double counting.

TABLE 2: CORPORATE INCOME & APPROPRIATION ACCOUNT FOR THE YEAR X

INCOME	£. (m)	EXPENDITURE	£. (m)
Profits of Private Companies.	7,000	Interest to depositors.	3,000
Profits of Public Corporations.	3,000	Dividends to Shareholders.	2,000
		Tax on profits	1,000
		Undistributed profit (Corporate Savings)	4,000
TOTAL:	10,000		10,000

Interest and dividend figures on the right hand side of the above account correspond to the figures of income given on the left hand side of Table 1, displaying Personal account. Undistributed profits are the savings of the Corporate Sector.

Next we take-up the sector pertaining to the Public Authorities. Table 3 depicts current account of the Public Authorities for the year X. Our hypothetical government obtains its tax revenue from three sources. First there are income taxes. These are divided into income taxes proper raising £. 5,000 from the Personal Sector as

TABLE 3: CURRENT ACCOUNT OF THE PUBLIC AUTHORITIES FOR THE YEAR X

RECEIPTS	£. (m)	EXPENDITURE	£. (m)
Taxes on income and profits.	6,000	Current expenditure on goods and services.	9,000
Taxes on expenditure.	5,000	Transfer Payments	1,000
Taxes on property (Rates etc.)	2,000	Subsidies.	
Contribution to Govt. benefit.	3,000	Benefits and grants from Govt.	4,000
		Current Surplus (Govt. Savings)	2,000
TOTAL:	16,000		16,000

shown in Table 1, and profit taxes raising £. 1,000 from the Corporate Sector as shown in Table 2. This gives a total receipt from income taxes of £. 6,000. Second a further £. 5,000 is received from taxes on expenditure; sale taxes, excise taxes etc. Third there is £. 2,000 raised from taxes on property. This includes rates and other property taxes. Then there is the receipt of contributions to government benefits amounting to £. 3,000 coming from Table 1, being contributions towards government pension, and other benefits. This gives total government revenue of £. 16,000. More than half of this revenue is spent on the current account by the government in purchasing goods and services of the armed forces, civil servants, judges, teachers and so on. This is the government equivalent of the personal sector's expenditure on consumption being consumption by the government. Next come the transfer payments. These are payments by society to recipients because of past work (pensions) or unfortunate circumstances (unemployment benefits), or as subsidies to supplement the incomes of farmers and others who would otherwise be paid less than it is thought desirable for them to earn. Being transfers from one section of the community to another, they are called transfer payments. In the above case £. 9,000 are shown as current expenditure, and £. 5,000 as transfer payments. On balancing the two sides of the account we are left with a current surplus of £. 2,000 representing the savings on government account.

8.4. NATIONAL INCOME STATEMENTS.

Having surveyed all the components of national income we are now in a better position to deduce the desired results from them. The three tables pertaining to the three sectors of our economy with their conspicuous figures of savings invite us to combine these savings into a national capital pool, and find out how best this pool can be used for the purpose of national development. Table 4, helps us to do so.

On the left hand side of this table we add up the savings of £. 6,000 received from the Personal Sector Table 1, and the savings of £. 4,000 received from the Corporate Sector Table 2, and the

savings of £. 2,000 received from the public Authorities Sector Table 3. They add up to a total of £. 12,000 as can be seen from the combined capital account given in Table 4.

TABLE 4: THE COMBINED CAPITAL ACCOUNT FOR THE YEAR X

RECEIPTS	£. (m)	EXPENDITURE	£. (m)
Savings:			
Personal.	6,000	Gross Fixed Capital	10,000
Corporate.	4,000	Increase in value of stocks (Inventories)	2,000
Government.	2,000		
TOTAL:	12,000		12,000

The right hand side of the table shows that this saving is invested in fixed capital of £. 10,000 and stocks and inventories of £. 2,000. Capital investment is made in plant, machinery, infrastructure, roads, railways, public utility buildings and housing schemes etc. As development works progress, current stocks required to keep the economy dynamic also increase, demanding a greater amount of money tied up in working capital inventories.

Finally we present the National Income and Expenditure statement in table 5. We calculate national income by adding together the incomes of all the individual sectors. Thus the left hand side is made up of the following items:

TABLE 5: NATIONAL INCOME AND EXPENDITURE FOR THE YEAR X

INCOME	£. (m)	EXPENDITURE	£. (m)
Wages & Salaries	30,000	Consumer's expenditure	40,000
Agricultural Produce.	10,000	Govt. expenses on Current Account.	9,000
Rent.	1,000	Gross fixed capital formation.	10,000
PROFITS:		Increase in stocks & inventories.	2,000
Of personal business	4,000		
Of Private Companies	7,000		
Of Public Corporations	3,000	Total National Expenditure at market price.	61,000
		Less taxes on expenditure.	7,000
			54,000
		Plus subsidies.	1,000
Gross National Product (GNP).	55,000	Gross National Product at factor cost.	55,000

The wages and salaries of the Personal Sector, the agricultural produce, the rent received by the whole economy, and the personal business profit followed by the total profits of the whole Corporate

Sector. We do not include any Government income because it comes as payments out of the incomes that have already been included in those of the personal and Corporate Sectors. You will also find interest and dividends missing from this statement for reasons given below:

Interest and dividends appear on the income side of the personal sector account in Table 1, while they appear on the expenditure side of the corporate sector account in Table 2. When we combine the two accounts, these items become contra, appearing on both sides of the National Income and Expenditure account, thus cancelling each other in effect.

The total of all the items on the income side of the above mentioned statement amounting to £. 55,000 is called the Gross National Income. By definition gross national income must be equal to the gross national product because all the incomes of the community are earned from the total national produce. Therefore, gross national income is also called Gross National Product or GNP.

The items on the expenditure side of the table 5 statement are also taken from the Tables 1, 2, 3 and 4. The first four items on this side total upto £. 61,000. As these are all valued at the market price, their total represents the Gross National Expenditure at market price. A couple of adjustments are required to balance this total with the income side total of the statement. The first adjustment is the deduction of taxes on expenditure levied by the government and the second adjustment is the addition of subsidies paid by the government to maintain prices of certain goods at desired levels. By deducting taxes of £. 7,000 from and adding subsidies of £. 1,000 to the above figure of £. 61,000, we get the figure of £. 55,000 which tallies with the total on the left hand side of the statement. This adjusted total of the expenditure side now represents the gross national product at factor cost. The explanation of the last two items on the right hand side of the Table 5 will now be clear.

This analysis makes it clear that gross national income, gross national product and gross national expenditure represent the same sum of money. However, the way these are arrived at is different in each case. National Income is the total of all personal and other incomes; National Product is the value of the total output of goods and services; National Expenditure is the total expenditure of the community.

8.5. VARYING THE COMPONENTS.

The objective of macro-economic study is to discover ways and means for increasing national income and reducing unemployment. As variations in income and employment depend on variations in the components of national income, study of how these components vary becomes necessary. We know that employment depends on income so that an increase in employment can only come from an increase in income. The equation $Y=C+I+G$

tells us that an increase in income requires an increase in either C, I or G.

Let us first consider how to increase consumption. Consumption depends on income itself and on the consumption function. If the consumption function can be raised; if people can be induced to spend a greater proportion of disposable income on consumption, income will rise. The consumption function depends on the psychology of consumers. Unless consumers can be persuaded to change their behaviour, consumption cannot increase. As the rich tend to have a lower propensity to consume than the poor, if we take away some income from the rich by way of taxation and give it to the poor in welfare benefits, for instance, we can increase consumption. In this way the propensity to consume for the community as a whole can be raised. Consumption and income will both rise with it, inducing thereby an increase in the level of economic activity, promoting greater production and increase in employment.

Now let us consider how to increase investment. Investment by private firms and individuals depends on the schedule of the marginal efficiency of capital and on the rate of interest. The aim of any community which seeks to create investment must therefore be either to raise the marginal efficiency of capital or to lower the rate of interest. The marginal efficiency of capital can be increased only if the prospective yield of assets rises, or if their supply price falls. State policy by way of providing tax relief on putting up new productive assets can artificially reduce their supply price, and also increase prospective yield by allowing to write off (depreciate) assets against taxation more speedily. To increase demand by increasing private consumption and government expenditure can also help indirectly.

The rate of interest may seem to provide a rather more attractive target for would be employment creators. Depending as it does on the demand and supply of money, the rate of interest is likely to be responsive to judicious intervention. By increasing the supply of money, with a given liquidity preference schedule, the rate of interest can be reduced and investment increased, although there is a limit to increase in the supply of money and reduction of interest rate.

Now we come to the third item G of the income equation. Increasing government expenditure is the most effective way of increasing the level of activity quickly as it is relatively little affected by economic forces which influence consumption or interest rate. It is precisely for this reason that increasing government expenditure is a particularly effective way of increasing employment. Looked at from the expenditure side, of all the elements of GNP it is the government expenditure alone which can be controlled by the government at will. The government can influence the level of activity in two ways. First by the use of fiscal or monetary policy; and second by spending money either on current account or on

capital goods, and so increase the GNP directly. Where the aim is to increase investment, the state can undertake whatever investment projects appear desirable without too close a calculation of their prospective yield.

8.6. DEMAND PRESSURE-INFLATION.

How to reduce pressure of demand is also worth considering as it guides us to adopt deflationary measures. We can reduce the demand pressure by adopting one or more of the following measures.

8.6.1. Increasing Productivity.

When there is unemployment it would be advisable to ensure that all unemployed labour is put to work and that men and machines produce more. But with already full employment of all the productive resources, some other measure is required. As the cause of inflation is that aggregate demand price exceeds aggregate supply price, the only remedy lies in raising the aggregate supply price somehow to bring about an equilibrium. By raising the prices of goods and of factors of production the output will be sold for an amount of money equal to the aggregate demand price, without any increase in the output. Increases in domestic prices could be avoided by allowing the excess of aggregate demand over aggregate supply to be taken by an increase in imports and for a reduction in exports. Enough extra goods and services would be available to the community for there to be no excess demand for home produce. A reduction in the balance of payment surplus is always deflationary.

8.6.2. Reducing Consumption.

If none of the courses mentioned in (1) above are acceptable the government must operate on consumption, on investment or on its own expenditure to reduce aggregate demand. Consumption can be reduced only if the propensity to consume can be altered by persuading people to save more at each level of income. Whether very much can be hoped for in this direction is doubtful in normal times though it is possible that by raising rates of interest savings might be increased, particularly if it is backed up by exhortation. It is much more likely that taxation will have to be used to reduce aggregate demand. The remedy will not work if the increased taxes are paid out of income that would otherwise have been saved. A major difficulty is that times of inflation are times when people are likely to be saving less, not more. Since prices are rising, people want to keep up their spending in order to maintain their existing standards of living, and to buy for future needs as well, fearing still further rise in prices.

8.6.3. Reducing Investment.

It is much more likely that investment will be the element in expenditure that has to be reduced. Investment by business can

be reduced either by lowering the prospective yield or by raising the rate of interest. Governments may reduce the prospective yield, for example, by withdrawing grants to investment that were already being made, by increasing taxation from profits or simply by pronouncements that make businessmen more pessimistic about the future. Similarly, the rate of interest will often rise automatically in times of high employment because the demand for money for transaction purposes will increase with increasing activity and rising prices. Unless the supply of money is also increased, this will raise the rate of interest. If this automatic rise in interest rates is not sufficient, it will be possible to raise interest rates further by reducing the money supply. How far this will reduce investment will depend on the elasticity of the marginal efficiency of capital schedule.

A word of warning about the application of these restrictive measures is considered essential. The choice of time when a particular measure should be applied and the duration for which its application should continue, have pivotal significance, and the adage of a stitch in time saves nine fits in here most aptly. Bureaucrats are usually slow in deciding and waste much time before its application. It is essential that the application of a policy and its reversal should be well timed to be effective. And for being well timed policy decisions have to be made much before hand anticipating the modes of the market well in advance.

8.7. MACRO-ECONOMICS IN RETROSPECT.

Economics, the science of production and distribution of wealth has to deal with not only individuals as such but also with society as a whole. This fact was clear to the exponents of the economic theory from the beginning, but they developed the theory from an individual's approach, ignoring the collective social side altogether. When confrontations of the developed nations of the West at international level brought to light the weak spots of their national development, their collective social viewpoint came to focus, and they realized that the macro-economic side of their theory had been ignored; so they hastened to develop it as well. But the micro-economic theory had by that time taken such a firm grip of the individuals' minds and the economists' approach that the desired macro-economics had now to be evolved only out of it, instead of an independent thinking and an unbiased approach. That is why the macro side of capitalism suffered a stunted growth, and presents a shrivelled look.

Under-production and unemployment are the two main social maladies which any macro-economic system is called upon to cure. Only a system which can suppress selfishness and promote national spirit, self-reliance and self-help can be expected to do this job, and not the one which teaches to rely on borrowed finance and selfish profit motive. A macro-economic system stemming from the capitalist micro-economics can only bring us under the tyrannical

yoke of usury and profit motive. These two wild bulls know no discipline and flare up only to trample the masses beneath their hooves. Production with their help is bound to be haphazard and unemployment persistent. Profit motive and borrowed finance have their own goals to reach, and operate under specific motives within a confined scope. All jobs and production appearing as a consequence of their application come out only as by-products of their efforts, the primary products always being the interest and the profit. Consequently nationwide expansion of production and job creation at so grand a scale as to remove unemployment is entirely beyond their scope and motives.

Keynes stuck to his inherited economic wisdom most obediently; and as the two tools of usury and profit motive were all that he inherited, his "General Theory of Employment, Interest and Money" could suggest nothing better than creating fake credit money to earn interest through the banking network, and to lend this fake money to the profiteering business community for fleecing the consuming public. Since he knew that full employment was impossible under the capitalist way of production, he had no concrete suggestion to make about full employment of the labour force. Modern economic theorists laud his book still, because it can befool the developing nations with its dopes and keep them tethered to the idea that development is not possible without the help of the industrialized nations. Our analytical study, however leads us to conclude that while micro-economics is a dismal gospel of a vampire, macro-economics acts as a shroud to conceal its consumed victims.

The double barrelled gun of interest and profit invented by capitalism is a deadly weapon. Profit has been sufficiently reviewed in the previous chapters, but interest lagged behind. It will be discussed comprehensively soon after another chapter.



PUBLIC FINANCE AND TAXATION

9.1. OBLIGATIONS OF A MODERN STATE.

A state is a political organization which keeps its grip over and controls the resources and population of its territorial jurisdiction known as a country. Nowadays states carry various obligations towards their people and the world at large. Some of these obligations are of primary importance while others are of lesser significance. To maintain law and order within the country and to defend it from outside attacks is the prime-most duty of any state. To dispense justice among its subjects so as to produce an atmosphere of peace and freedom for indulging in gainful occupations is also a primary obligation of the state. To promote national development and for that purpose to chalk out plans for tapping natural and human resources, and to execute such plans wisely is yet another important obligation of the state. And from this obligation sprouts the obligation of creating jobs for the unemployed masses of the country.

The idea that government are responsible for maintaining full employment is of recent growth. The British government accepted this responsibility officially in 1944, and was the first government to do so in the capitalist world. However, it is now universally accepted to be the responsibility of the state to create jobs for the unemployed since free enterprise led by profit motive has failed to shoulder this responsibility effectively.

The idea of a welfare state that the state is responsible for the welfare of the down-trodden citizens and is obliged to provide them with certain basic amenities of life is also a recent idea. But it has become a political slogan more or less to capture political power. Although it is freely used during elections as an empty promise for catching votes, still after gaining power it pricks their conscience and reminds them to do something for the suffering humanity.

To discharge these obligations the state is required to spend a lot of wealth, which it hurries to collect through taxation and public

debt. But national debt and taxation presuppose some sectors of the public to be quite wealthy. When this assumption turns out to be false which it often does in the case of the under developed countries of the third world the conventional planning topples over demanding quite a fresh start.

Tapping the natural and human resources of the country under a carefully considered plan of one's own, so as to make the people produce wealth and help the state with it to promote further welfare and development, becomes such an obligation of every third world state, which dominates over all other obligations except defence. Thus the state is obliged to interfere in the political and economic activities of its citizens and to control them in a variety of ways so as to persuade the economy to move in the direction the government wants it to go. Modern times no longer believe in laissez-faire, and modern methods of production and development force even the most reluctant state authorities to intervene and shoulder responsibilities. When the state authorities step in to direct and control economic activities of the public, they find fiscal policy to be a handy instrument of social and economic policies.

The technique of collecting and expending state revenues is a fairly intricate process and the study of this topic constitutes the subject matter of Public Finance and Taxation. The very first question that comes up for consideration under this topic is the taxable capacity of the citizens who are called upon to contribute towards the state revenues.

9.2. TAXABLE CAPACITY.

The concept of taxable capacity has racked the brains of many economists and publicists. Dalton calls it a dim and confused conception and says that absolute taxable capacity is a myth which should be banished from serious discussions on Public Finance. Findlay Shirras, on the other hand, thinks that it is of great practical importance, since it is always wise and useful for a government to know even roughly the limit to which the country can contribute by way of taxation, both in the ordinary and extraordinary circumstances. The necessity of balancing budgets heavily laden with public debt of short maturity, has made the question of absolute taxable capacity a real and an abiding problem of taxation.

The term 'taxable capacity' can be used in two senses: (i) in the absolute sense, and (ii) in the relative sense. The absolute taxable capacity has been variously defined. It means how much a particular community can pay in the form of taxes without producing unpleasant effects. Relative taxable capacity, on the other hand, means the respective contributions which the two administrative organizations can obtain from the community towards a common expenditure, e.g. Provincial contributions to Central expenditure and vice versa. Dalton says the former is a myth and the latter a reality, since the relative limit may be reached without reaching

the absolute limit. We may have reached the limit of how much a particular community should contribute without reaching the limit beyond which it possibly cannot contribute.

There are two extreme views about absolute taxable capacity: (a) the capacity to pay without suffering, and (b) the capacity to pay regardless of suffering. In the former sense taxable capacity is practically nil for every tax must entail some suffering. In the latter case there is practically no limit to taxable capacity except the one imposed by the extent of the resources of the community.

Sir Josiah Stamp defines taxable capacity as "the margin of total production over total consumption, or the amount required to maintain the population at subsistence level". This means the utmost that a community can pay "without having a really unhappy downtrodden existence and without dislocating the organization too much". Findlay Shirras defines absolute taxable capacity as "the maximum amount which the citizens of a country can contribute towards the expenses of the public authorities, without having to undergo an unbearable strain. Briefly taxable capacity is the limit of squeezability. "It is the taxability of a nation, the maximum amount of taxation that can be raised and spent to produce the maximum economic welfare in that community".

These definitions lack scientific precision and have an element of vagueness. Sir Stamp's level of subsistence' and 'unhappy downtrodden existence' and Shirras' 'unbearable strain' and 'maximum economic welfare' cannot be scientifically defined and laid down in exact terms. This however, does not detract from the practical importance and the utility of the concept of taxable capacity. The meaning conveyed by the definitions given above is fairly clear, although we must admit that any attempt to measure precisely the taxable capacity is foredoomed to failure. However, there is a level of taxation beyond which any increase will:

1. Lead to political unrest,
2. Cause deliberate and unashamed evasion,
3. Weaken resistance to rises in wages and other expenses because they will be paid partly out of the firm's tax liability, and
4. Have a disincentive effect, discouraging efforts and enterprise because the state takes too much of the extra rewards to be earned by hard work and bold risk-taking.

If one has to choose between the various definitions probably the one which may be defined as that level beyond which any further increase will reduce or retard the growth of the national income has most to commend itself. The ability of any government to impose a given increase in taxation is limited by the impact effect of that increase, and is dependent upon such factors as the nature of the tax and of the expenditure which it is intended to finance, the efficiency of public administration, and the political maturity of the people on whom the extra taxes are imposed.

There are some other cogent issues besides taxable capacity

which influence the decision about the nature and extent of taxes one might impose. They are considered under the caption of the canons of taxation below.

9.3. CANONS OF TAXATION.

In his classic work, "the Wealth of Nations" published in 1776, Adam Smith laid down certain principles of taxation which are still widely accepted. They are known as Smith's Canons of Taxation, and are as follows.

9.3.1. EQUITY (or equality of sacrifice).

Taxes should be levied on various strata of society equitably so as to demand an equality of sacrifice from all. Today this principle of equality of sacrifice is met by progressive taxation i.e. the higher one's income the greater the proportion of that income one should pay in taxes. Income tax provides an excellent example of progressive taxation. While there may be no objection to progressive taxation as such, there is plenty of room for disagreement as to what rate of progression is equitable, as no scientific justification for any given rate exists.

It appears that indirect taxes are almost bound to be regressive- i.e. the lower income groups pay a bigger portion of their income in indirect taxes than do the higher income groups. Indirect taxes are usually levied on goods for which demand is inelastic with respect to price, for reasons of economy and efficiency in collecting them. The number of such commodities are very few and they are necessities of life like bread, tea, sugar, candles and cotton cloth etc. In Britain tobacco, alcohol, entertainment and motoring are today the main sources of revenue from indirect taxes. One indirect tax that can claim to be progressive is the purchase tax levied as an *ad valorem* tax.

9.3.2. CERTAINTY.

The tax-payer should know well in time how much tax he has to pay and when it is to be paid. This information should be stated in the tax regulations and not left to the arbitrary decisions of the officials. Unfortunately nowadays the Income tax Acts and the methods of assessing individual liability to tax have become so complicated that they can be understood and challenged only by experts.

9.3.3. CONVENIENCE.

The taxes should be collected at a time convenient to the tax-payer. The Pay-As-You-Earn (P.A.Y.E) form is better than the annual or quarterly payments. Assessments of the previous year's income in the subsequent financial year and lump sum demand of tax thereon is a great inconvenience. Self-assessment scheme is an improvement on it. The form in which taxes are to be paid should also be very convenient. This form is money in most cases, but where death duties entail the sale of the deceased person's property

at a time in-appropriate for such sales, and under pressure from the taxation authorities, it becomes vexatious. In such cases acceptance of tax in kind should be allowed. The British government announced sometimes ago that they would accept property in certain circumstances in discharge of death duty.

9.3.4. ECONOMY.

The cost of assessing and collecting a tax should be small in relation to the revenue it brings in. It is self evident that if this cost is heavy, it will become an unnecessary burden for the tax-payers without providing adequate revenues to the state.

Apart from the above four canons of taxation suggested by Adam Smith, some other criteria have also been suggested by modern economists. One suggestion is that taxes should not hamper the creation of wealth i.e. they should not deter the tax-payers from working and establishing enterprises which are the sources of wealth. By distorting the choice between income and leisure some taxes can produce this undesirable effect. In this respect heavy and steeply progressive income taxes and death duties may reduce both the ability and the willingness to save and invest. Another suggestion is that fiscal adequacy should always be maintained. Taxes should always be enough to cover all state expenses without running into deficit, just as they should not be excessive to throttle productivity. Another desired quality of the taxes is that they should be compatible with the economic and social objectives of the community. Some of the taxes should be elastic enough to be capable of yielding more, if desired. Simplicity, flexibility and diversity are some other desired attributes of taxes, which might be kept in view.

Just as there are well-known canons of taxation, similarly it is possible to formulate some canons or principles to which prudent public expenditure should conform. Some such principles are given below.

Maximum social benefit rather than individual or group benefits should be the guiding principle. Avoidance of waste and exercise of economy must always be kept in mind. As unauthorized spending leads invariably to extravagance and overspending, the canon of sanction must be strictly observed. The expenditure should be sanctioned by a competent authority before it is actually incurred. Further it should be possible for the public authorities to vary the expenditure according to circumstances or need. Public expenditure should exercise a healthy influence both on production of wealth and its equitable distribution. Expenditure of public revenue should help in narrowing the gap between the rich and the poor.

9.4. DIRECT AND INDIRECT TAXES.

Several taxes which provide the bulk of state revenues can be divided into two broad groups, Direct Taxes and Indirect Taxes.

Direct taxes are levied on the incomes or wealth of individuals and firms; their incidence varies from one tax-payer to another according to their financial circumstance, but their payment is a direct transaction between the tax payer and the state. Indirect taxes are levied on specific goods or services like tobacco duty and wireless licence, and must be paid by the producer or consumer of these goods and services irrespective of his financial circumstances. An indirect tax is usually paid by the producer or the distributor, but the burden of the tax is frequently shifted to the consumer in the form of an addition to the selling price.

Incidence of taxation has its own importance. Incidence means the final resting place of a tax. The incidence is on the man who ultimately bears the money burden of the tax. The impact of the tax is on the person who pays it in the first instance and the incidence is on the one who finally bears it. The tax system is not merely aimed at raising a certain amount of revenue, the aim is also to raise it from those sections of the people who can best bear it. If Public Finance is to serve as an instrument of social justice, the question of incidence at once assumes a great importance. We must follow each tax to find who bears it ultimately, to ensure that the tax has been levied properly.

The question of incidence is very simple in the case of a direct tax, because the impact and the incidence are on the same person. But in the case of an indirect tax the impact is over one person and the incidence on another. A direct tax is not intended to be shifted, whereas an indirect tax is so intended. The question of incidence, therefore, really arises in the case of indirect taxes. But as direct taxes are sometimes shifted, the distinction between the two types is settled by the question whether the tax has been shifted or not.

The following merits are claimed for direct taxes. They are more equitable as progression can be applied. The rate of the tax is varied to make it consistent with one's ability to pay. They are economical as the cost of collection is small. Their yield can be calculated accurately, and they create a civic consciousness among the tax-payers. Their demerits are that they are inconvenient to pay in lump sums as demanded, hence they are not popular. They can be easily evaded and the state defrauded of its dues.

Merits and demerits of indirect taxes are as under. Their merit lies in their being convenient as they are paid in small trickles as we buy a commodity we need, in the price of which they are wrapped. It is very difficult to evade an indirect tax. By taxing luxuries at a high rate it is made more equitable, and when imposed on necessities of life, it is made fairly elastic. It produces a beneficial social effect by discouraging consumption of intoxicants and harmful drugs, which are heavily taxed. The disadvantages of indirect taxes are that they are uncertain and their yield cannot be accurately estimated. They are regressive. As rich and poor pay alike at the same rate, their burden on the poor becomes great. They do not develop any civic consciousness in the tax-payer. Their cost of

collection becomes high when we take into consideration the cost of the custom duty staff and the anti-smuggling squads. The producer, the wholesaler and the retailer all in their turn inflate the tax by a profit margin on it for themselves, thus forcing the consumer to pay much more than what reaches the state.

Let us now consider the incidence of some specific taxes. A tax on commodity is shifted to the consumer. If the demand for that particular commodity is inelastic the consumer bears the total burden of the tax, but if the demand is elastic, consumption tends to be reduced and so the producer is forced to share the tax burden for maintaining the old level of consumption. If the supply is inelastic as in the case of perishable commodities, the seller's position becomes weak and he is obliged to share the tax burden to maintain level of consumption.

A tax on monopoly enters into the cost of production and is realized from the consumer. The monopolist may have to share it if gross sales are affected. Owing to varying exceptional abilities of different monopolists for manipulating the price and controlling the market, the incidence of a monopoly tax becomes uncertain.

Import duties are generally and almost exclusively borne by the home consumer. The export duty is similarly borne by the exporter. The price in the world market is fixed, so far as they are concerned.

Taxes on agricultural lands and on building sites fall on the owner. He is unable to pass them on either to the tenants or to the purchasers. Since the purchaser is bound to pay such taxes in future annually, he refuses to accept the past burden. Tax on buildings will fall generally on the occupier, but under certain circumstances it may be shifted to the owner, the builder or the customer. Property tax is really an income-tax and falls on the owner. Death duty falls on the successors.

Income-tax, supertax, excess profit tax are all direct taxes, and as such are borne by the people who pay them in the first instance. Sales tax is paid by the trader but he passes it on to the consumer.

Governments have to use Public Finance as an instrument of social justice. For that purpose it has to favour some classes at the expense of some others. Furthermore they have to encourage certain industries, or develop them in certain areas. For all these purposes a study of the incidence of taxes is very useful.

9.5. PUBLIC DEBT.

Taxation provides the bulk of financial resources needed to meet the public expenditure, but it is not the only method adopted by the state for that purpose. Borrowing from the public is frequently resorted to, to make up occasional deficiencies in taxation. Public debt is of recent growth. It was not known till the eighteenth century. Whenever there was an emergency, usually a war, the monarch relied on his hoarded wealth or borrowed on his own personal credit. In the nineteenth century public credit replaced

private credit.

As the system of public credit made it easy for the state to borrow, it led to tremendous indebtedness of modern states. The public debt of 27 countries in 1900 was £. 6,079 millions, and in 1913 it increased to £. 8,566 millions, and in 1933 to £. 22,000 millions. Almost the sole responsibility for this phenomenal increase lies on war. The net cost of the war of 1914-18 was estimated at £. 42,000 millions. The war of 1939-45 has been infinitely more costly. Besides war, other factors which increase the public debt are budget deficits on current account, long term industrial investments, welfare schemes and public utilities.

To ponder over the burden to public would be enlightening as well as instructive. If the debt is taken for productive purposes, e.g. for irrigation and railways it will not mean any burden. On the other hand it will confer a benefit provided the scheme has been successfully executed. But if the debt is unproductive, it will impose both money burden and real burden on the community. The measure of the burden will depend on whether the debt is internal or external.

Internal debt involves a series of transfer of wealth within the community. Money gets transferred from lender to government, and from government to contractors, civil servants and suppliers of goods and services involving no direct money burden. But there will be a direct real burden i.e. sacrifice, hardship or loss of economic welfare on the community depending on the nature of these transfers. If wealth comes to be more evenly distributed by being transferred from the rich to the poor, then public debt will be beneficial. But if the public debt enriches the rich at the expense of the poor, it imposes a real burden. If the internal debt has adverse repercussions both on production and distribution of wealth, it becomes a direct real burden. The indirect real burden will lie in the check it imposes on production by reducing the ability to work and save.

The external debt also involves a series of transfers of wealth, but not within the same country, which makes all the difference. The amount of money paid by the debtor country towards interest and the principal is the measure of the direct money burden on the community. But as external debts are paid only by exporting goods and services which would otherwise have been used for the community's welfare, the direct real burden lies in loss of such welfare.

Comparison between taxes and loans as alternative means of public finance is illuminating. They possess no common attribute apart from the fact that both provide funds for public expenditure. Taxes are unpopular but loans are not. Both transfer money from private to public use, but they have different psychological effects on the individuals from whom the transfer is made. Money paid in taxes is gone for ever; but money lent to the government is still one's own and will be paid back some day. Meanwhile it is earning

interest.

Many misconceptions prevail about the effects of government borrowing on the economy, and one of them is to regard the National Debt a burden. Debt is not a burden even for individuals if it is used productively, similarly that part of National Debt which is productively used, need not be considered a burden. Even research, technology and education are as much productive in the long run as rail-roads and waterways. If the loan is put to a productive use, it can raise the debtor's income by more than what is required for interest and repayment of the debt. Expenditure on education and public health will surely bring a return in greater efficiency and higher productivity of labour. The National Debt is, for the most part, a debt which the nation owes to itself, and as such it cannot be a burden if it is properly administered. However, debts owed to foreigners are a real burden unless the loan has been used productively, and has added more to the national income than we have to pay out in interest and amortization to our foreign creditors.

We should not however, forget that both the existence and accumulation of a large national debt have adverse effects on national income and welfare. There is a possibility that a large national debt will reduce or retard the growth of the national income, lead to inflation or make it difficult to distribute that income judiciously between public and private uses. It may also adversely affect the national welfare, because it leads to a maldistribution of the national income between different sections of the community.

If the budgetary burden of interest payment weighs heavily on the government, there are three ways to reduce it. The first is to pay off the debt. But the National Debt of most countries is now so large that nobody thinks of this as a serious possibility. The second method is to increase the real national income, thereby reducing the ratio of debt to income. The third method to achieve the same result more simply and more quickly is to invite inflation. Since the government's liabilities in respect of interest payments and redemption of loans are fixed in money terms, an increase in the national money income without any increase in real income is equally effective in reducing the 'burden' of debt, and is in fact the method which has most often been used either deliberately or as a by-product of other policies. We still remember how the German inflation of the early 1920s practically wiped out her internal debt entirely. Using inflation as a remedy leads us to consider deficit financing next.

9.6. DEFICIT FINANCING.

We have condemned deficit financing outright, giving irrefutable reasons in detail in a subsequent chapter dealing with the monetary system, and expressed our views on this topic quite clearly. Since countries embracing capitalism resort to deficit

financing freely, and use it as an instrument of their fiscal policy, it is necessary to consider this topic here with a view to analyze their policy and practice.

Economists regard deficit financing as an important discovery of the Depression Economics of nineteen-thirties. Today it has become a major instrument to ensure continued high level of economic activity. Economists differ in defining deficit financing and admit that it is not possible to have a foolproof definition applicable to all countries at all times. However, they consider it equal to the net increase in the purchasing power of the economy arising out of the budgetary operation of the government. To meet deficit in the government budget, the government has to create more money either in the form of printing more currency notes or by borrowing credit money from the banks. As both these methods increase the supply of money without any increase in real money, the process is called deficit financing, i.e. financing with money that does not exist.

The classical economists were against deficit financing because fear of inflation haunted them. Lord Keynes, however, tried to convince his contemporaries that in a situation where there was large scale unemployment of labour and excess capacity in the stock of capital, the fear that deficit financing would create inflation was baseless. He argued that when more employment was created by deficit spending on the part of the government, there would simultaneously take place an increase in the supply of output. In the depression an increase in the supply can be had without any rise in average and marginal costs of production and sale prices of the output. Thus deficit financing can be safely used to expand income, output and employment without any inflationary danger in a depression. But an indiscriminate use of deficit financing let loose by the advocacy of Lord Keynes spread inflation throughout the free world; and now the economists helplessly preach us to live with it, and to watch its rising spiral with submissive patience.

Let us observe how deficit financing creeps in underdeveloped countries surreptitiously. Economic development in the underdeveloped countries needs an enormous amount of capital while their population grows much faster than their rate of capital formation. Unlike the advanced countries, the problem facing the underdeveloped countries is not one of deficiency of effective demand, but it is the lack of sufficient capital. Moreover, dearth of people willing and able to undertake entrepreneurial functions shifts the responsibility of development on to the government. In a country where the majority of people are living on subsistence level, the margin between income and consumption is very low, so that voluntary savings, howsoever welcome, cannot by themselves provide sufficient resources for development. In such countries taxation can hardly meet the routine expenses of the government, and poor people can be taxed only to a limited extent. The governments of such countries guided by their economic advisers who

invariably happen to be the graduates of the Keynesian school resort to deficit financing in their anxiety to implement development schemes. It does not take them long to discover that their monetary unit has lost much of its value, and that they have become victims of inflation.

As explained earlier the states are now obliged to adopt and enforce the policy of full employment, and to create jobs for the unemployed. For this purpose the state is expected to exert on two fronts simultaneously. On the one hand it must educate and train its manpower to make them fit for the jobs to be created for them; and on the other hand, the state has to tap its natural resources, extract raw materials for industrial use, and set up industries to convert the raw materials into utility products. The implementation of such a vast programme requires plenty of funds, which the underdeveloped countries do not possess. Dearth of finances leads the states to resort to deficit financing. And deficit financing is such an alluring device which entraps you easily, and then leaves you in the lurch.

9.7. FISCAL POLICY AND FULL EMPLOYMENT.

From being a means of raising revenues with as little harm to the economy as possible, taxes and loans have become a major weapon of economic control. This new role is seen most clearly in their use as a means of maintaining full employment. The part which fiscal policy can play in this regard is discussed below.

The aim of all full employment policies monetary or fiscal is to maintain full employment without inflation. The crux of the problem is to watch and correct the ratio between the flow of expenditure on the one hand and the flow of goods and services for sale on the other. If total expenditure (which is the quantity of money available multiplied by its velocity of circulation) in a given period is less than the total value of goods and services available to be bought, (which is the quantity of goods produced multiplied by the prices which producers hope to get for them), we get falling prices and in all probability unemployment. The government's task is, briefly, to try to make demand equal supply at full employment with stable prices.

The first operation in fiscal policy is to discover whether any monetary or fiscal adjustments are likely to be required, i.e. to assess the probability of the emergence of a deflationary or an inflationary gap during the next planning period. For this purpose a forecast of the items of expenditure must be compared with an estimate of the prospective supplies available. It demands a careful and foreseeing guesswork as no available record can be had about future expectations. On the basis of such forecasts, policies to close deflationary and inflationary gaps are adopted as suggested below.

9.8. DEFLATIONARY GAP.

If deficiency of total expenditure is anticipated and if it cannot

be remedied simply by increasing the quantity of money, fiscal policies for an increase in consumption, or investment, or government spending, or all three must be applied to persuade the private sector to consume more, or invest more, or the government must spend more in ways which do not reduce private expenditure.

Private expenditure can be stimulated by persuasion through propaganda media accompanied by financial inducements like cheap loans for house building, purchase of car, furniture, fridge, television set etc, and subsidy to the manufacturers of durable and consumer goods. Policies which leave people with more money of their own to spend are the most effective inducements to spend more. The major fiscal stimulus to private spending comes from reduction of taxes or from the adjustment of taxation in favour of the spenders and against the savers. Taxes and social security contributions can be reduced and social security benefits increased to rectify deficiency of demand.

A useful instrument for encouraging investment is to hand in the depreciation allowance to firms. One can make investment more profitable by giving bigger depreciation allowances and initial investment allowances on investments.

Opinions differ as to which of the two routes that via consumption or that via investment will bring us most surely and most quickly to the goal of full employment. It is really impossible to decide a priority on the relative merits of the two policies. The final result of either would vary from one situation to another: much would depend on what kind of C or I is increased, and on the size of the multiplier and accelerator in different sectors of the economy.

If private sector of the economy fails to maintain full employment, the government must try to fill the gap by spending more itself. The government is an important spender anyway, and can moderate cyclical fluctuations a little by making compensating variations in its normal and routine expenditure. Schemes which public may condemn as extravagance in a boom may be welcomed in a slump because they provide work. Government spending has both a primary effect and a secondary effect. Primarily it creates employment directly and at secondary stage spending out of the extra incomes created directly will increase employment still further. We must not, however, oversimplify the problem. There are all kinds of difficulties in the way of full employment through public works. Efforts should be made to anticipate them well in time, and to tackle them wisely.

Then there is the problem of timing. Ideally public works should reach their peak load at the same time as cyclical unemployment reaches its peak, but in practice this is impossible. There is always the possibility that the programme will be delayed by unexpected snags, so that the end of the slump leaves us with a half completed project which for technical reasons cannot be left unfinished. Then there is risk of giving birth to "white elephants," expensive works intended to be self-supporting in the long run, but

which for a variety of reasons fail to pay their way and remain for years a drain on the public purse.

The chances of making a reasonably accurate prediction of the consequences, both direct and indirect, of a public works programme can be greatly improved by what is called an Input-Output Analysis. The major obstacle to successful forecasting by the use of input-output analysis is the enormous labour and the length of time required to produce tables in a sufficiently detailed form to be of practical use. The delay can be reduced with use of electronic computers.

Three other practical weaknesses of public works might as well be mentioned. Public investment may scare off private investment especially when financed by budget deficit. It arouses real fears of huge national debts and makes the private sector more cautious about its own investment. Public investment may also compete with private investment by drawing some of its labour and materials away, or by producing similar products. In such cases increased expenditure by the state will be at least partly offset by reduction in private expenditure, and the net income creating effect of the public works programme will be so much the less. On the other hand it is possible that increased public investment will cause an increase in private investment by opening up new opportunities for private investment in the same or a complementary field. Public expenditure on railways and roads provide transport facilities to commerce and industry and similar expenditure on electric power-stations provide power for industrial production and development. Exploitation of atomic energy will be the source of employment in capital goods industries who build power stations run by atomic power.

We should always remember that it is most unlikely that any public works policy will ever succeed in providing exactly the right amount of work of the right kind in the right place at the right time to maintain employment at precisely the desired level. To expect it to do so is to demand an unattainable degree of perfection. We should also remember that full employment is not the sole aim of economic policy; we must beware lest in trying to achieve the optimum level of employment we pay insufficient attention to other desirable optima. Finally we should note that investment has two effects: it creates employment and it increases our stock of capital. There is no reason to suppose that the amount of investment required to restore or to maintain full employment will also leave us with the equilibrium stock of capital.

If we think of the two main weapons of fiscal policy stimulating private expenditure by cutting taxes on the one hand, and increased government expenditure on the other as alternatives, is there anything to choose between the two? Is revenue variation better than expenditure variation, or vice versa?

Revenue variation avoids most of the difficulties associated with public works the delays and problems of timing and of

competition with private investment, and so on. On the other hand it relies on voluntary spending of the higher disposable incomes; if they are saved, nothing is gained. It is also more difficult to direct any consequent increase of expenditure into particular channels. It is sometimes said that the chief virtue of revenue variation is that it gives the private sector of the economy more control over the disposal of the national income. Whether we agree with this or not depends on our opinion as to what is the best distribution of the national income between the public and the private sectors.

Expenditure variation has the opposite virtues and defects. The difficulties and weaknesses of expenditure variation via public works have already been fully discussed. Its major virtue is that the primary effect on incomes and employment is direct it does not rely on propensities to consume or invest. An additional million pounds of public expenditure creates directly a million pounds worth of incomes and employment: we cannot be so certain about the primary effect of a million pound's worth of tax remission. Government expenditure can also be selective it can, for example, be directed to a depressed industry, or be designed specifically to induce an increase in private investment.

There are thus arguments in favour of, and against, either method. One cannot say a priori that one is better than the other; and the decision to use one method or the other should be made according to the current situation and the consequent aims of the government policy.

Next we come to the financing of full employment policy. Full employment policy obviously needs finances for its execution. The gap between the receipts and total expenditure must be made up somehow, and the success or failure of full employment policy may depend on the methods by which the deficit is financed. There are three methods: by the issue of more currency notes, or by borrowing from the banks, or by borrowing from the public. By the first two methods the quantity of money increases and inflation is promoted, whereas if government raises money from the public, the quantity of money remains unaffected. Only spending power is transferred from private citizens or corporations to the state.

9.9. INFLATIONARY GAP.

Having dealt at some length with fiscal policy in a deflationary situation we can briefly summarize the policies appropriate to the opposite situation; the methods of closing an inflationary gap. They can be classified as follows.

(a). Persuasion and Regulation- e.g.

1. Restrictions on hire-purchase finance, and/or the enforcement of higher initial deposit and shorter periods of repayment.
2. A saving campaign, preferably accompanied by offering higher rates of interest.
3. A reduction of Inland Revenue allowances for depreciation.

(b). A Budget Surplus which can be achieved by:

1. Increasing taxes, either direct or indirect.
2. Cutting in government expenditure.

There is some doubt about the effectiveness of higher taxes as a means of combating inflation as explained below:-

Additional direct taxes may be paid out of money which would otherwise have been hoarded, in which case higher taxes will not reduce private expenditure. When indirect taxes are increased, purchasers of the taxed goods have to spend more money on them to buy the same quantity. Therefore, they have less to spend on other things. The net result is that some private expenditures which previously went as incomes to producers, to be spent again, now goes to the government to form part of the unspent budget surplus. Higher indirect taxes, therefore, like higher direct taxes, cut down the flow of spending but only in so far as the public's demand for the taxed goods is maintained in the face of higher taxes if there is any elasticity at all in the demand for goods subject to tax, tax revenue will not increase proportionately with the tax rate. If elasticity of demand for the taxed commodity is greater than unity less will be spent on it when the tax (and hence the price) goes up, and the public will have more money left to spend on other things. Most indirect taxes are, in fact levied on goods for which the demand is inelastic, but elasticity of demand is not usually the same at all possible prices. A demand which is inelastic at low or medium prices may very easily become elastic at high prices. There is thus a limit to the usefulness as an anti-inflationary measure of higher indirect taxes even on goods for which the demand is, at present prices, inelastic.

Higher taxes may have a disincentive effect which reduces the deflationary effect, in that by deterring work and enterprise it reduces the flow of goods and services to be set against the flow of expenditure. They also encourage wasteful and extravagant expenditure on anything which can be charged to business expenses, and discourage effort and enterprise in efficient and expanding industries.

In an economy pledged to full employment higher taxes may also be inflationary. Higher indirect taxes push up the cost of living, higher direct taxes reduce take-home money; and both depress the worker's standard of living and provoke demands for higher wages.

The second method of achieving a budget surplus namely cutting down government expenditure avoids these difficulties. It does, of course, have its own drawbacks, of which the most important is that any worthwhile economies will involve major changes of policy. A reduction in government expenditure coupled with an equivalent reduction in taxes is expected to be disinflationary.

Full employment is an elusive goal, impossible to achieve under the capitalist mode of production and distribution. It evades them eternally like a mirage, and all their fiscal policies in its search

prove to be mere probing in the dark with the help of murky twilight, which fails to provide effective guidance.

9.10. CONCLUDING REMARKS.

States have to fulfil certain obligations towards their people, and to maintain friendly relations with the rest of the world. These functions require wise and effective policies as well as plenty of financial resources to implement them. The formulation of such policies and the procurement of necessary finances demand genius leaders with revolutionary zeal and spirit of sacrifice. Geniuses are not a rare commodity; they exist in every country, but their field of operation is restricted and controlled. They are allowed to operate freely in the fields of physical sciences, but in the field of social sciences like economics and politics, they are deprived of that freedom as explained below.

Scarcity of means and abundance of their demand initiated the struggle for existence in which the exerting individuals and budding societies found themselves involved. While favourable circumstances helped some people to achieve wealth and power in this strife, unfavourable circumstances let others drift and suffer. Those in power hastened to collect and consolidate the practices which helped them to achieve, into a firm system. Vested interest, which this system created and bred, did all they could to fortify the set-up thus evolved, and to sanctify the system for future generations. Guide books on economic theory and practice now mould our economic behaviour on a set pattern, which none dares to modify or alter. All are expected to toe the line submissively.

With the help of a contrivance composed of bastard money, fake credit and real interest, this system has firmly established the supremacy of capital to enslave the labour that creates wealth. Therefore, all its fiscal policies depend upon this trigger alone, as no alternative can be adopted without violating the sanctity of the system. To know all about the contrivance of bastard money, fake credit and real interest, please read the following two chapters carefully.



MONETARY SYSTEM

10.1. ESSENTIAL ATTRIBUTES OF MONEY.

Money came into existence as a medium of exchange to facilitate exchange of goods and services. It appeared in the form of gold and silver coins to retain public confidence in its intrinsic worth. Due to stability of its own intrinsic worth, the money unit became a measure of value for other goods and money itself became a treasure of wealth. The three attributes of being an exchange medium, a measure of values, and a treasure of wealth, thus became essential attributes of money from the very first day money appeared, and remain so ever since.

Money continued to exhibit these three attributes faultlessly for millenniums and public confidence in its value did not impair. But economic jugglers of the last two centuries debased money, deprived it of its intrinsic worth and reduced it to a piece of paper carrying promises never meant to be fulfilled. Their constant failure to retain full value of their money in their paper currencies establishes beyond doubt that these three attributes of money are indispensable.

Economic stability demands that public confidence in money value should continue to remain unshaken, and that a measure of values itself should remain stable at least for some decades at a stretch. It is quite obvious that none will save and preserve money as such, if its value continues to dwindle every now and then. The value of money, therefore, holds key position in an economic structure, and only its stability can make a monetary system stable.

10.2. STABILITY OF MONETARY VALUES.

There is only one way of securing stability of monetary values, and that is to adopt a commodity of stable intrinsic worth as foundation to build national monetary structure upon. Monetary systems evolved everywhere only in that way, and all of them

flourished stably for millenniums without any mishap. However, when the warring European nations started flouting this basic rule by nibbling at the gold in their currency reserves in early twentieth century, public confidence in monetary values began to waver.

The two World Wars crippled every nation of the world economically, and their economic rehabilitation consumed the remaining gold reserves in their currency chests. Deprived of all tangible reserves, the public had no alternative but to rely upon the wit and wisdom of their bureaucrats for currency stability and economic recovery. Bureaucrats possess no magic wand although they are inclined to perform miracles. Their economic wizards prescribed deficit financing which they adopted ruthlessly. The result was inflation.

People's confidence in national currencies no longer exists. They use national currencies perforce, as barter is outdated and they have to use money for exchange of their goods and services, but they hoard money no longer. They prefer gold and real estate instead. The grip of gold on human mind is realistic and rational. Experience has taught the public to adjust their confidence in national currencies in proportion to the percentage of gold remaining in their currency chests. International Monetary Fund applies the same criterion for evaluating the soundness of national currencies. Universal fall in currency values produced by worldwide inflation provoked all nations and the IMF to part with their gold hoards, but their response was cautious and reluctant.

Firms of renown operating in international money markets maintain huge reserves of gold to hedge their speculative deals against. They create artificial fluctuations in the market prices of gold and some chosen currency by speculation to fill their coffers. Only firm confidence in the stable value of gold can make them do so. The grip of gold on human mind is imperishable as well as rational. All efforts of the capitalist economy to destroy it have so far failed, and are doomed to failure in future as well.

It is the intrinsic worth of money which imparts it a definite value, and therefore, enables it to become a measure of value for other commodities in its own terms. The measure of value must be stable by itself to remain a correct measuring rod. Lack of stability in the measuring rod falsifies all calculations, shatters public confidence and produces stagnation in economic activities.

Our economic jugglers have befogged the nature of money so cleverly that we perceive it no longer. After all what is money? Isn't it a worthwhile exchange medium? We exert to receive the fruits of our toil in an exchange medium which should be an entombment of our sweat and toil, a congealed form of our labour as Marx called it. If money is not that much real, it is fake and fraud. National and individual interests demand that money must be real and its market value should remain stable to weather all economic climes. If liquidity lures us to retain paper currency, its backing must be foolproof, real and stable. In this context it will be very helpful to

apprehend and appreciate how all national currencies reduced themselves to a fraction of their original values during the last fifty years or so.

10.3. PAPER CURRENCY AND ITS RESERVES.

Necessity goaded us to adopt money as a helpful medium of exchange, and handling convenience lured us to accept paper currency as its substitute. To bridge the yawning gap of mistrust between real money and its paper substitute hoards of gold and silver had to be set aside as paper currency reserve. This guaranty secured fulfillment of the promise to pay real money on demand; but in doing so it raised the sanctity of the reserve sky-high and made it a crucial pivot of the monetary system. Societies using paper currencies must therefore, not forget that their currency reserves are the foundation stones on which they raise the super structure of their monetary system, and that the stability of the whole structure depends entirely on the firmness of this foundation.

The intrinsic worth of the constituents of a currency reserve determines exclusively the degree of its soundness at home as well as abroad. It is quite significant to note that inflation could secure no breeding soil for so long as the world retained the gold standard. Monetary theorists admit and Mr. J.L. Hanson records that

"One of the main advantages of the gold standard is that it sets a limit to monetary expansion so long as its rules are obeyed, there can be no runaway inflation".

(MONETARY THEORY AND PRACTICE BY
J.L.HANSON.PAGE.145).

Therefore, to get rid of inflation and undue monetary expansion, we should return to the gold standard as soon as possible. It is not such an Herculean task as it is displayed to be. Capitalist countries failed to achieve it simply because their individual self-interests clashed with their national interests.

Currency under the gold standard is allowed to expand only after depositing an equivalent amount of additional gold in the currency reserve, leaving thereby no chance for inflation to creep in; but now gold forms only a small fraction of the currency reserve, the rest contains foreign currencies, state securities and loans assets of fluctuating values, which provide fertile soil for inflation to flourish. A statement of the Bank of England currency department, for the years 1937 and 1970 is reproduced in Table 1 from page-94 of Mr. Hanson's book on 'Monetary Theory and Practice' to demonstrate our point of view.

This informative statement tells us that gold, the sole component of the British currency Reserve till the outbreak of the First World War was reduced to 26% by 1937, and to 0.01% by 1970, under a pre-determined policy of the capitalist countries to oust gold out of the international monetary system. The statement further tells us that the government securities which constituted

35% of the reserve in 1937 rose to 99.57% by 1970, and the British currency reserve held the following at the end of 1970.

TABLE 1. BANK OF ENGLAND, CURRENCY ISSUE DEPT.

	1937	1970
LIABILITIES.	£. m	£. m
NOTES ISSUED		
In Circulation.	498	3230.5
In Banking Dept:	28	20.0
	526	3250.5
ASSETS.	£. m	£. m
Government Debt.	11	11
Government Securities.	185	3236
Other Securities.	4	1
Coin (other than gold)		2
Fiduciary Issue	200	3250
Gold, Coin and Bullion.	326	0.5
	526	3250.5

Government Securities.	99.57%
Government Debt.	0.33%
Coins.	0.06%
Other Securities.	0.03%
Gold.	0.01%
Total.	100.00%

The third significant fact which this statement reveals is that whereas a quantum of only 526 millions worth of pound sterling paper currency sufficed to serve all the monetary requirements of the global British Empire upto 1937; long after its break-up it needed in 1970 six times as much i.e. 3250.5 millions worth of pound sterling paper currency to conduct its dwindled business. The reason is not far to seek. If we study the persistent co-relation between rising market value of gold in sterlings, and the falling monetary value of pound sterling, we are forced to conclude that it was the ouster of gold from the British currency reserve which caused the downfall of the monetary value of the pound sterling.

The fact that in the absence of gold, government securities constituted 99.57% of the British currency reserve also deserves consideration. Government securities are public debts. To make up the deficiency between public revenue and public expenditure, state authorities are obliged to borrow from the public. They float loans pledging nothing except the public confidence which the people are driven by circumstances to repose in the state authorities. Due to the evident nature of security behind these loans, they are called government securities.

Debt, as everyone knows, is a liability, not an asset. To pledge one liability as a security for fulfillment of another liability is an amusing freak of economic witchcraft. Some consider it a

downright betrayal of public confidence, and others dub it a swindle perpetrated on a nationwide scale.

Bureaucrats of the capitalist world took some time to realize that their currency reserves must be replenished with some real wealth, and so they hastened to purchase dollars and other hard currencies in European money markets. The table 2 shows the progress made by hard currencies in capturing the world's monetary reserves.

TABLE 2: WORLD MONETARY RESERVES
(In \$ 000 Millions)

	1958	1970
Gold	38.0	37.0
U.S.Dollars	5.0	20.5
Sterlings.	7.5	7.0
Other Currencies.	1.5	3.5
I.M.F. facilities.	3.0	6.0
TOTAL	55.0	74.0

(*Monetary Theory and Practice, J.L.HANSON, Page 310*)

The grip of gold on human mind is indestructible. Although its percentage in the world monetary reserves fell from 69% in 1958 to 50% in 1970, it is immortal still. The dollar which multiplied four-fold during these twelve years, constituted 27.7% of the world monetary reserves in 1970. Commenting on the politico-economic situation during the decade of seventies, an article- THE LIMITS OF POWER- appeared in the NEWS WEEK International dated: November, 19, 1979 which observes:-

"America has been less successful in coping with the new economic limits of the '70s. The inflation that Lyndon Johnson fuelled with the red ink of financing the Vietnam escalation was firmly in sway in 1970, threatening to end the comfortable American assurance of at least a bit more pie for practically everyone every year. Economists who began the decade predicting confidently that "fine tuning" would make the business cycle a bugbear of the past, stared in dismay at charts showing each inflationary peak higher than the last, each recessionary valley deeper.

Richard Nixon tried mandatory wage-price controls, Gerald Ford tried the WIN button, Jimmy Carter tried voluntary guidelines and Carter's chief inflation fighter, Alfred Kahn tried red baseball bats. And finally most economists reached the sad conclusion that deep punishing recession was the only force that could put the economy straight. The decade's most remarkable moment in U.S. politics came when Paul A.Volcker, the new Federal Reserve Chairman, warned last month that the standard of living would have to decline and no firestorm of protests erupted, not from Congress, the Administration, or the public.

Global Slump: In truth, a surprising number of Americans were ready to listen to Volcker's message. Inflation was cutting too close the bones, as the decade wore on, it ran away from recession and unemployment as a present danger in the minds of the public.

And the decline of the dollar, which might seem a remote problem, was deeply troubling; a Gallup poll found 90 percent agreement that maintaining the dollar was a crucial objective. Furthermore, the trouble was accelerating. After Nixon took the U.S. dollar off the last vestiges of the gold standard in 1971, the new floating exchange rates served for a while to contain monetary turmoil. But the dollar floated mostly down, and since it is still the store of value for most of the world, that meant trouble for the whole system. By this year, frantic speculation in gold a symptom of distrust of all currencies drove its price to the incredible neighbourhood of \$ 400 an ounce. If trust could not be restored, a global slump threatened.

The inflationary disaster owed much to U.S. fiscal bumbling, but it was also prodded along from outside, by the oil producing nations of OPEC. What was arguably the most seismic event of the decade came in 1973 when King Faisal of Saudi Arabia, reacting to the latest Israeli-Egyptian war, cut oil production and declared a boycott on shipments to Israel's arms suppliers. The resulting disruption convulsed Europe and produced the first gasoline lines in the U.S.; more important it showed a hitherto flabby cartel just what its muscle could do. Within weeks OPEC announced a quadrupling of the basic oil price. As the price continued to spiral, Saudi Sheikh Ahmed Zaki Yamani warned that oil was a diminishing resource, and the West must learn to use less and pay more, there was bluster about taking over the oil fields, but in the end America accepted yet another limit on its power. And since each 10 percent rise in the price of oil adds 1 percent to the U.S. cost of living, the price to Americans was high indeed.

Building Anger: The psychological effect was harder to read. By solid majorities 54 percent at last polling people refused to believe that the energy problem was real; but they knew well enough that they were paying \$ 4 a pound for coffee, \$ 8 for a pound of veal and more than \$ 1 a gallon for gasoline. One result, says Harvard Sociologist James A Davis, is that confidence in the institutions is falling fast. "Most Americans would say there is something that can be done about inflation". Davis says, "They don't know what it is, but the notion that nothing can be done that is un-American. They think that the problem can be solved, and they are mad at the institutions because they are not solving them".

(NEWS WEEK INTERNATIONAL, 19TH NOVEMBER, 1979).

Inflation is neither a perplexing enigma, nor a Gordian knot. It is merely an economic phenomenon of our own creation. By debasing money we increased thirst for wealth. The remedy lies in reversing the process. Replenish our currency chests with gold and muzzle mania for excessive profits with legal chastisements. Inflation will vanish in a short time.

Inflation cannot be tamed without adopting the gold standard once again. Adoption of the gold standard is not such an uphill task as it is considered to be. It can be achieved in a few years, provided the state authorities so intend.

For this purpose let the gold be freely imported, but ban its

export effectively, so that the public begins to use it freely for private purposes. As soon as the public acquires sufficient gold for personal uses, declare that a certain percentage of all state duties and taxes will be accepted only in gold, the rest being acceptable in money. Deposit the gold thus acquired entirely in your paper currency reserve, and let it lie there for ever. Now publish a correct and honest statement about your paper currency reserve, every week to let the nation and the world assess the monetary worth of your currency. Your currency is bound to float upwards in the international markets. Revalue it to the extent circumstances permit. Judicious application of this policy can put a nation back on the gold standard without taxing the public or straining national resources. The miracle may not happen in a couple of years as optimistically anticipated, and may take a decade or so, but it is bound to happen in due course.

10.4. QUANTITY OF MONEY.

How much wealth a country must possess in monetary form is a question which arose only after the world gave up the gold standard. Nobody asked that question before simply because money and gold remained synonymous and mutually convertible with ease during the gold standard regime. But thereafter indiscreet issue of paper currency without adequate currency reserves brought up for discussion the quantity of money as well.

Since money acts as a medium of exchange for marketing goods and services the quantum of marketable goods and services determines the quantum of money needed for their exchange. The current total value of all marketable goods and services needed by a country at present can be determined by the statisticians after collecting necessary data. The figure so obtained will represent the purchasing power required by that country at present.

The national purchasing power is evidently a product of two factors the market value of the country's monetary unit multiplied with the quantity of those units required to meet all the exchange needs of the country. This fact can be expressed mathematically in the form of an equation.

$$P = M \times Q$$

Where P denotes the total purchasing power of a country, M denotes the market value of the monetary unit of that country, and Q denotes the quantity of these units required for all exchange purposes. With constant P any change in M or Q is bound to produce a proportionate inverse change in the other. If the market value of your monetary unit is reduced to half, you will need twice as many units as before, and if the market value of your monetary unit is doubled, only half the existing units will suffice to meet the country's exchange requirements. The equation implies that for any genuine increase in P, proportionate genuine increase either in M or Q or both is necessary.

This equation also explains the spread of inflation due to deficit

financing after giving up the gold standard. Increase in the quantity of money by printing currency notes without adequate increase in the currency reserve always reduces the market value of the monetary unit proportionately.

"Professor Friedman and some of his colleagues have conducted massive researches into the monetary history of the United States over the past century, and come to a number of important conclusions. One is that the quantity of money is the most important determinant of the price level. There is perhaps no other empirical relation in Economics that has been observed to occur uniformly under such a variety of circumstances, as the relation between substantial changes over short periods in the stock of money and price".

(ECONOMICS BY H.SPEIGHT. PAGE-455).

Since national purchasing power is a genuine form of wealth like all other forms of real wealth it can be increased only by creating additional wealth through the application of genuine productive efforts. All other make believe gadgets are futile.

Deliberations over the quantity of money reveal some basic truths of grave importance about the monetary system. Since they deserve everybody's attention, they are recorded below:-

1. The universally accepted practice of using paper currency as substitute for real money demands a cautious approach as it has already proved to be treacherous. To forestall its treacherous behaviour is the first economic responsibility of any state.
2. As money is a genuine and not a mere make-believe form of wealth, any increase in it can be made only by first producing real wealth from natural resources and then converting it or some already existing real wealth into the monetary form, i.e. by increasing the currency reserve with real wealth first, and then printing currency notes of an equivalent worth. Without a proportionate increase in the currency reserve, printing and circulating paper currency is fraudulent and an act of treason.
3. To restore public confidence in the national paper currency the state must publish weekly statements of the currency department of the Reserve Bank or money issuing institution of the state. These statements must disclose full details of the constituents of the currency reserve.
4. Fall in the market value of one's currency is a signal of something wrong somewhere. The state authorities should respond to such signals promptly and take appropriate remedial measures. How to determine and maintain the required quantity of money is not so difficult in theory; the difficulty arises only in practice when we fail hopelessly not in supplying the required quantity, but in controlling its over-abundant supply, due to insurmountable hurdles raised by the monetary system we follow so devoutly.

To determine the quantum of money a country needs and to supply it is obviously the responsibility of the state, and the state would have discharged it easily only if it were allowed to remain the sole supplier of money, and the money minted by the state retained its monopoly as the only genuine money that could be used. But if many independent institutions start forging money and flooding the so-called money markets with their peculiar brands, as it happens under the capitalist economy, monetary control becomes impossible, and inflation spreads. Therefore, it becomes essential to restore back to the state its money making monopoly.

To explain why money making monopoly should rest with the state alone, it will be helpful to analyze the institutions which create quasi-money. An exposure of their exploitory tactics will bring to light the anti social elements concealed therein, and generate demands for remedial measures. As commercial banks top the list of such institutions, we will start with their analysis.

10.5. BANK MONEY AND CREDITS.

The general public does not even know that the bank money is quite different from the real money; they consider both of them to be identical. According to their information some people deposit their surplus money into the banks and the banks lend this money to other people who ask for loans. The banks charge a higher rate of interest on the loans and pay a lower rate of interest to the depositors. Surplus income due to the difference in the two rates becomes the profit of the banks. Evidently nothing appears to be objectionable in this process; in fact as it benefits all the three parties involved, i.e. the depositor, the banker, and the borrower, banking seems to be a social service deserving encouragement from all quarters. According to their deficient information that is how the banking industry developed, thrived and soon became the life-line of all economic activities; and they feel that any attempt to stifle banking at this stage is bound to paralyze national economy. Thus both, the specialists who contrived banking and the laymen who accepted it, join hands in lauding banking not only a harmless but a beneficial institution.

But some people who can see beneath the surface as well, ask if banking credits are so innocent what enables American Jews to dictate America for adopting a pro-Jewish and an anti-Arab policy in the Middle East? It is no longer a secret that Jewish credits to Britain during the First World War secured a Jewish National Home in Palestine, and that similar credits to Europe and America not only created the State of Israel, but also permitted it to become aggressive. It is now quite evident to a shrewd observer that it is the network of International Banking and Credits which helps the rich nations to become richer, and forces the poor nations to become poorer. To explain how it happens is the inherent duty of true economic analysis.

Credit means lending money and charging interest for this service. The justification of interest, though an allied issue, differs somewhat from the banking practice as such. We will examine the merits and demerits of the practice of charging interest in the next chapter; here we will explain how bank money is different from the real money as well as from the cash lodged by the depositors into the banks. We will also explain how this new type of money spreads inflation with undue monetary expansion on the one hand, and on the other how it enables the bankers to amass enormous wealth on the pretext of lending on interest.

Professor H.SPEIGHT in his book 'Economics, the Science of Prices and Incomes' tells us that in commercial banks,

"The total stock of money consists of cash and bank deposits. Some of these deposits are an alternative to cash i.e. they have been acquired by depositing cash at the bank but the greater part of the total quantity of bank deposits have been created out of nothing, and are the counterpart of loans made by the banks to their customers. Most of the money in use today is, infact, created money of this kind, and is called credit money. The bank's freedom to create credit is limited by the fact that possession of a bank deposit gives the holder the right to demand cash from the bank to the full value of that deposit.

In practice depositors do not often exercise that right if they did there would not be enough cash to go round and the system of credit creation and payment by cheque would collapse. The banker does not need a cash reserve equal to his total deposits, but he must keep a reserve of cash sufficient to meet all the likely demands for cash. The bank failures of the nineteenth century were, of course, the result of failure to maintain a high enough ratio of cash to deposits. There was much discussion throughout the nineteenth century as to what this cash ratio ought to be, and there were a number of proposals around the turn of the century for enforcing a minimum ratio, but nothing came of them.

The banks now keep a day-to-day cash ratio of about 8 percent".

(ECONOMICS BY H.SPEIGHT PAGE-495).

"It is most important that we should realize that these loans do not involve a transfer of currency from the bank to the borrower. The borrower does not, in fact, usually want currency; it is much more probable that he will prefer to make most of his payments by cheque, and what he wants from the bank is the right to draw cheques. The right to draw cheques derives from possession of an account at the bank, and when a bank lends money to a client it does so by "creating a deposit" in his favour. This deposit has no physical existence at all, except as strokes of ink in the bank's ledgers. Yet it is just as useful to the borrower, and just as effective a money, as a deposit arising from the payment of cash into the bank. The bank has, infact, created money simply by saying that Mr. X has the right to draw cheques upto a certain value, and giving him a cheque book. To use a common phrase, "loans create deposits", and bank deposits of any kind are money, just as much as notes and coins".

(ECONOMICS BY H.SPEIGHT. PAGE-487).

These two quotations admirably explain the nature of the bank money and the part played by the banking network in monetary expansion. The fact that the banks find it safe to expand their loans and deposits with an 8 percent margin for cash demand, enables us to estimate the quantum of money which the banks create with this device.

When a cash reserve of only eight rupees can take care of a cash deposit of one hundred rupees, a cash reserve of one hundred rupees will enable the bankers to lend out and create deposits worth $(100 \times 100) / 8$ or Rs. 1,250/- i.e. twelve and a half times the deposits received in cash. Mr.J.L.Hanson also confirms this calculation on page 29 of his book entitled "Monetary Theory and Practice".

In countries with fully developed banking network the bankers do create bank money to the extent of twelve and a half times the deposits they gather from the public in cash. Everybody becomes bank minded in such countries since manufacturers and traders avail of the bank credit facilities, and all their purchase and sale documents flow through the banks, and the workers are also paid by cheques, which they collect through their bank accounts. One can therefore safely assume that the biggest chunk of the real money circulated by the state flows into the banks.

However, a considerable amount of real money remains outside the banking circuit, and its estimation is a mere guess work. Some money always remains with the public for meeting day-to-day cash requirements of the consumers and the suppliers. Some money remains with the illegal traders engaged in smuggling and drug traffic etc; and even some other traders who are inclined to evade duties and taxes keep some funds away from the banking network for conducting underground business. If we assume that one half of the total money put into circulation by the state, thus remains outside the banking circuit, and the other half flows through the banks, the banks would be creating six and a quarter times as much bank money as the total currency issued by the state. Thus the economy gets flooded with seven and a quarter times as much money as the real one. Such a large scale monetary expansion is bound to reduce the purchasing power of money drastically as confirmed by Professor Friedman's researches quoted earlier from page 455 of Mr.H.Speight's "Economics".

According to our earlier estimation banks multiply real money more than six fold. Such an enormous monetary expansion breeds inflation by pushing the prices upwards in direct proportion. However, without quibbling over the exact amount of inflation produced by the bank credits, it is an established fact that the banks contribution to inflation is abundant enough to undermine the stability of monetary values, and therefore, needs to be drastically controlled. The curbs designed and applied by the Reserve Banks of capitalist countries for credit control cannot check inflation at all, since they respect the rights of the commercial banks

to create credit money. The reason why economic wizards fail constantly to contain inflation lies in their refusal to probe into its fountainheads. Only a thorough probe into the propriety of the bank's right to create bank money can lead us to devise a really effective check for the type of inflation which the banking system spreads.

We have already explained what credit money is, and how it is created out of nothing. In spite of the damage it does to the monetary values, the bankers continue creating it because it is a highly profitable occupation. A cash deposit of Rs. 100/- enables the bankers to create a credit of Rs. 1,250/- on which they earn an interest of Rs. 125/- every year by lending it out at ten per cent per annum. The overall cost of maintaining a banking establishment for handling every cash deposit of Rs. 100/- and ensuing credit of Rs. 1,250/- should not exceed Rs. 15/- at a reasonable estimate, but let it liberally be Rs 25/-, thus saving a net income of Rs. 100/- for the banker's profit. This means that the banking network earns every year as much as the total cash deposits it receives. If half the paper currency circulated by the state flows through the banking network, as assumed earlier, the network will be earning in just two years money equivalent to the total monetary wealth of the state.

By creating bank money the banking system indulges in two evils. It reduces the purchasing power of the real money to a fraction, and it concentrates wealth into the hands of the banking community at a very high speed. That clearly explains how the Jews, who developed and still control the international banking network, usurp national wealth and thereby influence political policies of the industrially advanced countries.

Society is entitled to be spared of both these evils emanating from the bank money. There is no justification whatsoever for the creation of bank money, and there is every justification to ban this antisocial practice by legal enactment. Bankers should lend real money only, and desist from creating bank money. Banks which fail to comply with it, should be closed down. If this policy fails to contain inflation, the practice of charging interest on loans should be banned. It will revolutionize the banking system and choke inflation simultaneously.

Our opposition to the creation of bank money is based on logic, fair play and social justice, which have been thoroughly explained. Similar explanation would precede the prohibition of interest, if and when that is recommended. The issue of interest is discussed in the next chapter. In the meantime other outstanding monetary issues are dealt with below.

10.6. OTHER VARIETIES OF QUASI-MONEY.

A document recording a particular person's right to ownership of some property is neither money nor quasi-money; but if that document is made negotiable by endorsement and allowed to be

freely traded in the money market, it becomes quasi-money. Large scale trading in government securities, stocks and shares have made them quasi-money, producing monetary expansion with some contribution to inflation. Such trading being economically non-productive must be discouraged by the state.

Behaving as quasi-money government securities contribute to monetary expansion a great deal. The British currency reserve consisted of government securities to the extent of 99.57 percent in 1970 a quantity equal to the total paper currency issued by the Bank of England. An equal quantity can reasonably be assumed to be in possession of the money market, the commercial banks and the general public. When most of these securities are freely traded in the money market, the extent of monetary expansion they will produce can well be imagined. To avoid inflation such trading should be disallowed by the state. This can effectively be done by declaring government securities non-negotiable at the time of their issue.

Government securities or public debts are floated for a stipulated period of five or ten years, and they are made negotiable to facilitate their premature encashment by the needy holders. But this facility has been abused by regular and speculative trading in these documents. The facility should therefore be withdrawn. Those who cannot afford to lock up their savings for the stipulated periods of these loans should abstain from purchasing them. They can easily find other avenues of profitable investment. As negotiation of government securities has spread inflation and promoted speculative trading, it must henceforth be legally banned, and all future state loans must be issued non-negotiable.

Joint stock companies issue their shares in small monetary units to promote saving and investment, and with the capital so collected they put up big industrial concerns which produce wealth and promote national development. These objectives induce state authorities to promote capital formation by launching investment trusts and investment corporations as joint stock companies. The role of these investment corporations deserves our comments; but as they carry out their business at the stock exchanges, a few words about these exchanges should precede.

Trading in stocks and shares is carried out in stock exchanges whose members are called stock brokers. They buy and sell government securities as well as stocks and shares of joint stock companies for themselves and for others. People know the stock exchange as a place where they can buy investments of their choice and dispose them off when desired through the stock brokers. For small investors bent on deriving a reasonable yield from their investment, this is the only utility of the stock exchange. But for the speculators it is a fertile field which can yield bumper crops. The stock brokers as well as other individuals and institutions including investment corporations indulge in speculative trading in stocks and shares and reap the harvest. Such speculative

trading, no doubt, increases the wealth of some at the expense of others, but as it cannot increase the national wealth by a single penny, it is both non-productive and anti-social. Such trading should, therefore, be banned.

An investment corporation comes into existence as a joint stock company inviting public to subscribe to its shares. As the object of such corporation is not to put up any industry for actual production of utility goods, nor to trade therein, the purpose of floating such corporations is stated in vague terms like providing a sound investment outlet, or broadening the base of investment, or diversification of investment to minimize investment risks, or development of capital market in the country etc: etc: In actual fact these corporations are created exclusively for speculative trading in stocks and shares at the stock exchange. They earn profit from the market fluctuations the speculators themselves manage to create, rather than from any productive activity. They serve no national purpose at all.

10.7. FOREIGN EXCHANGE PARITY

Within the boundaries of a country the national currency is used as a purchasing power but for multilateral trade on international scale, national currencies of trading countries are exchanged in the international money markets. A flourishing multi lateral trade requires that all national currencies be fully convertible, that is exchangeable freely without any restriction.

Down to 1914 the gold standard gave stable rates of exchange on the basis of the gold contents of the national currencies. But when the First World War and its aftermath collapsed the gold standard, the world was obliged to discover alternative methods for fixing parities of their national currencies. After a good many trials, errors, and exchange control experiments the world was driven to let their currencies float freely in the international money markets for finding their own parities. Mr. Cassel's purchasing power parity theory with Lord Keynes' comments thereon, alongwith all other issues connected with foreign exchange have already been dealt with under sixth section of the sixth chapter dealing with "Domestic and Foreign Trade" which need not be repeated here again. Suffice it here to say that apart from economic causes, rates of exchange can also be influenced by causes such as rumours of political or other changes, the defeat of the present government, or the announcement of a general election. In fact, the rate of exchange at any moment is more likely to reflect the anticipated policy of the country rather than its present policy. Changes in the exchange rate arising in any of these ways are clearly quite unrelated to the purchasing power parity of a country's currency.

10.8. A SOUND MONETARY SYSTEM.

Let us refresh our memory with a quotation from Mr. Speight's

'ECONOMICS'.

"Until the First World War, the maintenance of a full-blooded coinage was considered to be an integral feature of honest government; the sovereign which circulated in the United Kingdom upto 1914 contained a full pound's worth of gold, and all other coins contained metal equal to their face value.

This particular form of honesty disappeared under the financial strain of war, and has never been revived. The twentieth century has brought its own version of debasement; increase in the Fiduciary Issue (the Fiduciary Issue was less than £. 20 million in 1921, today it stands at about £. 3,000 million. Most of the increase has occurred during the wars) and a big increase in the quantity of credit money created by the banks. The methods are different; but the motives and consequences are very similar. The government pays its debts by manufacturing more and more money or with money created by the banks for that purpose: as this increasing volume of money spreads through the economy, its value falls".

(ECONOMICS BY H.SPEIGHT. PAGE-433).

In their moments of honest reflections the economists confirm that the stability of a monetary unit depends on the intrinsic worth of the material which constitutes the currency reserve. Nothing except gold has so far served this purpose successfully and gold alone can do so in future as well. Restoration of the gold standard being so indispensable, becomes the first essential requirement of a sound monetary system.

The second essential requirement is the prevention of monetary debasement which the credit creating policy of the banking network entails. Bankers will continue creating credit for so long as their right to do so is conceded; and the resulting monetary expansion will continue to debase money for ever. This vicious circle can break only by depriving the bankers of this self-acquired right and by debarring them from creating credit, with legal enactment. Bankers will, no doubt, react violently, but what the stability of monetary value demands must prevail.

The third essential requirement of a sound monetary system is the restoration of money-making monopoly back to its rightful owner: the state. Too many cooks spoil the broth is a wise saying, and more than one money-making institutions debase money and vitiate the entire economic atmosphere.

The motive behind credit creation is the desire to collect interest, and the same motive ousted gold out of the monetary system as Mr. Hanson concedes:

"The holding of gold coin or bullion is an expensive business for two reasons: (i) means for its storage and protection have to be provided; (ii) it earns no interest".

*(MONETARY THEORY AND PRACTICE BY J.L.HANSON
PAGE-132)*

Nobody ever grudged the cost of storage and protection for his wealth. One should not forget that the real wealth is the gold bullion

held in the currency reserve and not the paper currency issued on its strength. To protect the promissory notes and hesitate to protect the real wealth they promise to pay on demand, looks strange. The second reason sounds logical on the surface, but if you penetrate beneath, its absurdity also becomes clear. Never forget that the gold held in currency reserve, and its substitute paper currency are merely two facets of the same single identity, two sides of the same coin. One exhibits the real wealth kept in reserve as security for the other which is circulated for sake of convenience. The promise printed on the paper currency to pay on demand out of the reserve also confirms their single identity. So one cannot claim interest on it twice. The interest being collected on lending paper currency is, in fact, the interest on the gold reserve which paper currency represents. It is therefore, misleading to assert that the gold bullion held in the currency reserve earns no interest. Unless the interest-hungry folk throw away their dark spectacles of greed, they cannot see the light of truth.

Whatever justification there might be for charging interest on loans, the practice has played havoc with the world economy. It debased all currencies and made all monetary systems vicious. It enslaved the under-developed nations of the world through easy loans and credits. The supremacy of capital over all other factors of production including man himself was achieved and is preserved only through the weapon of interest. Nothing short of prohibition of interest can scrap this exploitory system. But prohibition of interest can neither be justified nor its feasibility explained merely by pious dreams and wishful thinking. It requires an unbiased analytical research to dig out and discover convincing proofs for it, if they exist. Then to explore and explain the feasibility of an interest free economy in modern context, and suggest a comprehensive plan for its implementation, without inviting a catastrophe is equally essential.



MONEY AND INTEREST

11.1. JEWISH ROLE IN USURIOUS ECONOMY.

None can say how old the practice of lending on interest is, although it is much older than money itself. Lending and usury existed during the barter regime as well. Fragments of pre-civilization history indicate that usury did not lag far behind the practice of lending, and was probably one of the few economic practices introduced by the uncivilized nomadic tribes during their wanderings. Whatever be its origin usurious lending gained currency and became popular because it suited the borrowers and the lenders alike. The borrowers could satisfy their wants with loans, and the lenders could increase their wealth significantly.

Usurious practices flourished simultaneously in various lands and communities including the Jews. However, when the Hebrew Prophet Moses delivered the Jews from the Egyptian pharaoh and led them to the Promised Land, he ordained prohibition of usury for the Jews in the following words:-

"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury: unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury".

*(THE FIFTH BOOK OF MOSES, CALLED DEUTERONOMY,
CHAPTER-23, VERSES 19-20, FROM THE HOLY BIBLE)*

The orders are explicit and clear. Usurious lending is explicitly forbidden amongst the Jews themselves, and cannot be indulged in under any circumstance. However, the Jews can lend on usury only to the non-Jews, if they so desired, but not to the Jews at all. Prophets are God-inspired persons deputed to reform human behaviour. They receive ordinances from God in imperative forms for human compliance. Some reading between the lines is necessary to explain the logic of such ordinances for the inquisitive minds. The explicit prohibition of usury amongst the community indicated that according to God usurious practices were offensive

and harmful for the community that indulged in them. Permission to lend on usury to aliens, if needed, indicated that it was the borrower and not the lender who suffered from the baneful effects of usury.

Unfortunately this partial permission modified the total prohibition the way it was not intended. The Jews took advantage of it and continued to lend on usury to the non-Jews and the Jews alike as they used to do before the ordinance. There is a long stretch of history between the Prophet Moses and the Prophet Jesus Christ. During the intervening period the Jews continued to indulge in the prevailing usurious practices with such zeal that the words "USURER" and "JEW" became synonymous in public usage.

Jesus Christ said nothing against usury or in its favour, but his rejection by the Jews and subsequent crucifixion embittered relations between the Christian and the Jewish communities for ever. With the establishment of the Roman Catholic Church the Christians gained political power throughout the Roman Empire, and they started persecuting the Jews and enforcing their social boycott. Under these circumstances lending on usury was the only vocation which the Jews could successfully retain for livelihood, as no power on earth could prevent the needy from borrowing to subsist. The Jews resorted to money lending trade en-bloc, and developed it to modern banking. No doubt some non-Jewish business houses and families also contributed significantly towards the development of the banking network, yet the initiative and the overall control always remained and still remains with the Jewish community. To assert that the Jews are the financiers of the world today is no exaggeration.

11.2. THEORIES OF INTEREST.

An Indian professor of economics and author of a text book on "Modern Economic Theory", Kewal Krishan Dewett opens his chapter on 'INTEREST' with these remarks:

"Perhaps interest has been the most controversial topic in the whole theory of distribution. Economists have differed regarding the nature of interest as well as how it is determined. In fact, the subject of interest is still an unsettled question of economics. The very definition of interest depends on the interest theory which one accepts. Those who believe in the classical or real theory, regard interest as payment for the use of capital goods. They also believe that interest is necessary to induce people to save. The followers of liquidity preference theory believe that interest is a price for surrendering liquidity preference. Still others who accept the loanable funds theory hold that interest is the price paid for the use of loanable funds".

(MODERN ECONOMIC THEORY BY KEWAL KRISHAN
DEWETT PAGE-366).

The genesis of economic theories explains why interest remains an unsettled question. Capitalist economy is a bunch of firmly established economic practices which existed long before

any theory appeared to explain them. Although these practices benefited some at the expense of others, no need to justify them was considered necessary for so long as the grumbling of the exploited classes could be safely ignored. With the establishment of industrial capitalism, formation of trade unions, and increasing public sympathy for the underdog, it became necessary to offer plausible explanations for these practices and to justify them. Theories born out of necessity to justify what existed could hardly be truth-seekers. As they aimed at serving time, they became ever-changing. That is why all economic theories including the theory of interest get modified every now and then. But the objective of critical analysis is to discover the truth, we will, therefore, analyze the whole issue threadbare in due course. In the meantime let us discuss the various theories of interest dealt with in modern textbooks on economic theory.

It would be enlightening to point out here that the words "interest" and "usury" are synonymous and that there is no difference between the meanings of the two. The word originally coined millenniums ago to signify charge for using others property was "usury" and this word alone is found in old literature including the Bible. The word interest was substituted for it later on in recent centuries as a euphemism, when a movement to prohibit usury gained currency in Europe under Muslim influence.

The Mercantilist considered rent and interest to be analogous in nature. They argued that land and capital were both scarce in supply as compared to demand for them, and to put any one of them at the disposal of other persons for use was similar in nature. The reward of their use by others should therefore, be identical. They regarded interest as quasi-rent.

Amongst the classical economists Senior proposed the theory of abstinence. He argued that capital formation demanded saving which was an act of abstaining from consumption, entailing sacrifice. Lending to others what one has so painfully saved deserved a befitting compensation, which is called interest. Another classical economist laid stress on the productive aspect of the capital and said that labour assisted by capital produced more than labour without capital. Capital is therefore, productive and deserves its reward as interest.

The idea of abstinence was widely criticized on the ground that it suggested positive discomfort, while the rich people who are the main source of capital save without the least inconvenience. Therefore, Marshall substituted the term "waiting" for abstinence. Saving implies waiting, he said; when a person saves he does not refrain from consumption for all times, he merely postpones consumption to a future date and he has to wait in the meantime. He added that since most people did not like to wait, an inducement was necessary to encourage this postponement of consumption; interest was this inducement.

Then came the Agio theory put forth by Bohm Bawerk of the

Austrian school of economics. He said that interest arose because men preferred present goods to future goods and so there was an "agio" or premium on present goods. One bird in hand is better than two in the bush: present gratification carries greater importance than future satisfaction. In other words, future satisfactions when viewed from the present undergo a discount. Interest is this discount which must be paid in order to induce people to lend money or postpone present satisfaction to a future date.

Fisher emphasized on "time preference" as the central point of his theory. He said that people prefer present satisfaction to equally certain future satisfaction. They are thus impatient to spend their incomes now. The degree of impatience depends upon the size of the income, the distribution of income over time, the degree of certainty regarding enjoyment in the future, and the temperament and character of the individual. Thus people with large incomes are likely to have their present wants more fully satisfied and will thus discount the future at a lower rate than poor people.

According to Keynes, interest is neither a reward for waiting, nor a payment for time preference. He regards interest as a reward for parting with liquidity. Keynes believed that people had a preference for liquidity of wealth, and that interest was a monetary phenomenon. Keynes gave three reasons for liquidity preference: the transaction motive, the precautionary motive, and the speculative motive. For one or the other of these three motives people are inclined to keep a good part of their wealth in liquid or cash form. To lend others means to part with this liquid wealth. They must naturally be paid a reward in the form of interest to overcome their liquidity preference.

Almost all the theorists agreed that the rate of interest is determined by the equilibrium between demand and supply of funds available in the money market for lending.

Let us now analyze these theories one by one. The theory of abstinence twists facts merely to mislead. Saving through abstinence is resorted to only by the poor people who save to improve their own standard of living and not for lending on interest. Those who lend on interest are rich people with already a high standard of living and plenty of unearned income. They do not undergo any hardship to save. Instead of putting up genuinely productive enterprises with their surplus wealth, they resort to moneylending for earning sure money without any risk of loss. This theory fails hopelessly to correlate abstinence with interest.

Marshall hastened to replace the word 'abstinence' with the word 'waiting' for removing the glaring absurdity in Senior's theory, but he could not strengthen the cause of interest thereby. Postponement of present consumption for future advantage is a strong enough motive by itself, without the additional inducement of interest for those who try to raise their standard of living with it; but it serves no purpose for the already rich money lenders as they postpone nothing at all. They need no inducement for saving

since they already own plenty of capital.

The aglo and the time preference theories put forth the same argument in different ways i.e. the preference of present satisfaction over future satisfaction; but they ignore the crucial point that the rich and not the poor lend, and the lenders are rich enough to take care of all their present and future wants without any deprivation whatsoever. Their riches are not the products of saving by deprivation, while those who save by deprivation do not lend. Professor H. Speight observes:

"Personal saving is much more dependent on a general willingness and ability to save, independently of the interest offered. Willingness to save is a matter of temperament and environment. Thriftiness varies from one nation to another, just as it varies from one person to another. Ability to save depends, of course, on income".

(ECONOMICS BY H. SPEIGHT PAGE-247.)

Lord Keynes based his liquidity preference theory on the fact that what is lent and borrowed is not real capital but money capital. In his view interest is essentially a monetary phenomenon. It is not a reward for abstinence or waiting, it is a reward for not hoarding, i.e. for relinquishing liquidity. Homage is being paid to Keynes for his liquidity preference theory in a style to over-awe people and deter them from its analytical probe, but on closer looks the theory appears to be a mere bubble of soap, alluring in its flight yet fragile to burst with the first analytical prick.

First of all the term 'liquidity preference' is a misnomer coined to mislead. People do not merely prefer, they are actually goaded by necessity to keep a part of their wealth in the liquid form of money. Keynes' term thus fails to describe the situation correctly; in fact it confuses people to sidetrack the issue.

Secondly the three motives enumerated by Keynes for liquidity preference themselves belie the theory, as they indicate that they are motives not of choice and preference but of stark necessity. That we hold some of our wealth in monetary form to meet our routine transactions and as a precaution for unforeseen emergent needs is not an act of choice and preference, it is an act of downright necessity which leaves no choice with us at all. When no power on earth can persuade us to desist from holding cash for these indispensable requirements, how can the lure of a petty interest pinch it away from us?

The third or speculative motive also works against the cause of interest. Speculation is no doubt an act of choice, but it aims at piling profits. Speculators venture for maximum profits during short periods. They aim at duplicating wealth overnight, whereas the interest available for their wealth is always paid at the lowest possible rate, which the speculators are bound to shun, in fact spurn back with disdain at the banker's face. Furthermore besides monetary gains, the speculators value the thrill they derive from their speculative deals, which they will not forego at any price. It is thus foolish to think that interest can entice the money ear-

marked for the speculative motive.

Keynes' theory of liquidity preference stands nowhere. Like a bubble of soap it bursts and vanishes in thin air. It offers no explanation either for the incidence of interest or for the computation of its rate. Its only achievement has been to divert some savings into the banking network, but with such poor performance the theory's claim to have buttressed and propped the edifice of capitalist economy flops.

11.3. INTEREST IS AN EXCLUSIVELY MONETARY PHENOMENON.

It will be noted that all the theories analyzed above concede that what is lent out on interest is nothing but money. No doubt there were times when other commodities were also lent and interest charged thereon in terms of those commodities, but those times are over. Now ever since the triple role of money as a medium of exchange, a measure of values, and a treasure of liquid wealth is universally acknowledged, the incidence of interest has become an exclusively monetary phenomenon. Let us explain why it is so.

When any tangible asset changes hands it is subjected to one of the three economic operations of sale, lease or lend. The owner passes on the asset either alongwith the right of its ownership or without it. In the first case the deal becomes a sale transaction, and in the second case it becomes either a lease or a lending transaction. Rent is charged for lease and interest is charged for lending.

Under our monetary economy nothing is lent out except money, all other commodities being either leased or sold out but not being lent at all. It is so because lending entails return of the very same original asset alongwith interest in its own kind. As both of them are not feasible for any other commodity except money, money alone is lent, all other commodities being sold or leased, but no lent at all.

The sale can take place in either of the two forms of cash or credit. Whether cash or credit the sale transaction gets completed with the agreement of sale and handing over possession of the sold commodity either against cash payment or against completion of a loan agreement. The loan agreement is a document of deferred payments whereby the purchaser commits himself to pay the mutually agreed sale price alongwith the stipulated interest in a specified time. With handing over this document to the seller against possession of the sold commodity, the credit sale transaction also gets completed, and the loan agreement becomes an independent transaction of having incurred a monetary loan. Interest is charged on this monetary loan and not on the property sold.

This elaboration should make it clear that nothing can be loaned out except money. All other commodities can either be sold or leased, but they cannot be lent. As money alone is that peculiar

commodity which can be lent, interest can only be charged on money and money alone. Interest is, therefore, an exclusively monetary phenomenon. Credit goes to Lord Keynes for having pointed out first of all that interest is a monetary phenomenon. We also decided to discuss interest with reference to money rather than capital for that very reason.

1.1.4. CAPITAL FORMATION AND INTEREST.

Economic development demands production of goods for national prosperity. Out of the classically enumerated four factors of production the factor which provides funds for economic activities is called the capital. Capital is indispensable for procuring land, constructing buildings, installing machinery, engaging labour, and providing raw materials for production. As no enterprise can run without capital, capital formation is a pre-requisite for productive activities.

Every economist will tell you that there is one and only one way of capital formation. Produce more, consume less, and save the rest in liquid form for further investment. The method is, no doubt, correct, and appears to apply uniformly to every class of society, but actually its application is not uniform. It varies from person to person according to the initial capital he possesses at the start of his life. Our society is already split up into three different classes of the havenots, the haves and the affluents. Their comparative production potentials, their consumption needs and their scope for saving differ so widely that there can be no uniform method of capital formation for all. It differs for each class and adopts separate class patterns.

The havenots are obliged to spend almost all their incomes on consumption and if they manage to save a little, they use it to improve their standard of living. They can save nothing to set aside, and so their contribution to capital formation is almost nil.

The haves get equipped with technical know-how before entering the struggle of life. Therefore, they earn more, spend more, and still save something to invest in productive lines. Their contribution to capital formation, though moderate, is appreciable still.

The class of affluents is the real capitalist class. Their contribution to capital formation is enormous. They earn a lot as traders and industrialists and plough back all their surplus income for earning more. Under free economy eighty to ninety per cent of the country's capital belongs to this class, the class of haves contributing the rest. In developing countries the affluents hardly constitute five per cent of the total population, while the class of haves constitute from ten to twenty per cent. The remaining more than seventyfive per cent are all have-nots, living from hand to mouth.

Earnings of the three classes bear different hallmarks. Whereas the havenots earn exclusively with the sweat of their

brows, the haves earn mostly by dint of their technical knowledge, but the affluents earn by fleecing consumers, exploiting labour, and by speculation. They control production, withhold supplies, dictate prices, and profiteer, but the ill-gotten wealth that concentrates thus in their hands is justified under the apology of capital formation; although only a part of it is newly created wealth, the remaining bulk being expropriation of what belonged to others. Such being the process of capital formation under free market economy, it aims at concentration of wealth in fewer hands instead of genuine production of fresh wealth.

Economists claim that interest promotes capital formation. Let us examine how far this is true. Capital is a marketable commodity under free economy, but this commodity is not sold. It is always lent in the money-market to fetch interest. So interest is connected with the capital but not at its formative stage. It appears later on, after the capital is formed.

Interest plays a significant role in allocation of funds to various sectors of economic activities, but this allocation is decided exclusively by the profit motive, without any regard for national development priorities. As a result state authorities step in with credit control regulations for harmonious distribution of credits. State credit controls operate by occasional changes in the rate of interest. Contribution of interest in the formation of capital is nominal, if at all. People deposit their savings and surplus funds with the banks not because of interest, but on account of safety against theft the banks provide, the motive being security rather than income. That bank interest is unattractive for deposits is proved by the fact that these deposits do not stay with the banks for long; and soon get invested in the share market. The claim that interest promotes capital formation is not justified. In fact the truth lies the other way round. Capital breeds interest and promotes usurious economy. Interest thrives on capital instead of promoting its formation.

11.5. LOGIC AND MISCHIEF OF INTEREST.

Let us first consider the logic of interest. The gist of all that has been said to justify the levy of interest on loans is this: when a sum of money which belongs to one person is made use of by another person, the creditor deserves some consideration for having extended this facility to the borrower. This consideration is called interest. Superficially the statement appears to be logical, but on deeper probe it reveals some treacherous implications. It should therefore, be considered in minute details before any final judgement is pronounced about it.

The act of lending money involves two persons, the borrower and the lender. Both are entitled to be free from any pressure to form an independent view of their own about the implications and consequences of the act of lending. Their basic right to think and act freely can neither be ignored nor subjected to the pressure of

the prevailing market practices. The opinion that lending deserves a monetary reward is formed cursorily assuming that all helpful acts should be rewarded monetarily, without considering the circumstances under which they are performed and without regard to the personal view of those who perform them. Evidently this is a biased opinion, hastily formed under the influence of the prevailing usurious practices.

To think that all with surplus funds become moneylenders is foolish. Most of them invest in more lucrative lines and look down upon lending as a Shylockian trade. It is also wrong to regard all lenders greedy for gains. Many of them have a humanitarian bent of mind and they decide whether to charge interest or to forego it on the merit of each individual case. In view of this diversity in approach from the creditor's side, to insist that all loans should fetch interest loses the force of logic.

And when you consider the circumstances under which one is obliged to borrow, the picture appears more discouraging and gloomy. Overwhelming majority of our population belongs to the class of havenots, living from hand to mouth. When any financial calamity falls on them due to serious ailments or unemployment, they are obliged to beg for alms and loans. Some members of our society give alms and extend financial help on humanitarian basis, but they cannot cater for all the deserving cases. Social harmony and fairplay demand that interest-free credit be extended in all such cases. To demand interest from them under the plea of general prevailing practice is a heinous crime against humanity. The economic conditions of the havenots throughout the world refute the logic of interest.

The case of the class of haves is different. They own significant financial resources, and they can easily confine their personal and business requirements within the limits of those resources without resorting to credit. They can defer the expansion of their business or additional enjoyments for a while till they save enough to expand and enjoy. But they do not do so. They resort to borrowing for quick business expansion and quicker enjoyments inspite of the heavy additional cost of interest. What makes them do so?

The answer is not difficult to find. Easy credit facilities spread around them by the well-entrenched usurious economy lure them to get rich quick, and rope them into the snare of borrowing irrespective of their genuine need for it. Such induced borrowings materialize because both the lenders and the borrowers stand to gain by them. The lenders gain through interest, and the borrowers through increased profits of their expanded business; while the burden of interest is quitely passed on to the consumers by increasing the sale prices. Does this universal practice meet with the approval of social justice and fairplay? If not why is it not condemned and stopped? Why should the consumers be made to bear the avoidable cost of interest which the borrower and the lender have selfishly created for no benefit to the consumers? As

the borrower has increased his turnover by business expansion while his cost per unit remains unchanged, he should bear the interest himself, adjusting it against increased profits secured through increased turnover. He has no right or justification to penalize the consumers with it.

The universal practice of inducing avoidable loans to benefit individuals at the expense of society, provokes us to screen all interest bearing loans to discover if any of them is really beneficial for society.

What is capital? Is it a genuine factor of production rightfully claiming a share in the product, or only a slick swindling device, or both depending on how we intend to deploy it? An honest reply to this straightforward question can remove a lot of misunderstanding and human misery.

The Concise Oxford dictionary defines "capital" as "accumulated wealth used in producing more". According to this definition accumulated wealth is not capital by itself. It becomes capital only when it is used in productive processes to produce more wealth. Hence to become capital accumulated wealth has to give-up its static state for entering into a dynamic state for the purpose of producing more wealth. This elaboration guides us to discover three essential attributes of capital.

First of all to become capital accumulated wealth must discard its existing inert static state and enter into an active, dynamic state. Secondly this change-over to the dynamic state should not be an aimless activity, it must be pregnant with a specific aim. And thirdly that specific aim must be the actual production of more wealth, neither its fake display nor expropriation.

Accumulated wealth will become capital only when it fulfils these three conditions and exhibits these three essential attributes. It will remain capital as long as it continues to be so used, regardless of the consequential results. Its success or failure to produce more wealth is not a condition for its being capital, the condition is its continued attempts for positive results irrespective of the actual results. Possibility of failure to produce positive results is clearly implied. Capital is fully entitled to its share in the product as a factor of production: if it produces more it will get more; if it produces less it will get less; and if nothing is produced it will get nothing. The reward of capital's participation in production, is therefore, proportionate profit-sharing and not interest.

Interest as a predetermined and dead certain income, generated even without using capital in any productive process whatsoever is a prodigy which appears only in the act of capitalist lending and nowhere else. The funds used for lending defy all the above-mentioned conditions and attributes of capital. To call such funds capital and to designate interest as the product of capital are both misleading. The money lending operation has nothing in common with the operation of using capital for producing more wealth. While the production process makes capital dynamic, the

lending process induces no such activity. Borrowed funds can remain as static and inactive in the borrower's hand as they were in the lender's coffer; they need have no specific aim to generate wealth, nor need they make any attempt for it. In spite of all this lethargy the lender receives interest on his loan. Where does it come from? Evidently when interest is not a product of any productive effort, it can only be the result of some trick. Therefore, to declare the incidence of interest a slick swindling device seems quite logical. Eversince the birth of capitalist theory no one has been able to justify the levy of interest as a pre-determined and dead-certain tax on each and every piece of money lent. What cannot be justified is bound to be harmful for society.

About the logic of interest, this should suffice, let us turn to its mischief now.

We have already observed a couple of cases in which the institution of usury plays mischievous role. It sucks the blood of those havenots who deserve sympathetic treatment and it taxes consumers without any justification with loads of interest on avoidable loans. Only legal prohibition of usury can stop such mischief. The plea that production and development all over the world is nowadays being carried out with helpful loans and credits which deserve befitting remuneration for their positive services seems irrefutable, and in fact it has bewitched the underdeveloped third world so much that you cannot brush it aside without strong and solid reasons. Let us consider this plea impartially.

We admit that production and development loans float around the globe and that they do deserve some reward for their helpful services, but we ask why the reward should be in the form of predetermined interest instead of the more equitable profit sharing form. A comparative study of these two ways of compensating the use of productive capital will clear a lot of misunderstanding.

The interest-bearing loans have an initial advantage. You can get plenty of these loans very easily for expanding your trade and industry and for putting up new industries. By this method underdeveloped and developing countries can achieve progress a decade or so earlier than they would do otherwise. But the consequences of such indebtedness gather momentum soon and begin to stare the borrowers in the face before the decade ends.

What usually happens is this. An emerging capitalist class crops up to strut about the economic field and to concentrate national wealth in fewer and fewer hands through lending practices and profiteering in consumer goods. Simultaneously I.M.F. and other international bodies depute teams of advisers to tell you how you can locate and tap your natural resources and from where you can get the needed money for it. Local bureaucrats in their anxiety to develop their country soon, welcome these advisers in good faith and accept their advices quickly. In the wake of this amicable get-together you find an influx of aid consortiums jingling their moneybags in one hand and leading with the other a pack of

technico-legal hounds with tricky contract drafts on the tip of their tongues. As beggars cannot be choosers, the lenders always dictate their own terms in the bargain parlour and trap the needy borrowers in the snare of eternal indebtedness.

On the pretext of helping backward countries to tap their natural resources industrialized countries step in to collect data of their natural resources, and to find market for their industrial products. They entice their hosts to put up industries with their financial and technical help. When agreements are signed, the lenders despatch highly paid technicians who coach local labour in rudiments of technology, but keep away from them real technical knowledge. They put up the agreed industry usually on turn-key basis and leave behind some of their foreign technicians to run it for a few years. The process drags on long enough to let the initial loan double itself by the time production starts. By the time the entire debt with interest is cleared the factory turns into scrap.

Eversince the spread of usurious lending on international scale, you cannot point out a single developing country which could stand on its own feet through the usurious loans. This is stark reality which none can deny. So what justification remains for these loans? They are nothing but delusions and snares. They are venom for the receiving nations. They goad us to live beyond our means and to pawn our self-respect. Eventually the toxic effects of these loans paralyze our self-confidence and self-reliance, turning us into impotent imbeciles. Its consequence for a community is economic slavery followed by loss of political independence. These conclusions are not figments of an idle reverie. They are actually observed and still observable facts of current economic history, which everyone can observe with his own eyes, and none can dare to deny.

Professor TIBOR MENDE of Sorbonne university in France visited scores of countries, East and West and is now recognized as one of the world's foremost authorities on the developing countries according to the American weekly NEWSWEEK. He was interviewed by that magazine in October, 1972 and asked to express his views about these loans and aids. The interview was published in the form of questions and answers in Newsweek. We quote some pieces below:

*Question. The gap between the have and havenot countries of the world is still growing wider from year to year. Is there any prospect of reversing the trend?

MENDE: Not with the present system of aid giving, which is a snare and delusion. The main beneficiaries are the mercenaries of the status quo-members of the ruling class of the less-developed countries who were shoehorned into their positions because they were cultural expatriates, who could be trusted to respond positively to the initiative of the former dominant power. Their consumption patterns set them apart from the rest of their people. They buy tape recorders, but their country needs fertilizers. They teach their sons advanced surgery and foreign literature when the

real need is for agronomists. The less developed countries have to create jobs. But the modern technology we sell them multiplies unemployment, now rising by tens of millions every year. Do you realize that in a really advanced industry in India the creation of one new job costs \$ 100,000? But with \$ 300 you can employ two Indians to produce something useful. Most of the youngsters trained to fill artificial needs either emigrate or windup working at gas stations.... Most of the less developed countries spend between a third and one-half of their export income simply to service their debts to the wealthy. Within five years, they will repay at one window everything they will be receiving at another. Patently absurd. And all this does not even consider the billion spent on arms, the exodus of sorely needed brains (for whose education these countries have paid) to the rich countries, the flight of capital to secret bank accounts or to loaded dice of the world trading system.....

Question. If the present north-south equation continues with little change, where do you see the world by the end of the decade?

MENDE: I'm afraid it leads us straight into a kind of worldwide apartheid, to silence and hide the mountains of suffering and rising turbulence surrounding our rich world. This means many more hundreds of millions feeling themselves useless and seeking a purpose, if necessary, through violence. And there is very little time left before the situation becomes irretrievable".

(NEWSWEEK OCTOBER, 23, 1972, PAGE-60)

If the poor nations of the world did not learn from Professor Tiber Mende a decade ago, let them now reflect; it is never too late to learn. Levy of interest on loans is an evil practice, deserving universal condemnation. In spite of being a Herculean task, prohibition of usury at nationwide scale is the only remedy. It will be discussed in detail alongwith the feasibility of an interest-free economy, in the next chapter-the last one on capitalism.



FINAL ASSESSMENT OF CAPITALISM

12.1 FREE ENTERPRISE AND MARKET ECONOMY.

Eversince the dawn of civilization, people exerted to produce whatever they could for satisfying their biological and social wants. As their individual aptitudes for production, and resources available to them for it differed, they produced different products; which they exchanged with one another to complete their household economies. These exchanges took place outside the villages in open spaces, where they gathered together occasionally with their products. Such gatherings gave birth to markets.

Since the operations of production and exchange were free for all, and since there was none except necessity to guide, free enterprise and market economy evolved automatically, without any pre-planning. As enterprises multiplied, utility products increased in quantity and improved in quality, which accelerated the development of markets. Trade and commerce increased fast to make the markets hub of national economy. Thus inspite of all subsequent evolutionary changes which capitalism underwent, free enterprise and market economy continued to remain the firm foundation stones upon which the super-structure of capitalism was gradually raised.

We do not challenge the sanctity of free enterprise and market economy, as the principle involved therein upholds the basic human right of freedom to think, choose, and act. But we object to some unhealthy practices, which the abuse of this sanctity has given birth to; and which must be eradicated in the interest of society as a whole. Let us consider them one by one.

1. As people started tackling their economic problems individually, their approach towards these problems acquired an individualistic bias or tilt. No one bothered to remove this tilt since everybody got busy pampering his own self-interest as a favourite child, and social sense got

no chance to develop. As a result this individualistic bias became a permanent characteristic of the free-trade economy; and every practice that evolved under its influence, evolved to promote self-interest unduly, and to suppress overall social interests flagrantly. To cripple this tendency and to remove the tilt in approach is a prime necessity of healthy national development, which must be attended to. Problems like unemployment and inflation cannot be properly tackled if correct mental approach and free atmosphere to tackle them effectively are absent.

Text books on economics should, therefore, prominently project the overall social interests of the community, and also press upon the need to curb individual self interest somewhat for sake of social harmony.

2. Next the constitution of a business enterprise comes in for consideration. Fairplay in business dealings plays an important role in promoting national progress with social harmony. To facilitate fairplay, constitution of the business enterprise should be free from tricky loopholes which a limited liability corporation provides in plenty. Business dealings are all transactions of give and take, entailing financial liabilities which can neither be fixed nor limited beforehand. A limited liability corporation smells fishy by its very name. It is, in fact, a device to hoodwink incautious people. Like the business deals they enter into, the dealing bodies themselves must not only be free to incur, but also be capable of fulfilling unlimited liabilities by their very constitution. A limited liability corporation is a trap and a snare which should be avoided. Men in flesh and bones should have the honesty of purpose and courage enough to come forward as individuals or in partnership with others to conduct economic business openly, discarding the cloak of dubious and ethereal bodies like limited liability corporations.

Furthermore, with its extremely small unit of share holding, limited liability corporations entice even poor people to invest their petty savings in these shares to receive unearned incomes. This lure breeds covetousness and greed in otherwise contented minds with limited and legitimate aspirations. They rush to stock exchanges and learn the art of speculative trading in stocks and shares, which is an entirely non-productive pursuit as already explained.

3. No private individual or partnership will dare to incur such reckless expenditure on sale promotion by way of advertisements through press, radio and television, which one sees daily in every country of the world. Such dare-devil feats are inspired and encouraged only by the novel constitution of the limited liability corporation which prompts

entrepreneurs to burden consumers with avoidable expenses, and helps them to escape consequences in case of failures by declaring bankruptcy of the corporate body; which spares the entrepreneur to go scot-free, jingling all his private wealth safely in his pocket, while strutting all over the market in his previous pomp and glory.

4. Human history of the past few centuries shows what havoc full freedom of free enterprise has played with our society. Full freedom means freedom to cultivate and harvest injurious plants and herbs as well, to manufacture narcotic and poisonous drugs therefrom, to trade therein and to export them, unmindful of all consequences except for the wealth it fetches to the traders. This is just one facet of free enterprise. Smuggling in general, and smuggling in the above-mentioned drugs in particular is another facet. People love to use certain commodities, the import and export of which the national governments want to control in national interest. This provides a chance for antisocial elements to amass wealth by smuggling them across the borders. Apparently it provides work for some and wealth for many, but it frustrates all state efforts to promote national development. Further it breeds antisocial outlook and promotes the habit of luxurious living, which, in turn, beckons bribery and corruption in its wake.
5. Yet another facet of free enterprise is the gambler's paradise it has built all around us, which trains us to become habitual gamblers in our formative age. You observe casinos in every street with gambling rooms displaying a variety of games of chance and skill. Students of both sexes enter them at recess time to enjoy a whirl of twist and a couple of betting stakes. Even at home we don't play cards without stakes. When parents gamble, children following in their footsteps become experts. Betting at race-courses is considered a recreation. When these practices make us habitual gamblers, we bet scores on market's speculative trends taking cue from bulletins published daily to promote such habits and keep them alive. When all such pursuits only teach people how to pick one another's pocket and to shirk from genuinely productive hard work, why should they not be banned?
6. Free enterprise permits prostitution, allows women to sell their bodies for subsistence, and allows men to enjoy free-love. Pornography and prostitution have progressed as much as any other trade but only to maldistribute wealth and spread moral degeneration. Pornography, too, is a product of free enterprise. Nude pictures and films of beautiful girls attract men of all ages. Blue films, displaying in the nude all that goes on between wedded couples in the privacy of their bedrooms, are

produced, exhibited and sold by reckless entrepreneurs to accumulate wealth under the licence of free enterprise. And writers of pornographic novels deploy their literary skill to describe all this in words. Such books become best sellers, selling like hot cakes.

Supremacy of capital has exploited all avenues for draining wealth towards its own coffers. To achieve its end it has not spared even the human sex urge. Is such licence justified? If not, why not stop it. Why don't the socialist countries indulge in such nonsense?

7. Had free enterprise been reasonably restrained at the outset, cartels, monopolies and international combines would never have seen the light of day; and the world would have been much better off without them. To let the villain play mischief for long; and thereafter to frame half-heartedly ineffective laws for control is hypocrisy, which none can respect.

12.2 SHAM PRODUCTION PRACTICES.

In economic field practices preceded the conceptual comprehension of their true nature and implications. In pre-civilization era, when every needed thing was freely available in abundance to the wild jungle man, procurement of means of subsistence was no problem. But the growing scarcity of autogenous subsistence materials and rapidly increasing human race raised new problems for men to solve. Subsistence materials had now to be produced by human effort and skill in great quantities to satisfy their increasing demands. It no longer remained a mere act of procuring, it became an exertive and complicated operation of production, in its stead. During this era production meant an actual increase in the quantity of utility products, a tangible increase in goods produced to satisfy human biological and social wants. This conception of production remained unaltered for centuries, till money brought some changes in it.

The advent of money produced many significant changes in economic activities and economic concepts. Credit finance helped to boost production and trade alike, but during the mercantilist era in Europe merchant community boosted trade so much as to make it the main source of producing wealth; although basically trade was a service department of production, carrying utility products from their centres of production to consumers' doorsteps. But the mercantile community reversed the order of precedence raising trade to the dominant position and reducing production to the level of an auxiliary service of providing merchandise to traders.

This change affected the concept of production enormously. Formerly production meant conversion of natural resources into utility products for satisfying human wants; now production meant increase in wealth by all available means. Manufacture of utility products receded to the background and a mad rush for gold came

to the fore-front. To increase the personal wealth of one's own became the sole objective of all economic pursuits. Whichever practice helped to achieve this end was accepted irrespective of its baneful or blissful effects for society. This conceptual change gave birth to a good many sham production practices, which flourished unhampered alongwith genuinely productive practices.

Naturally you would like to know how to discriminate between the genuine and the sham production practices. Luckily a simple yet sure discriminating feature exists. If any increase in an individual's wealth produces a corresponding increase in national wealth as well, the practice producing this increase is a genuinely productive practice, deserving patronage and promotion. But if an increase in an individual's wealth produces no increase in national wealth at all, the practice producing this phenomenon is a fake and sham production claimant, merely snatching other's wealth, and therefore, deserving censure and eradication.

So what you have to do is to watch your country's GNP movements and be guided by them. All practices and pursuits which increase GNP are productive; and all those which do not do so are non-productive-sham claimants of share in national wealth on false pretext. They are confirmed robbers and dacoits; arrest them.

Among these sham production practices come hoarding for black-marketing, speculative trading in commodities, smuggling, trading in title-deeds of ownership like public debt securities, stocks and shares of corporate bodies, and in fact all business being carried out in stock exchanges. All investment corporations which do not actually put up new productive industrial concerns are sham claimants of share in national wealth. Institutions which carry on lottery and raffle business regularly, and gambling in all its forms are sham production practices, since none of them add a single penny to national wealth.

12.3 INTEREST, THE VILLAIN-IN-CHIEF.

The institution of usury in the form of international banking network is the biggest sham claimant of production. Without any guaranty of production whatsoever, it claims a big chunk of national wealth produced by others. Not only claims, it actually recovers this tax on every little bit of money lent to the needy. It may not, therefore, be an exaggeration to call interest the villain-in-chief of the capitalist economy.

In the previous chapter we have examined in detail all theories propounded to justify the levy of interest on loans, and have also explained elaborately the mischief played by interest in the sphere of economic activities. It may be read over again, if needed. Here it should suffice to remind that to exact interest from the needy havenots is an act of tyranny, and to charge it on loans to the haves without any regard for production is robbery. Justification of any claim by capital for having taken part in production of wealth lies

only in sharing the newly produced wealth equitably after it has been actually produced, without any pre-imposed stipulation. All other devices are unfair, antisocial and tyrannical.

Why don't the lending institutions themselves put up industries for production and development to reap profits and win laurels for being nation builders? Their reluctance to do so exposes the criminal nature of their intentions and pursuits.

That national development cannot be carried out without loans and credits is a myth, which the two communist countries of the world have smashed. Other under-developed countries can also develop without foreign loans if they like. Where there is a will, there is a way. Self-reliance and self-help can work wonders and perform miracles.

12.4 EMPLOYMENT FOR THE MASSES.

Unemployment, sometimes tolerable and at others acute and pinching, is another characteristic of the capitalist economy. It is an inherent attribute of the system, which cannot be altered without drastic changes in the system itself. And this the guardians of the system do not permit. The capitalist system has divided society into four apartheid classes of landlords, capitalists, entrepreneurs and labourers, which like the four castes in Hindu society are unable to mix together and their segregation is eternal. Operational fields and duties of each class are rigidly fixed by capitalism and any transgression is regarded an offence. This rigidity is the root cause of persistent unemployment.

Employment for subsistence is the need of only one class, which the other three classes do not need at all. In fact they provide it to the solitary needy class by way of cooperation, while indulging in their favourite pastime of amassing unearned income through their respective contrivances of rent, interest and profit. As their own engagement in their respective pursuits is a lucrative and recreative game instead of a necessity, they fail to realize the significance of job-creation for other members of society to achieve national prosperity.

Creation of jobs to provide earning opportunities for those who fail to find ways and means of earning a living is the prime-motivational necessity of every community; and failure of the three well-to-do classes to grasp its importance in economic growth is, perhaps, the greatest tragedy of the capitalist system. However, the facts speak for themselves. The landlords are not going to discard their labor-saving machines, nor to invest their surplus wealth in industrialization because the first is suicidal and the second degrading for their respectable class. The capitalists abstain from putting up industries themselves with their own funds simply because the contrivance of interest fetches them plenty of money without hard work, while they snugly rock in their cosy chairs. The entrepreneurs have their own limitations. How can they take the risk of new ventures in untried fields with rented land and borrowed

rowed capital just to create jobs for others? Surely it is not their responsibility! There remains only the state. But the state has already kept some labour engaged in public works. Finances of the state remain always limited and nationalization of any sector of economy is inadvisable. Let people be self-employed and let them seek their own salvation through self-help. Creation of jobs for all leads to socialism, which is a cult hated by all free people. Moreover, some unemployment under free enterprise is a natural phenomenon, which has to be tolerated like inflation!

And thus the dream of full employment fails to materialize. When economists talk of full employment under free enterprise, they do not mean by it employment for all. They just mean a state of balancing between easily available factors of production, not of all factors and certainly not the entire manpower of the country. Even the fiscal and monetary policies of the state, which economic advisers formulate and deploy, do not aim at creating jobs for the entire population.

Yet the situation is not so gloomy as it looks. A lot can be done to improve the existing situation and to create further jobs for many, while still remaining well within the orbit of free-trade economy. Foresight and good planning are the chief ingredients needed to formulate a helpful policy; and with a little finance and some devoted workers, this policy can be implemented.

Technology of the industrially advanced nations is capital intensive and labour saving, whereas what the under-developed countries, over-crowded with unemployed cheap labour and dearth of capital, need is a labour intensive and capital saving technology. The foreign financial and technical aids do not suit the requirements of the third world countries. New development planning boards should be set-up in these countries to discover a new approach.

12.5 A STABLE MONETARY SYSTEM.

Another big defect of the capitalist economy is the instability of its monetary system. The monetary system was firm and stable once, but that firmness was willfully undermined and destroyed by vested interests with the help of economic wizards. That stability is now gone for ever, and instability has become a permanent feature of the monetary system. It can be rectified by reversing the process which produced it; but as it suits vested interests to let it remain, no step is taken by the rich and dominating countries to remove it. The suffering poor and exploited nations raise hue and cry for purge in international forums, but since an unstable monetary system helps the rich to become richer and makes the poor poorer, no effective step is taken by the dominant countries to remove the defect. In the hands of America and European countries this defect has proved itself to be a dependable contrivance for exploiting the third world; therefore, the third world can expect no succour from UNO or its subsidiary bodies

dominated by the exploiting nations.

To get out of this hopeless plight, the suffering nations will have to adopt remedial measures within their own countries, and to purge their domestic monetary system of all its defects. That alone will enable them to face the world with strong and stable monetary units in international markets.



Socialism

CHAPTER THIRTEEN

SOCIALISM - MARXISM

13.1. GENESIS OF SOCIALIST CONCEPT.

The particular brand of socialist concept we intend to analyze in this chapter is called Marxism. Even before Karl Marx commenced his studies in political economy, a variety of socialist thinkers appeared in Europe propagating their specific brands of socialism and trying to gather bunches of followers around them. After studying capitalism in depth and doing some research work in economic field, Marx and Engels joined this class with their recipe at a later stage. Marx cannot, therefore, claim to be the pioneer of socialism; in fact, he was only a subsequent innovator, who dominated over his rivals with his novel theories and political practices.

Exploitation of man by man is as old as civilization itself. It was but natural that it should give birth to reformers every now and then. Without a deep probe into the historical stages of exploitation and reforms, one can say that it has been changing its garb continuously from epoch to epoch during the march of civilization. Industrial revolution in Europe with its new mode of production with machines brought about an immense upheaval in production methods entailing new working conditions for the labour force. Extremely wretched working conditions in mines and factories invoked public sympathies when writers began to describe them in books, periodicals and newspapers. Intellectuals and reformers came forward to devise ways and means for improvements. As it involved social problems, their suggestions assumed the title of socialism.

Immediate suggestions that enter one's mind about improving the conditions of work in mines and factories are to make the working conditions more hygienic and humane: by adopting better sanitary measures, by reducing working hours to healthy limits, by increasing wages to suffice for legitimate needs, and by providing recreational facilities for workers and their families. Appeals

for such measures constituted the first step towards socialism. As response from factory owners was quite discouraging, formation of trade unions by the workers to press for their demands was the next step. This was what the early socialist preachers did, followed by more active socialists like Saint Simon, Fourier, and Robert Owen. Activities of Robert Owen present a very good specimen of nascent socialism, deserving mention in some details.

13.2. SOCIALISM IN EMBRYO.

Robert Owen, a British industrialist was born in 1771, and he lived upto 1858. Frederick Engels, in his article 'Socialism-Utopian and Scientific' provides us with ample information about Owen and his social activities. His account is reproduced below.

"At this juncture there came forward as a reformer a manufacturer, 29 years old a man of almost sublime, childlike simplicity of character, and at the same time one of the few born leaders of men. Robert Owen had adopted the teaching of the materialistic philosophers: that man's character is the product, on the one hand, of heredity: on the other of the environment of the individual during his life time, and especially during his period of development. In the industrial revolution most of his class saw only chaos and confusion and the opportunity of fishing in these troubled waters and making large fortunes quickly. He saw in it the opportunity of putting into practice his favourite theory, and so of bringing order out of chaos. He had already tried it with success, as superintendent of more than five hundred men in a Manchester factory. From 1800 to 1829, he directed the great cotton mill at New Lanark, in Scotland, as managing partner along the same lines, but with greater freedom of action and with a success that made him a European reputation. A population, originally consisting of the most diverse and, for the most part, very demoralized elements, a population that gradually grew to 2500, he turned into a model colony, in which drunkenness, police, magistrates, law suits, poor laws, charity, were unknown. And all this simply by placing the people in conditions worthy of human beings, and especially by carefully bringing up the rising generation. He was the founder of infant schools and introduced them first at New Lanark. At the age of two the children came to school, where they enjoyed themselves so much that they could scarcely be got home again. Whilst his competitors worked their people thirteen or fourteen hours a day, in New Lanark the working day was only ten and a half hours. When a crisis in cotton stopped work for four months, his workers received their full wages all the time. And with all this the business more than doubled in value, and to the last yielded large profits to its proprietors.

In spite of all this, Owen was not content. The existence he secured for his workers was, in his eyes, still far from being worthy of human beings.....

His advance in the direction of communism was the turning point in Owen's life. As long as he was simply a philanthropist, he was rewarded with nothing but wealth, applause, honour, and glory. He was the most popular man in Europe. Not only men of his own class, but statesmen and princes listened to him approvingly. But

when he came out with his communist theories that was quite another thing. Three great obstacles seemed to him especially to block the path to social reforms: private property, religion, the present form of marriage. He knew what confronted him if he attacked them — outlawry, excommunication from official society, the loss of his whole social position. But nothing of this prevented him from attacking them without fear of consequences, and what he had foreseen happened. Banished from official society, with a conspiracy of silence against him in the press, ruined by his unsuccessful communist experiments in America, in which he sacrificed all his fortune, he turned directly to the working class and continued working in their midst for thirty years. Every social movement, every real advance in England on behalf of the workers links itself on the name of Robert Owen. He forced through in 1819, after five year's fighting, the first law limiting the hours of labour of women and children in factories. He was president of the first Congress at which all the Trade Unions of England united in a single great trade association. He introduced as transition measures to the complete communistic organization of society, on the one hand, cooperative societies for retail trade and production. These have since that time, at least, given practical proof that the merchant and the manufacturer are socially quite unnecessary. On the other hand, he introduced labour bazaars for the exchange of the products of labour through the medium of labour notes, whose unit was a single hour of work; institutions necessarily doomed to failure, but completely anticipating Proudhon's bank of exchange of a much later period, and differing entirely from this in that they did not claim to be the panacea for all social ills, but only a first step towards a much more radical revolution of society. The Utopian's mode of thought has for a long time governed the socialist ideas of the nineteenth century, and still governs some of them. Until very recently all French and English Socialists did homage to it. The earlier German communism, including that of Weitling, was of the same school. To all these, socialism is the expression of absolute truth, reason and justice, and has only to be discovered to conquer all the world by virtue of its own power".

(WRITTEN BY F. ENGELS IN 1880, SELECTED WORKS OF MARX AND ENGELS, VOLUME-3 PAGES-123 TO 126.

PUBLISHED IN MOSCOW, 1970).

Let us now move on to observe further attempts made for introducing socialism in industrialized Europe.

13.3. BIRTH PANGS OF SOCIALISM.

It would be advisable to acquaint oneself with the rudiments of socialism itself before further study of its history. Propounders of socialist theory claim that the capitalist mode of production splits society into two permanent classes: the rich owners of the means of production, and the poor wage earning class. The capitalist pays only subsistence wages to the working labour force to keep them under permanent servitude, and usurps the entire surplus value created by labour, for augmenting his own self and power. The labouring class cannot cast away this tyrannical yoke

by peaceful means. Socialism, therefore, incites them to rise in revolt, create chaos, catch hold of political power by force, obliterate capitalism and transfer all means of production and distribution to the state for socialistic management.

The transformation of feudal society into an industrial one created an upheaval in the settled life of people and agitated their minds, inciting them to think in terms of revolution, and to use force in their actions. Although this impulse affected various strata of society in different degrees, however, to revolt and to create chaos for exploiting the situation so created, was common to them all. That is how, where Utopian socialists failed, men like Marx and Engels succeeded.

Karl Heinrich Marx was born in Germany at Trier in 1818. He studied law, history and philosophy at Bonn and Berlin universities and received his Ph.D. at Jena in 1842. In the same year he married Jenny von Westphalen, stepsister of Ferdinand von Westphalen, a reactionary statesman; and was about to become an assistant professor in philosophy, when politics attracted him. He became a newspaper editor in Cologne. The paper was banned in 1843 due to harsh criticism against government policies and Marx moved to Paris, where he met Friedrich Engels. Working here as a journalist and a bitter critic, he was expelled from France in 1845. He went to Belgium and taught economics there for three years; and also wrote his first book, the "Poverty of Philosophy" in 1847. Here he also founded a German worker's society and joined the Communist League. He moved to London in 1849, and lived there till death in 1883.

German reactionaries, terrorists and political adventurers had been forming secret anarchist gangs for creating chaos, hoping to overthrow the government thereby. When caught such persons were imprisoned for various terms and then deported from Germany. Three such persons who attracted Marx and Engels in London deserve specific mention. The first was Karl Schapper, a student of forestry in 1832, and a member of the conspiracy organized by George Buchner. He took part in storming the Frankfort constable station in 1833, escaped abroad and joined Mazini's march on Savoy. The second was Heinrich Bauer, a shoe-maker. Both of them indulged in anarchist activities in France, imprisoned and deported. The third was Joseph Moll, a watch-maker from Cologne. All the three were revolutionary agitators and members of an underground political party, then called the League of the Just.

Frederich Engels records his meeting with these three men in the following words.

"I came to know all three of them in London in 1843. They were the first revolutionary proletarians whom I met, and I shall never forget the deep impression that these three real men made upon me, who was then still only wanting to become a man".

(SELECTED WORKS OF MARX AND ENGELS, VOLUME-3)

PAGE-175).

These three impressive proletarians persuaded Engels and Marx to join the secret communist League and to reorganize it; which they did in 1847. They took charge of its control, and wrote the famous Communist Manifesto, wherein aims and objectives of the Communist Party were explained, and guidelines for operation were also laid down. The Manifesto was published in January, 1848.

The Communist Party experienced its first birth pangs in the labour room of history between the years 1847 and 1852. Marx and Engels secretly distributed by hand copies of the Communist Manifesto amongst reliable members of the worker's parties and trade unions in various countries of Europe, advising them to form communist cells everywhere and to raise the battle cry of "Working Men of All Countries, Unite!" Continued extensive field work for establishing communist cells here and there and holding secret meetings every now and then to arouse the workers for revolt fanned class hatred. Incidents of petty uprisings happened resulting in violence, arson, and plunder followed by arrests and imprisonments; but without any revolution worth its name taking place anywhere.

One such abortive attempt in Germany was suppressed in 1852. The culprits were caught and tried at Cologne in November and sentenced to imprisonment varying from three to six years; and the secret communist league was banned throughout Germany. Some years earlier the communist party in France had met with the same fate at Paris in June, 1848, which Engels lamented in the following words.

"The Manifesto has had a history of its own. Greeted with enthusiasm at the time of its appearance, by the still not at all numerous vanguard of scientific socialism, it was soon forced into the background by the reaction that began with the defeat of the Paris workers in June, 1848, and was finally ex-communicated according to law by the conviction of the Cologne Communists in November, 1852. With the disappearance from the public scene of the worker's movement that had begun with the February Revolution, the Manifesto too passed into the background".

(SELECTED WORKS OF MARX AND ENGELS.
VOLUME-I, PAGE-102).

Karl Marx withdrew from active politics in 1852 as a result of the Cologne mishap. He engaged himself in research work, which he carried out at the British Museum for many years to write his great work "Das Kapital". He published the first volume of this book in 1867.

13.4. THE PARIS COMMUNE.

To comprehend the sudden appearance and disappearance of the Paris commune within a few months in 1871, it is essential to have full knowledge of the political conditions prevailing in Europe

during that period of history. Bigger European nations were, then in the grip of a frenzy to build-up their countries into mighty empires. With the help of spoils they brought home from abroad, they produced armaments to subdue and annex smaller countries of Europe. This process eventually created three big empires in Europe the Germans, the Russians, and the French which indulged in wars to establish their supremacy over one another.

On 19th: July, 1870 Louis Napoleon III, the French Emperor declared war on Germany. The Prussian army led by Prince Otto von Bismark fought bravely, outmaneuvered the French Emperor and forced him to surrender at the battle of Sedan on 2nd September, 1870. He was taken prisoner along with his army chiefs and kept in a fort near Cassel till 19 March, 1871. In the meantime the Prussian army occupied some French territory and besieged the city of Paris.

When the news of the Emperor's defeat and surrender reached Paris, the central authorities declared the State to be a Republic on the night of fourth September and Adolf Thiers, the man at the helm of affairs, withdrew all government officials, local and central, to Versailles, apprehending the siege of the capital. Under these circumstances the establishment of the Commune in Paris was not the result of any pre-conceived plan, but it was due to the void left in Paris when Thiers withdrew all officials to Versailles. This left the central committee of the National Guards as the only body capable of exercising effective control. The central committee immediately instituted direct election by manhood suffrage to create a popular assembly, which on 28 March 1871 assumed the title "Commune de Paris" after the title of the Council set up during the French Revolution in 1792.

From that date to the day when the Versailles troops entered into Paris two months after, the commune had a momentary life. The Paris section of Marx's International could not play a great part in the Commune as it had been crushed by Napoleon's police shortly before the outbreak of the Franco-Prussian War. Out of the 92 members of the Council of the Commune only 17 were members of International. Nor was the social and political structure of the Commune helpful: two third of its members were of petitbourgeois origins and the key positions went either to Blanquists or to old style Jacobins. The actual measures passed by the Commune were reformist rather than revolutionary, with no attack on private property. These measures were far from being socialist. In fact the Commune had such a short life, was composed of such disparate elements and operated under such exceptional circumstances that it is difficult to ascribe any coherent policy to it.

Almost half a century elapsed between the event of the Paris Commune and the establishment of a Socialist Republic in Russia. During this period the industrialized countries underwent constant socialist propaganda and agitation for the creation of a communist society; and the capitalist mode of production

weathered a good many economic crises which could provide adequate opportunities for the communist parties of the world to rise in revolt somewhere. But the fact that no abortive or successful attempt, worth its name, was ever made for communist revolution throughout this period anywhere leads one to conclude that the proletarians had no faith in the Marxian doctrine and they considered it quite unfeasible. How Russia turned communist and whether there was any relevance between the Russian conversion and the Marxian doctrine will be dealt with in the next chapter.

13.5. MARXIAN DOCTRINE.

Study of economics and history led Marx to conclude that society has always remained a composite of two antagonistic classes, one of which possessed the means of production and the other which did not possess them. The latter class could, therefore, contribute towards the production process only with their physical and mental exertions. The exploitation of the labouring class by the proprietary class has always been the cause of antagonism. Although the production methods have been changing with the march of time, the two classes and their antagonism always remained persistent. History has become a never ending story of exploitation and struggle between these two classes, and will remain so until the cause of antagonism is removed.

For so long as production managers remain proprietors of the means of production and workers remain wage earners antagonism will continue. Therefore, the only possible stable remedy is to deprive the capitalists of their proprietary rights, to confiscate the means of production and hand them over to the state for socialist management; and to reduce the capitalists to worker's level. Only then will society become a classless society devoid of all antagonism and friction. All other measures are mere time-serving make-shift arrangements which provide no permanent solution. The proletarians should, therefore, unite to bring about the overthrow of the capitalist class by force, and to convert private property into communist property for state administration.

According to Marx and Engels history is moving towards this goal automatically and will reach it in due course under the law of necessity. But as historical processes are time-consuming and slow-moving, the proletarians could expedite the process by their concerted efforts under Marx's guidance. Marx and Engels participated in the expedition by formulating theories of socialist economy and by providing leadership in actual march towards the goal. They knew that the overthrow of the capitalist class required Herculean efforts, which could not be generated in the proletarians without convincing them about the feasibility of the whole scheme. To promote this conviction an impressive theoretical foundation was essential. Marx and Engels worked hard to formulate the needed theories.

Marxian doctrine is based on the following three main com-

ponents: (1) Dialectical Materialism as the only basis of all thoughts, ideas and actions. (2) Economic interpretation of history as the only true explanation of all historical events and human behaviour. (3) The theory of Surplus Value which explains how capital is in fact the product of labour and labour alone which the capitalists usurp by allowing to the labouring class a mere subsistence wage.

Socialist concept emerging out of the Marxian doctrine outlined above is the only true and scientific socialism according to Marx and Engels. All other socialist ideas and concepts are regarded by them to be defective, unscientific and Utopian deserving no attention.

Before examining the Marxian doctrine in detail we would like to divert our reader's attention to a pertinent point: the order of precedence between theory and practice as established by history. History confirms that ever since the dawn of civilization practices always preceded theory in economic field. Cast a backward glance on the changing episodes of economic history through ages, and you will find this order of precedence always in tact; the practice always preceded the theory, and the theory always followed the practices to explain them and to justify or condemn them. Why Marx, the devout disciple of history should have deemed it fit to violate this order is not understood.

Another historical fact about economics is that you do not find a single instance of entire scrapping of an economic structure by force to introduce a new one. If the solution suggested by Marx is also the goal of history as alleged by him, then why not let history reach it at its own natural pace? Marx's insistence to carry on his crusade energetically in violation of history makes him a real Utopian like Robert Owen.

In this connection a word about the use of the word "scientific" will not be amiss. That which is scientifically true can pertain to the realm of physical sciences alone. Social sciences which deal with the ever-changing social circumstances and demands, are variable by nature. Therefore, measures considered most suitable for a particular country during a particular epoch are not likely to fit another country during another epoch. Such being the mercurial nature of social sciences, to expect from them that scientific accuracy and stability which is the monopoly of the physical sciences, is asking for the impossible.

13.6. DIALECTICAL MATERIALISM.

Dialectic is discussion and reasoning by means of dialogue a method of intellectual investigation initiated by Socrates and developed by Hegel whereby a concept or its realization passes over and is fulfilled by its opposite developing through the stages of thesis, antithesis and synthesis. Materialism is a theory according to which physical matter is the only or fundamental reality, and all beings, processes and phenomena can be explained as manifes-

tations or results of matter. It is a doctrine that the only or the highest values or objectives lie in material well-being and in the furtherance of material progress. Dialectical materialism is a Marxian theory that asserts and maintains the material basis of a reality constantly changing in dialectical process, and the priority of matter over mind.

Though born in a Jewish family, Marx turned out to be an atheist, who scoffed at the idea of creation of the Universe by God. He was a materialist who believed in the eternal existence of matter, and strongly felt that the whole phenomena of the Universe could be explained by applying dialectical methods to the doctrine of materialism. His specific method of approach to science and metaphysics acquired the title of dialectical materialism and Karl Marx's devotion to it provides in itself a key to explain Marx's drift towards it. As a member of Jewish Rabbi family Marx's initial belief in the existence of God and His creation of the Universe as revealed in the Old Testament becomes the thesis. Its antithesis is the denial of both which Marx adopted while studying law, history and philosophy in a secular academic atmosphere. The consequential synthesis is the development of Marx's mental approach towards the phenomenon of life and acquiring wisdom, which eventually generated all his life activities. A careful psycho-analysis of Karl Marx will demonstrate how dialectical materialism brainwashes an otherwise normal man.

Dialectical materialism cannot provide a really scientific equipment for the thought process due to an inherent defect in it. The dialectical process of reasoning jumps straightaway from thesis to antithesis totally ignoring the vast spectrum of diverse shades and colours lying in-between the two. This is its main defect. Those who adopt this method of analytical study of the universal phenomena or any particular branch of knowledge become an easy prey of illogical reasoning and bias. One cannot expect from them an impartial and logically consistent and coherent analytical study of any topic. That explains why Marx could not see in the march of historical events any other motive force except that of economic exploitation. That is why while talking about religion in general he ignored entirely the worldwide religions of Judaism, Zoroastrianism, Buddhism and Islam. He touched Christianity alone, and that too in an unscholarly, derisive manner. His treatment of economics, the main theme on which he wrote volumes, bears the same stigma as will be seen in due course. All this is the result of the major defect inherent in the dialectical method of analysis, which ignores all other aspects of a topic under review to dwell only upon a chosen thesis as viewed from its antithesis.

Let us now move on to consider materialism in its wider scope. It is the matter, no doubt, which surrounds us on all sides and with which we constantly remain in touch throughout our life. This association is bound to influence our thoughts and actions extremely. But the question arises whether we should accept this

influence submissively and let it overwhelm our freedom of thought so easily, or we should encounter it boldly to preserve our freedom of thought and action. Whether we should deify matter and worship it like pagans, or look into its nature, investigate its origin and enlighten ourselves with the secrets of the universe, is a vital issue. Wisdom demands that we should adopt the latter course.

Investigations into the nature of this universe led scientists to conclude that it is composed of two naturally convertible components matter and energy; and energy is the progenitor and matter the progeny with reference to time and space. About the nature of time and space, the scientists know nothing in spite of their recent interplanetary researches; although they concede that the realization of time is felt by the order of precedence in happenings, and that of space is felt by the relative distances between two or more celestial bodies. As the scientists consider it impossible to conceive coming into existence out of nothing and going back to nothingness, they propounded the theory that collectively matter and energy can neither be created nor destroyed in spite of undergoing endless changes in time and space. This theory was eventually taken for granted without any proof.

Matter consists of many elements, each having its own specific properties and attributes, and so is the case with energy. How did these specific forms of matter and energy acquire their specific attributes, is an essential part of their investigations, but the scientists do not attend to it. They try to explain how life evolves out of lifeless matter, but they do not consider what prompts life to do so. They trace the ancestry of man from ape back to fish, but they fail to consider the possibility of a pre-planned scheme behind evolving a dead atom to become a thoughtful, creative and communicative man, who now boldly challenges his ancestral atom itself. Why the scientists cannot see the evident wisdom operating behind the evolutionary process is really amazing. This myopic approach can spring only from their stubborn insistence to remain materialistic in thought and action. They refuse to admit that which they can logically interpret from what they observe. Alluding every evolutionary stage to chance and accident cannot hide their stubborn bigotry.

They despise religion for its claim to explain the phenomenon of life; and they condemn it because it attributes to an Almighty God what they attribute to the humble matter and energy themselves. Which belief is more logical and more comprehensive to adopt, one might ask: a belief in an almighty atom with its inherent evolutionary aptitudes that depend on chance and accident for their manifestation, or a belief in an Almighty, Omnipotent and Omnipresent God, who created energy, matter, life and soul, and who sustains them all; who can destroy and resurrect them as he deems fit?

An accidental happening is devoid of any purpose, and freedom to do good and evil, can neither be accidental nor purposeless. It

is not an event to be lightly ignored. To search for the purpose becomes the duty of science and philosophy; but both of them are likely to default. Thus the responsibility falls on all sober and inquisitive minds. What that purpose could possibly be is not so difficult to discern. Study the universal phenomena, meditate over it, and deduce therefrom the existence of the Prime Cause, the Origin, the Initiator of all that is. You will locate it in the Creator of us all and of everything that exists. Service of mankind and worship of the Creator is as rational a deduction as any which physical sciences have produced.

All religions which claim to have been revealed by God preach meditation to discover this goal. But as the words of God revealed to ancient prophets have been tempered with and mutilated by their followers from time to time, this central theme of the revealed words got blurred, hazy and imperceptible. It might, even, have been expunged in parts. The world today owns only one authentic compilation of the words of God. There is only one religion, Islam, which can produce this authentic book called Al-Quran, about which the historians can bear witness that it stands unaltered, word by word and dot by dot, from the days it was revealed fourteen centuries ago to this day, and for ever, because it continues to be committed to memory by millions of Muslims to keep it intact and unadulterated for posterity. The Muslims believe it to be the last message of God revealed to the Final Prophet, Muhammad, Peace be upon him.

This Holy Book, Al-Quran reveals the secrets of creation as well as of evolution and it explains the difference between the two in a most logical manner. It quotes history repeatedly in its evidence. It is a guide book on human behaviour, on law, on politics, on economics and on other social sciences. It discusses meta-physics elaborately, and it guides people on how to communicate with the Almighty God and achieve salvation. Those who are liberal enough to read it with an open mind will find no exaggeration in our statement.

The concept of accountability as explained in the Holy Quran acts as a curb on human waywardness, prompts men to think before acting and to abstain from unfair, unjust and criminal behaviour. This curb, which revealed religions and moral philosophers imposed on society becomes an insurmountable hurdle for those who believe in violence and indiscriminate use of force to achieve their ends, like Marx. It is therefore, inevitable that the doctrines they propound should decry moral philosophy and condemn religion outright, to demolish the hurdle. This aspect of the dialectical materialism is self-explanatory: it needed no comparative study of religions and morality for its expression. Only Marx in his frenzy failed to exercise foresight to discover how people with discretion would take it.

13.7. ECONOMIC INTERPRETATION OF HISTORY.

Karl Marx tells us that the first premise of human history is the existence of living people. He says that humans distinguished themselves from animals in that they produced the means of life. The manner in which they do this is determined by the means which they have found and have available to them. The act of production expresses the lives of individuals. They are what and how they produce. Thus the social and political organization of the state issues from the life process of individuals, not from their imagination, in forms which are a consequence of real life experience, and are independent of the will of individuals. So it is also with the production of ideas and concepts and of the spiritual production of people such as the languages, politics, laws, morality, religion, metaphysics. What this means is that the remotest ideas and institutions of men are determined by the development of productive forces. Morality, religion, metaphysics, all the rest of ideology, and their corresponding forms of consciousness thus no longer retain the semblance of independence. They have no history, no development; but men developing their material production and their material intercourse, alter alongwith it their real existence, their thinking and the products of their thinking. This is how Marx argues.

About the classes and class struggles, Marx asserts in the Communist Manifesto that the history of all hitherto existing societies has been the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild master and journeyman, in a word oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted fight, now hidden, now open, a fight that each time ended either in a revolutionary reconstruction of society at large or in the common ruin of the contending classes.

Marx adds that the modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonism. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

Our epoch, the epoch of the bourgeoisie, however, possesses this distinctive feature: it has simplified the class antagonism. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other—bourgeoisie and proletariat. Marx tells us how the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange. Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of the feudal nobility became an armed and self-governing association in the medieval commune. The bourgeoisie has played a most revolutionary role in history. Wherever it has got the upper hand it has put an end to all feudal, patriarchal,

idyllic relations. It has pitilessly torn as-under the motley feudal ties that bound man to his 'natural superiors' and has left no other bond between man and man than naked self-interest, than callous 'cash payment'. It has drowned the most heavenly ecstasies of religious fervour, of chivalrous enthusiasm, of Philistine sentimentalism in the icy water of egoistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single unconceivable freedom-Free Trade. In one word, for exploitation veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.

Marx continues to tell that the bourgeoisie has stripped of its halo every occupation hitherto honoured and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science into its paid wage labourers. The bourgeoisie has torn away from the family its sentimental veil and has reduced the family relation to a mere money relation. The bourgeoisie cannot exist without constantly revolutionizing the instruments of production and thereby the relations of production, and with them the whole relations of society. The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together.

Marx then reveals that the weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself. But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons the modern working class, the proletarians.

Explaining how it would happen, Marx tells us that the social conditions of the old society no longer exist for the proletariat. The proletarian is without property; his relation to his wife and children has no longer any thing in common with bourgeois family relations; modern industrial labour, modern subjection to capital, the same in England as in France, in America as in Germany, has stripped him of every trace of national character. Law, morality, religion are to him so many bourgeois prejudices behind which lurk in ambush just as many bourgeois interests. Marx continues: in depicting the most general phases of the development of the proletariat, we traced the more or less veiled civil war raging within existing society upto the point where that war breaks out into open revolution and where the violent overthrow of the bourgeoisie lays the foundation for the sway of the proletariat.

Eventually Marx concludes with a summary, saying that the essential conditions for the existence and sway of the bourgeois class is the formation and augmentation of capital; the condition for capital is wage labour. Wage labour rests exclusively on competition between the labourers. The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the isolation of

the labourers due to competition by their revolutionary combination due to association. The development of modern industry, therefore, cut from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, is its own grave diggers. Its fall and the victory of the proletariat are equally inevitable.

Let us now examine Marx's arguments in support of his economic interpretation of history with a critical mind. We concede that the first premise of human history is the existence of living people, but we challenge the validity of his second premise, whereby he attributes all differences between humans and animals to a solitary cause to man's ability to produce the means of subsistence, which animals do not possess. Humans differ from animals in a hundred and one diverse ways and each difference is likely to have its own specific cause. To jumble all those diverse causes into one without a valid explanation is most unreasonable. Human ability to produce means of subsistence is just one point of difference between men and animals, but it is neither the only one, nor the paramount one. Presumptions prove nothing. In this regard the first pre-requisite is a comparative scientific study of the anatomy and physiology of the two species to locate the origins of their divergent hereditary traits which give rise to different performances. The next scientific step in such investigations is to trace the history of development of these diverging hereditary traits under the influence of environments. Marx ignored both these steps and relied entirely on his rhetoric to adorn his presumption with a rational garb.

There is a world of difference between the aptitudes of humans and animals because human biological equipment is far more superior to that of any animal, and what man has achieved with his superior equipment, no animal can even understand. The comparison, therefore, becomes irrelevant.

The idea that the means of production govern our thoughts and actions, and determine the course of our mental and physical activities is as irrational as the worship of idols we make with our own hands. To expose the fallacy of this concept we will have to trace the origin and development of the means of production right from the prehistoric man. There was a period when men lived on trees or in caves eating fruits and raw flesh of birds and animals they could capture without any artificial device, just like other animals. For so long as food in natural forms remained in abundance for all men and animals in a fertile area, all lived in peace carelessly multiplying their respective progeny; but soon the increasing population outstripped the existing natural resources of subsistence and struggle for existence made its first appearance in a violent strife. Stronger individuals drove the weaker ones out of the valley establishing thereby a new equilibrium between demand and supply of food resources in the valley.

The defeated individuals set out in search of new fertile areas

and settled wherever they found something to eat. It was a new experience which tickled their fancy and prompted them to realize that they must own some means of subsistence for themselves and their families to survive. Everybody knows how they occupied different tracts of land, and how they learnt growing crops and breeding animals through experience, preserving and strengthening the family ties all along.

As production of crude tools, implements and utensils progressed, those members of every family who gained experience in making a particular article felt inclined to continue making it alone not only for their own families but for others as well. Contact of individuals of common occupation from different families for discussion to improve the quality of their wares produced a closer affiliation between them and started splitting and regrouping the old families on a professional basis. Thus new families of pot-makers, ironsmiths, wood workers, leather makers and cloth weavers sprouted out of the old families of common ancestry. They bartered their products with those of their brethren who continued to produce food products. This barter exchange became the starting point of exploitation, deserving a closer study.

Food is a daily necessity so vital that without it starvation followed by death is imminent, whereas deprivation from other articles of use is only inconvenient. The cultivating brother abused this difference to dictate the terms of trade which the manufacturing brother was obliged to accept helplessly. The terms of trade dictated in this initial exchange transaction did not aim at any extortive unequal exchange in so far as value for value was concerned. It dug deeper still. It splitted a classless society into two classes: the master class and the servant class. The suppliers of food products called themselves the masters and called the suppliers of other necessities their menials to be contemptuously treated as serfs and vassals by them. This surrender of one group of workers to another group of workers in a classless society of workers is an eye-opener. Since it happened in a classless society without any use of capital and without a monopoly of the means of production, the real origin and motivation of this phenomenon must be sought not in the means of production but elsewhere. It lies in the human body itself, where the ego lies in ambush seeking opportunities in the external world to display its potentials and to exhibit its superiority over others. All material objects of the external world became media of expressing this inner human urge, which alone remains the initial cause of exploitation.

Our backward march in history to pinpoint the oldest phenomenon of exploitation and to reveal its nature is not a figment of imagination. Even today village life in under-developed countries presents its exact replica with all the details. The tillers of land, whether owners or tenants, call the village black smith, cobbler, weaver, carpenter and pottery maker 'Kameen' or menial servants. Karl Marx missed the track of truth, wandered in wilderness, and

eventually became a victim of mirage simply because he ignored human biology altogether, and tried to trace the origin and development of exploitation and class struggle in environmental history alone.

The claim that all metaphysical philosophies, which paved the way for scientific researches, and all scientific researches and discoveries which led to the conquest of nature, and all religious meditations with their resultant myths and wisdoms which mould human beliefs and actions, are all products of material economic forces is an idle reverie without proofs. And Marx had no proof to offer for his fantasy. If it is absurd to say that greed for gold led Archimedes to discover the law of relative density; if it is absurd to say that the dialectic of Socrates and Plato were the products of empty stomachs; if it is absurd to say that Copernicus used to gaze at stars because he was unemployed; if it is absurd to say that the discovery of the latent power of steam by James Watt was motivated by his addiction to tea, or to say that heavy demand for telescopes in the market led Galileo to invent it, or to say that Darwin collected fossils because he knew that antiquities fetched very high prices in the European markets; if to say all this is absurd, the absurdity recoils on Marx's economic interpretation of history. And finally what economic causes can be advanced for religious beliefs, for the worship of sun and stars, for animal worship, for idolatry, and for the three great religions of the world — Buddhism, Christianity and Islam? None whatsoever. Marx's economic interpretation of history is so fragile that it cannot bear the slightest touch of logic. It crumbles immediately and vanishes in thin air.

13.8. THEORY OF SURPLUS VALUE.

The third component of the Marxian doctrine is the theory of surplus value, which has become the pivot round which the entire Marxian economic analysis revolves. Marx begins with explaining the nature of the terms value, use value, and exchange value of a commodity, when these terms are used in economic discussions.

He tells us that the wealth of a society presents itself as an immense accumulation of commodities. A commodity is an object outside us, a thing which by its properties satisfies human wants of some sort, biological, social or national. The utility of a thing makes it a use-value, but this utility has no existence apart from that commodity, and use value becomes a reality only by use or consumption. Commodities constitute the substance of all wealth, and are also the material depositories of exchange value. Exchange value is a quantitative relation as the proportion in which values in use of one sort are exchanged for those of another sort; a relation constantly changing with time and space. Hence exchange value cannot be an intrinsic worth. To regard it intrinsic and inherent in commodities would be contradiction in terms.

When we exchange a given quantity of one commodity with different commodities in turn, we come to two conclusions: first

that the valid exchange value of a given commodity expresses something equal; secondly, exchange value generally is only the mode of expression, the phenomenal form of something contained in it yet distinguishable from it. That something is the human labour in the abstract. If we ignore the use value of commodities, forget their exchange values, we are left with a mere congealation of homogeneous human labour. When looked at as crystals of this social substance common to them all, they are values. A use value or useful article, therefore, has value only because human labour in the abstract has been embodied or materialized in it.

How is the magnitude of this value to be measured? Plainly by the quantity of the value creating substance, the labour contained in the article. The quantity of labour, however, is measured by its duration and labour time in its turn finds its standard in weeks, days and hours. The value of a commodity is thus determined by the socially necessary labour time contained in it. Socially necessary labour time is the time required for production under normal conditions, with average degree of skill and intensity, using modern machinery. The greater the productivity of labour, the less is the labour time, and the less the value of the commodity. Some goods like air may be useful but have no value since they embody no labour. Virgin soil, meadows and forests, rivers and seas, with all their untapped natural resources are useful, but without any economic value for so long as they are not converted by human labour into useful commodities. A thing can be useful as well as a product of human labour, without being a commodity.

Whoever directly satisfies his wants with the produce of his own labour indeed creates use values but not commodities. In order to produce the latter, he must not only produce use values but use values for others, i.e. social use values. Lastly nothing can have value without being an object of utility. If the thing is useless, so is the labour contained in it; such labour does not count as labour and therefore, creates no value.

Labour is not the only source of material wealth; untouched natural resources on which labour acts are also a part of it. As William Petty puts it, labour is its father and the earth its mother. Thus use-values are not simply the products of labour, but are a combination of natural matter and labour.

Although the value of a commodity is determined by the socially necessary labour-time contained in it, if there is no demand for the commodity it contains no value. Production beyond the demanded quantities restricts its use-value which is the basis of its exchange value.

The labourer is obliged to sell his labour-power to the capitalist because labour-power is the only commodity which he has to sell. The capitalist is obliged to pay for labour-power only the value which, like that of any commodity, is fundamentally determined by the labour-time necessary for its production and reproduction. Its value therefore, is equal to its subsistence defined as a cultural

minimum plus the expenses of education and training.

The labourer contracts with the industrial capitalist to work according to his instructions for every day at an agreed wage. The employer fixes the wage to be the minimum possible for subsistence. The labourer gives an output to the employer equal to his daily wage by working only a part of the day, whereas he is bound to work for the rest of the day as well. The labourer's output during the rest of the day is a surplus value which the employer exploits by usurping it from the labourer to whom it belongs. Surplus value is the value created by the labourer but alienated by the capitalist. Thus surplus value becomes the source of the capitalist's profit. Constant improvements in industrial machinery for increasing its productivity, and division of labour through job analysis are aimed at increasing the surplus value and profit.

13.9. MARXIAN ANALYSIS OF CAPITALISM.

Industrial revolution with its rapid inventions of machines, their universal use in production processes, and the havoc it played with the lives of the working class people within half a century of James Watt's invention of the steam engine, was such an outstanding phenomenon which led Karl Marx to conjecture the future trends of industrialization and its repercussions on the working class. Capitalism was the only economic system which the industrialized countries practiced and its theoretical side was passing through development stages. So Marx decided to do some research work about capitalist economy, and he carried out most of this research at the British Museum in London between 1850 and 1883 when he died. He published the first volume of his famous book 'Das Kapital' in 1867. The remaining two volumes were published by Engels after his death.

Marx commences his analysis with discussing utility or use-value of a product and explains how it is created by human labour acting upon the natural resources freely available to a community as a gift of nature. Due to this utility the product is exchanged in the market so that people may avail of it by using or consuming it. In this way the product acquires a market or exchange value. Since all the various products being exchanged in the market are apparent forms of congealed human labour embodied in them, their values can be measured by measuring the quantity of human labour embodied in each, and these comparative individual values should form the basis for their exchange values. But what happens in a capitalist economy is quite different. Marx attributes the difference to two causes: the competitive free-trade practiced by the market economy, and the supremacy of capital in both the production and distribution fields. The entire economic literature produced by Marx and Engels is an elaboration of the various aspects of these two causes, and collectively constitutes the Marxian analysis of capitalism.

Dealing with wages and how they are determined under

capitalist economy, Marx tells us that wages are the sum of money paid by the capitalist for a particular labour-time or for a particular output of labour. The capitalist buys their labour with money. They sell him their labour for money. But this is merely the appearance. In reality what they sell to the capitalist for money is their labour power. Labour power, therefore, is a commodity neither more nor less than, say, sugar. The former is measured by the clock, the latter by the scales. The exchange value of a commodity, reckoned in money is what is called its price. Wages are only a special name for the price of labour-power, commonly called the price of labour; for the price of this particular commodity which has no other repository than human flesh and blood.

Wages are not the worker's share in the commodity produced by him. Wages are the part of already existing commodities with which the capitalist buys for himself a definite amount of productive labour-power. Labour power, therefore, is a commodity which its possessor, the wage worker sells to capital. Why does he sell it? In order to live. But the worker, whose sole source of livelihood is the sale of his labour power cannot leave the whole class of purchasers, i.e. the capitalist class, without renouncing his existence. He belongs not to this or that capitalist, but to the capitalist class, and moreover it is his business to dispose of himself, that is to find a purchaser within this capitalist class.

As we have seen, wages are the price of a definite commodity, of labour power. Wages are therefore, determined by the same laws that determine the price of every other commodity. The question, therefore, is how is the price of a commodity determined?

Two forces interact to determine the price of a commodity at a particular moment in the market. These are the cost of production, and the demand-and-supply position momentarily prevailing in the market. The fluctuations of supply and demand raise the price above or lower it below the cost of production every now and then, but these fluctuations continually tend to bring the price back to the cost of production. It is true that the real price of a commodity is always above or below its cost of production at any moment, but rise and fall reciprocally balance each other so that within a certain period of time, taking the ebb and flow of the industry together, commodities are exchanged for one another in accordance with their cost of production. The price of a commodity is thus determined by its cost of production in such a manner that the periods in which the price of this commodity rises above its cost of production are compensated by the periods in which it sinks below the cost of production, and vice versa. Of course this does not hold good for separate, particular industrial products but only for the whole branch of industry. Consequently, it also does not hold good for the individual industrialist but only for the whole class of industrialists.

Wages will rise and fall in accordance with the turn taken by the competition between the buyers of labour power, the capitalist,

and the sellers of labour power, the workers. Within these fluctuations the price of labour will be determined by the cost of production, i.e. the cost of subsistence, maintenance and reproduction of the workers. Wages so determined are called the wage minimum.

About capital Marx tells us that capital consists of raw materials, machines or instruments of labour and means of subsistence of all kinds which are utilized in order to produce new raw materials, new instruments of labour and new means of subsistence. All these component parts of capital are creations of labour, products of labour, accumulated labour. Thus accumulated labour which serves as a means of new production is called capital.

Capital consists not only of means of subsistence, instruments of labour and raw materials, not only of material products; it consists just as much of exchange values. All the products of which it consists are commodities. Capital is, therefore, not only a sum of material products; it is a sum of commodities, of exchange values, of social magnitudes. The body of capital can change continually without the capital suffering the slightest alteration. But while all capital is a sum of commodities, that is of exchange values, not every sum of commodities, of exchange values is capital. How, then, does any amount of commodities, of exchange values, become capital?

It becomes capital by maintaining and multiplying itself as an independent social power of a portion of society through exchange with direct, living labour power. The existence of a class which possesses nothing but its capacity to labour is, thus, a necessary pre-requisite of capital. It is only the domination of accumulated, past, materialized labour over direct, living labour that turns accumulated labour into capital. Capital does not consist in accumulated labour serving living labour as a means for new production. It consists in living labour serving accumulated labour as a means for maintaining and multiplying the exchange value of the latter.

Let us see what happens in the act of exchange between capital and labour. The worker receives means of subsistence in exchange for his labour-power, but the capitalist receives in exchange for his means of subsistence labour, the production activity of the worker, the creative power whereby the worker not only replaces what he consumes but gives to the accumulated labour a greater value than it previously possessed. The worker receives a part of the available means of subsistence from the capitalist. For what purpose do these means of subsistence serve him? For immediate consumption. As soon as he consumes the means of subsistence, they are irretrievably lost to him, unless he uses the time during which he is kept alive to produce new means of subsistence for survival. It is just this noble reproductive power that the worker surrenders to the capitalist in exchange for the paltry means of subsistence received. He has, therefore, lost it for himself. Thus capital pre-supposes wage labour; wage labour pre-supposes capital. They

reciprocally condition the existence of each other; they reciprocally bring forth each other.

Hence increase of capital is increase of the proletariat, that is of the working class. The indispensable condition for a tolerable situation of the worker is, therefore, the fastest possible growth of productive capital. But the growth of productive capital is the growth of the power of accumulated labour over the living labour.

To say that the interests of capital and those of the workers are one and the same is only to say that capital and wage labour are two sides of one and the same relation. The one conditions the other. As long as the wage worker is a wage worker his lot depends upon capital. That is the much vaunted community of interests between worker and capitalist.

A noticeable increase in wages presupposes a rapid growth of productive capital. The rapid growth of productive capital brings about an equally rapid growth of wealth, luxury, social wants, social enjoyments. Thus although the enjoyments of the worker have risen, the social satisfaction that they give has fallen in comparison with the increased enjoyments of the capitalist, (which are inaccessible to the worker) in comparison with the state of development of society in general. Our desires and pleasures spring from society; we measure them, therefore, by society and not by the objects which serve for their satisfaction. Because they are of a social nature, they are of relative nature.

What, then, is the general law which determines the rise and fall of wages and profits in their reciprocal relation? They stand in inverse ratio to each other. Capital's share or profit rises in the same proportion as labourer's share or wage falls, it falls to the extent that wages rise. We see, therefore, that even if we remain within the relation of capital and wage labour, the interests of capital and the interests of wage labour are diametrically opposed.

A rapid increase of capital is equivalent to a rapid increase of profit. Profit can only increase rapidly if the price of labour, if relative wages decrease just as rapidly. Relative wages can fall although real wages rise simultaneously with nominal wages, with the money value of labour, if they do not rise, however, in the same proportion as profit. If, for instance in times when business is good, wages rise by five percent, profits on the other hand by thirty percent, then the comparative, the relative wages have not increased but decreased.

Even the most favourable situation for the working class, the most rapid possible growth of capital, however much it may improve the material existence for the worker, does not remove the antagonism between his interests and the interest of the bourgeoisie, the interests of the capitalist. Profit and wages remain as before in inverse proportion.

To sum up: the more productive capital grows, the more the division of labour and the application of machinery expands. The more the division of labour and the application of machinery

expands, the more competition among the workers expands and the more their wages contract.

It must never be lost sight of, Marx tells us, that in capitalist production what matters is not direct use value, but exchange value, and in particular the expansion of surplus value. This is the driving motive of capitalist production. The capitalist is motivated by avarice to accumulate, conquer the world of social wealth and by increasing the exploitation of the mass of human beings, extend his control of society.

Marx does not bother to discriminate between rent, interest and profit. He tells us that rent, interest and industrial profit are only different names for different parts of the surplus value of the commodity, or the unpaid labour enclosed in it, and they are equally derived from this source, and from this source alone. They are not derived from land as such, or from capital as such, but land and capital enable their owners to get their respective share out of the surplus value extracted by the employing capitalist from the labourers. It is the employing capitalist who immediately extracts from the labourers this surplus value, whatever part of it he may ultimately be able to keep for himself.

The exploitation of surplus value with the help of existing capital confronted Marx with a difficult question to explain the primitive accumulation of capital. Let us see how he handled it. He tells us that the accumulation of capital presupposes surplus value; surplus value presupposes capitalistic production; capitalistic production pre-supposes the pre-existence of considerable masses of capital and of labour-power in hands of producers of commodities. The whole movement, therefore, seems to turn in a vicious circle, out of which we can only get by supposing a primitive accumulation preceding capitalistic accumulation, an accumulation not the result of the capitalist mode of production but its starting point. Marx tells us that the Middle Ages had handed down two distinct forms of capital which mature in the most different economic social formation, and which, before the era of the capitalist mode of production are considered as capital *quand meme* — usurer's capital and merchant's capital.... The discovery of gold and silver in America, the extirpation enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of the black-skins, signaled the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation. On their heels treads the commercial war of the European nations, with the globe for a theatre. Force is the midwife of every old society pregnant with a new one. It is itself an economic power.

Marx continues that the system of public credit that is of national debts, whose origin we discover in Genoa and Venice as early as the Middle Ages, took possession of Europe generally during the manufacturing period. The public debt becomes one of

the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. But further, apart from the class of lazy annuitants thus created, and from the improvised wealth of the financiers, middlemen between the government and the nation as also apart from the tax-farmers, merchants, private manufacturers, to whom a good part of every national loan renders the service of a capital fallen from heaven the national debt has given rise to joint stock companies, to dealings in negotiable effects of all kinds, and to agiotage, in a word to stock-exchange gambling and the modern bankocracy.

Commenting on business cycle and unemployment Marx tells us that to say that the relationship between money and commodities opens up the possibility of there being crises does not explain why there are crises. Monetary phenomena make crises possible; they do not cause them. In pre-market societies crises are unheard of. In the metamorphosis of commodities the possibility of crises arises in two ways. First a commodity in its form as a use-value is transformed into money ($C \Rightarrow M$), that is, it is sold for money. Once done, then a purchase may be made ($M \Rightarrow C$), which presents no difficulty since money is freely exchangeable for anything. In this simple form of metamorphosis, the possibility of crises comes in the separation of sales and purchases. In a barter society the possibility of crises would disappear.

The possibility of crises in its second form arises out of money as a means of payment, because money figures in two phases separated in time and different in function. First let us examine money in the process of reproduction of capital. Commodity capital must pass through the process $C \Rightarrow M \Rightarrow C$, the metamorphosis of the commodity. Crises may arise here owing to the separation of purchase and sale. The first metamorphosis consists of turning capital into money; the second, turning money into capital. Some capitals are in the process of turning themselves into money while others are turning themselves from money into capitals. This mutual confluence and intertwining of the production process is necessitated by the division of labour, and is also to some extent accidental. Thus the exchange economy, by providing the means of exchange and permitting a complex division of labour, provides the possibility under which crises may develop.

Let us turn now to money as a means of payment. For example, a merchant buys cloth on credit paying by means of a bill of exchange, and in turn flax growers sell to spinners, spinners to weavers, and so on through a long chain all based on the bill of exchange originally issued by the merchant. Should the merchant

be unable to sell his product on the market, no one else along the chain is paid, i.e. no one else realizes the value of his commodities. In this way the possibility of general crises arises.

Economists who are unable to reason crises out of existence believe that crises which emerge in the forms described above are caused by monetary phenomena and are therefore, simply accidents. What they fail to perceive is that these are only the forms in which crises appear and are not a determinate cause which must be based upon the real movement of capitalist production, competition and credit.

The possession of other goods is not the immediate aim of capitalist production but the appropriation of value, of money, of abstract wealth.

Our production is a consequence of the law of the production of the capital, which requires continuous accumulation of the means of production, without regard to the limit of the market, social needs and ability to pay.

In the process of accumulation there are violent fluctuations in employment resulting in large scale unemployment. As accumulation proceeds, the absolute supply of labour is increased to meet the requirements of economic growth, only to be dismissed as the organic composition of capital increases. As a consequence an ever growing industrial reserve army of unemployed develops, which is available for the self-expression of industry. The function of over population is to provide labour for the periodic sudden expansion of industry. But if a surplus labouring population is a necessary product of accumulation or of the development of wealth on a capitalist basis, this surplus population becomes, conversely, the lever of capitalistic accumulation, nay, a condition of existence of the capitalist mode of production. It forms a disposable industrial reserve army that belongs to capital quite as absolutely as if the latter had bred it at its own cost.

The course of the business cycle, a decennial cycle, which is characteristic of modern industry depends upon the constant formation, the greater or less absorption, and the reformation of the industrial reserve army. The expansion by fits and starts of the scale of production would be impossible without a reserve army. Bourgeois economists look upon the business cycle as being due to the expansion and contraction of credit. This is a mere symptom of the business cycle. Competition and credit, the two most powerful levers of capitalism develop in proportion as capitalist production and accumulation do. The centralization of capital, its accumulation in the hands of fewer and fewer capitalists continues alongwith accumulation, owing in part to the economic advantages of size as the volume of social capital grows. However, centralization may occur simply through the process of the amalgamation of existing capital through merger into a single hand. As the mass of capital in a single hand grows, fewer and fewer labourers are employed by it. The growth of monopoly capitalism, therefore,

reduces the demand for labour. And as monopoly capitalism develops misery, oppression, degradation and slavery grows; labourers revolt. The knell of capitalist private property sounds. The expropriators are expropriated.

This is a brief summary of Marxian analysis of capitalism which with a further condensation would amount to saying that greed for unearned income lures the industrial capitalists to usurp wealth which the wage labourers produce; and with the help of that wealth to expand and perpetuate this exploitative economic system. Marx was convinced that the capitalists in their frenzy were bound to overshoot the mark, and the resulting catastrophe would destroy capitalism. To expedite the demise of capitalism Marx and Engels formed or reformed a Communist League, issued a Communist Manifesto for guidance of the proletarians, and devoted their lives for the advent of a communist society. Before offering our comments on the Marxian analysis of capitalism we would like to have a glimpse of the communist society Karl Marx strived for.

13.10. THE CHERISHED COMMUNIST SOCIETY.

Karl Marx's operational method is reflected in a passage of his book, 'The Poverty of Philosophy' published in 1847. He says:

"Just as the economists are the scientific representatives of the bourgeois class, so the socialists and the communists are the theoreticians of the proletarian class. So long as the proletariat is not yet sufficiently developed to constitute itself as a class, and consequently, as long as the struggle itself of the proletariat with the bourgeoisie has not yet assumed a political character, and the productive forces are not yet sufficiently developed in the bosom of the bourgeoisie itself to enable us to catch a glimpse of the material conditions necessary for the emancipation of the proletariat and for the formation of a new society, these theoreticians are merely utopians, who to meet the wants of the oppressed classes, improvise systems and go in search of a regenerating science. But in the measure that history moves forward, and with it the struggle of the proletariat assumes clearer outlines, they no longer need to seek science in their minds; they have only to take note of what is happening before their eyes and to become its mouthpiece. So long as they look for science and merely make system, so long as they are at the beginning of the struggle, they see in poverty nothing but poverty, without seeing in it the revolutionary, subversive side, which will overthrow the old society. From this moment, science, which is a product of the historical movement, has associated itself consciously with it, has ceased to be doctrinaire and has become revolutionary"

Accordingly the Communist Manifesto reveals that:

"The Communists are distinguished from the other working class parties by this only:

1. In the national struggles of the proletarians of the different countries, they point out and bring to the front the common interests of the entire proletariat, independently of all nationality.

2. In the various stages of development which the struggle of the working class against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole. The Communists, therefore, are on the one hand, practically, the most advanced and resolute section of the working class parties of every country, that section which pushes forward all others; on the other hand, theoretically, they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement".

Communist Manifesto also tells us that:

"Communism abolishes eternal truths, it abolishes all religions, and all morality, instead of constituting them on a new basis; it therefore, acts in contradiction to all past historical experience. The Communist revolution is the most radical rupture with traditional property relations; no wonder that its development involves the most radical rupture with traditional ideas. The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communist revolution. The proletarians have nothing to lose but their chains. They have a world to win".

With such exhortations Marx and Engels aroused the masses to rise in revolt and create a new society. Inquisitive proletarians asked many questions. We quote below a couple of them which Engels answered in 1847.

"Question: will it be possible for this revolution to take place in one country alone? Engels replied, "No. The communist revolution will be not only a national one; it will take place in all civilized countries, that is, at least simultaneously in England, America, France and Germany. It will be quickest and easiest to carry out in England. It is to be world revolution, and will therefore have the whole world as its arena".

Question: What influence will the communistic order of society have upon the family? Engels replied, "It will make the relations between the sexes a purely private affair which concerns only the persons involved; and calls for no interference by society. It is able to do this because it abolishes private property and educates children communally, destroying thereby the two foundation stones of hitherto existing marriage: the dependence of the wife upon her husband and of the children upon the parents, conditioned by private property. This is an answer to the outcry raised by moralizing philistines against the communistic community of wives".

About how the communist society will operate, Marx tells us that only when production is under the conscious and prearranged control of society will society establish a direct relation between the quantity of social labour-time employed in the production of definite articles and the quantity of the demand of society for them. The commodities must then be sold below their market value, and a portion of them may even become unsalable. The opposite takes place if the quantity of social labour employed in the production of

a certain kind of commodities is too small to meet the social demand for them. But if the quantity of social labour spent in the production of a certain article corresponds to the social demand for it, so that the quantity produced is that which is the ordinary on that scale of production and for that same demand, then the article is sold at its market value. The exchange or sale of commodities at their value is the natural way and the natural law of their equilibrium.

In a capitalist society, owing to differential rent, the market prices of the products of the soil are above their value i.e. above the labour-time embodied in their production. This surplus price over value, which under capitalism goes to the landlord, would in a socialist society go to the state. While price will remain the same in both cases, it is wrong to say that the value of the products would remain the same.

In the case of socialized production, the money capital is eliminated. Society distributes labour-power and means of production to the different lines of occupation. The producers may eventually receive paper cheques, by means of which they withdraw from the social supply of means of consumption, a share corresponding to their labour-time. These cheques are not money. They do not circulate. Thus money would be abolished in a socialist society.

Under communism, we return to that characteristic of the primitive state exemplified by Robinson Crusoe in which production is for use and not for profit. Now it is for social rather than for personal use, but there still remains the problem of distribution. One portion of production will remain social for use in further production. The mode of distribution of the rest will vary with the historical development of the society, but as a first approximation each will share according to his contribution of labour-time. The social direction of labour-time would perform two functions: (1) to allocate labour to perform the different kinds of work desired by a community; and (2) to serve as a measure of the value of each labourer's contribution to society, as well as to measure his share in that portion of output available for consumption.

So long as a split exists between the individual and the common interest, the division of labour, by circumscribing man's activities to certain narrow spheres, enslaves him. To attempt to escape is to lose one's livelihood. In a communist society, where a common production is regulated by society, an individual can choose his career freely, moving from occupation to occupation at will. Man will be free from the slavery of the division of labour.

All history is the history of man's enslavement to an alien power, the world market. After the communist revolution, with the abolition of private property, this power will be dissolved. Then genuine spiritual riches will be available to each individual. He will be free of national and local limitations, be enabled to enjoy the all-sided production of the whole earth. The natural cooperation of

men, hitherto forced by the rule of the market system, will arise spontaneously in the wake of the communist revolution.

The essential condition of the emancipation of the working class is the abolition of all classes. The working class in the course of its development will substitute for the old order of civil society an association which will exclude classes and their antagonism and there will no longer be political power, properly speaking, since political power is simply the official form of the antagonism in civil society. In the future society, men will be free of class antagonisms. Political power, which is necessary only where class antagonisms exist, will disappear.

The emancipation of labour demands the promotion of the instruments of labour to the common property of society, and the cooperative regulation of the total labour with equitable distribution of the proceeds of labour. What is equitable distribution, and should all members of society, even those who do not work, share in it? This question devolves into the issue of whether all members of society are to receive the "undiminished proceeds of labour". Before there is anything to divide, funds must be deducted from total production for depreciation, for industrial expansion, insurance and reserves, for the costs of administration, for the requirements of the communal consumption, such as schools, health services etc: and for the unemployed.

Then to divide what remains according to productive input (labour-time) is a bourgeois formula for equitable distribution. Some workers may have more children than others. Thus to right the defect of bourgeois society, namely, that more physical or mental superiority makes one man richer than another, distribution should be: "From each according to his ability to each according to his needs".

We defer to judge how far the communist society, which now pervades over half the world, has come upto Karl Marx's expectations. Let us first critically examine the analysis of capitalism carried out by Karl Marx.

13.11. MARXIAN ANALYSIS REVIEWED.

Marxian analysis of capitalism is based upon economic interpretation of history a claim that history, is nothing but a record of economic exploitation of the producing labour class by the class owning the means of production. This claim is a distortion of facts. It is true that man has been exploiting man throughout the civilized history, but that is only one facet of history out of many and more significant facets. Even in that single facet of exploitation the dominance was retained by politics and religion rather than economics. The motive force behind the exploitation has all along been the desire for leadership and prestige. Economics always lagged behind. Although it was there all the time, it always remained a hand-maid of politics.

As mentioned earlier, ownership of property began with the

possession of open tracts of virgin land for cultivation by the primitive families which migrated in search of food. It was not a personal but a family ownership. As tools of cultivation developed, some members of the family devoted themselves exclusively to making and repairing tools while others carried on cultivation. The land, the tools and the produce continued to remain common family property as before. The first exploitory signs appeared as acts of discrimination when the offspring of the cultivating members of the family declared the offspring of the tool-making members as menials and socially inferior to themselves. The feeling of superiority sprouted just from division of labour within the family members without any argument about the ownership of land, tools, or produce, which remained common family property as before, equally satisfying the needs of them all. The emergence of these two classes within the same family and without any economic cause was motivated by yearning for prestige and leadership. Desire to preserve this prestige intact within the family through generations gave birth to the tradition of inheritance, which reserves the ownership of landed property exclusively for the eldest son, reducing his younger brothers and sisters to annuitants, depriving them of their economic rights of ownership. Motivation behind this tradition of inheritance is the preservation of family prestige even at the expense of equity; economics is nowhere to be seen.

The motive of prestige and leadership exhibits itself in history most prominently and at a grand scale in the form of conquests by militant hordes of war-lords, princes and kings, who trample over others' freedom, not to snatch their wealth, but to exact their perpetual subordination. History is mostly a record of such annals, followed only by a record of human mental and spiritual development achieved through philosophy, religion, art and literature, rather than by any economic exploitation. None denies the existence of economic exploitation, but everything has its own relative importance, and attempts to distort history cannot alter the truth. That Marx and Engels were not justified in twisting history to give it an entirely economic hue is admitted by Engels himself. In a letter he wrote from London in September 1890 to Mr. J. Bloch in Konigsburg, Engels says.

"According to the materialist conception of history, the ultimately determining element in history is the production and reproduction of real life. More than this neither Marx nor I have ever asserted. Hence if somebody twists this into saying that the economic element is the only determining one, he transforms the proposition into a meaningless, abstract, senseless phrase....."

We make our history ourselves, but, in the first place, under very definite assumptions and conditions. Among these the economic ones are ultimately decisive. But the political ones, etc, and indeed even the traditions which haunt human minds also play a part, although not the decisive one. . . .

Marx and I are ourselves partly to blame for the fact that the younger people sometimes lay more stress on the economic side

than is due to it. We had to emphasize the main principle vis-a-vis our adversaries, who denied it, and we had not always the time, the place, or the opportunity to give their due to the other elements involved in the interaction".

*(SELECTED WORKS OF MARX AND ENGELS. VOLUME-3
PAGES-487-488. PUBLISHED IN MOSCOW IN 1970).*

About the class antagonism and class struggle it may be pointed out that history does not confirm their antiquity as conjectured by Marx and magnified by his rhetoric beyond proportions. The facts are that land with its agricultural produce remained to be the dominant source of wealth ever since the dawn of civilization upto the industrial revolution, and that the owners of means of production had been exacting maximum production from the labouring masses working under them, and paying them much less than their equitable dues. To us, who look at it after the industrial revolution, such a situation appears to be a breeding ground for class antagonism and class conflicts, but the peculiar circumstances prevailing throughout the pre-industrial era, while exhibiting the fact of exploitation fail to record any incident of class conflict. Why?

Class conflict demands the existence of two fairly independent and well-knit classes with clashing interests, each being more or less capable of safeguarding its own interests. But throughout the entire history of civilization right upto the advent of the industrial revolution it has never been possible for any group of labourers to gather at any time anywhere for collective deliberation about their plight. Any such gathering of slaves, serfs, or even landless tenants in Greek, Roman and Feudal societies have been considered an act of treason deserving death penalty under their autocratic laws. How could a labouring class appear where even a small gathering of labouring mob was intolerable? Like herds of cattle labour has always remained scattered in small group, disunited and classless. And when labour did not exist as a class, it was superfluous for the employers to array themselves as a class. It is true that there have been ruthless exploitations of labour during the pre-industrial history of mankind, but it is equally true that no class conflict raised its head. Had there been any such incident, history would certainly have recorded it.

Class antagonism and class conflict can arise only after the classes have been formed, and not before their formation. It was the industrial revolution which gave birth to the class of employers and the class of hired labour in the field of production. The progress of industrialization created and brought to surface the conflicts between the interests of these two classes. Trade Unionism and Socialism, which followed as their antidotes are their natural consequences.

With these remarks about economic interpretation of history and class conflicts, let us now move on to tackle the Marxian analysis of real economic issues. As to which issues Marx broached

and which of them he left untouched and how he handled the ones he tackled, a perusal of his analysis makes one feel that it has neither been complete nor unbiased. It leaves an impression that it was carried out with a pre-conceived objective to reach a specified goal., instead of depicting a comprehensive picture of capitalist economy progressing through ages with all its faults and virtues. This impression is strengthened on realizing that Marx joined the Communist League and issued the Communist Manifesto first, and started his researches in economic field afterwards, as if to promote his cause. His analysis has, therefore, to be taken with a grain of salt.

A conspicuous drawback of the Marxian analysis is its selective nature. It does not cover the whole field of political economy, it merely discusses its industrial phase prevailing during the nineteenth century. Even in that specific period Marx ignores the exploitation of the entire consuming public and dwells on the factory workers alone, although these workers constituted only a small fraction of the total populace of even the most advanced and the then leading industrial country of England. The remaining vast majority engaged in their struggle for existence equally deserved attention. They formed a wide spectrum of divergent economic classes ranging from those living in filth on garbage to those thriving on unearned incomes. A comprehensive economic analysis of any society will not ignore them the way Marx did. The more one studies Marx the more he realizes that Marx was a poor critic. To expect a perfect economic analysis of the whole community from a gentleman who failed to manage his own household economy was expecting too much.

Let us first examine the terms value, use value, exchange value and surplus value as defined and determined by Marx in monetary terms. Marx accepts the three premises of free trade, competition and money as a value-measuring scale; but he does not accept the four conventional factors of production. He accepts only two of them, labour and capital, which according to him originate from a single source, the productive human labour power. According to Marx it is the previously congealed human labour which exploits the currently producing living labour by enslaving it and dictating its course of operation. But congealed labour which appears in the form of commodities exchangeable into money capital is a dead matter, having no will, intention or power of decision of its own. Its possessor, whether rightful or wrongful owner, is the person who decides how to use his capital. It is therefore, the ownership or possession of capital that counts; and due to which Marx set out not to abolish capital but to do away with the capitalist class. In view of such significance of property ownership in capitalist economy, had Marx accepted the four conventional factors of production as well, his analysis of land, labour, capital and enterprise would have been more comprehensive, more factual, and more accurate.

To whom does the surplus value belong is a crucial issue of Marxian analysis, and obviously this issue pertains to fixing property rights. According to Marx surplus value is the difference between exchange value and value or labour-hours embodied in the product, and this difference belongs entirely to the working labour. Unfortunately Marx starts with some assumptions which, in fact, do not exist in real life, but which he wants to bring about in society. One such assumption is the elimination of property rights. Everyone admits that use value is the utility of product to satisfy human wants and that this utility is injected into the product by human labour acting on natural resources available to the entire community residing in a country as a free gift of nature. But the trouble starts with the historic facts that these free natural resources have already been expropriated by different individuals and groups for themselves, depriving others as well as society itself of its free use. The expropriators consider themselves free from any obligation either to develop these resources or to let others do so, and when they allow it they levy rent or royalty. Since Marx counts no cost for natural resources his calculation of value remains deficient, unless the element of rent or royalty is also included therein.

Although Marx accepts the exchange value as determined by the interaction of supply and demand in a competitive free market, he stumbles while deducing surplus value from it. Exchange value realized in a competitive free market is not simply a sum total of wage plus profit. Even Marx accedes that a product becomes a commodity only after it has become marketable. All the production and distribution costs have, therefore, to be included for computing its real cost. The wage of factory worker is only one component of production cost out of so many: the salaries of supervisory and administrative staff, the cost of raw materials, the depreciation of machinery, the rent of land and buildings, the cost of motive power, the interest on borrowed capital etc: etc: are all legitimate production expenses which combine with wages to create the product before passing it on to the market for sale. When evaluating capitalist mode of production, we cannot assume hypothetical socialist conditions that do not exist, nor can we consider our evaluation complete and valid by the untenable assumption that the exchange value is composed of mere wage and profit. Along with wage all the above mentioned expenses have to be included to compute the ex-factory cost of a product. And to deliver that product at consumer's door further indispensable expenses are incurred for distribution.

Some of the distribution expenses are essential and common to both the capitalist as well as the socialist economy, while others are incurred exclusively by the competitive free trade. The former consist of packing the product in containers befitting family needs and then repacking these handy containers into big cartons for bulk handling; then shifting these to bulk storage centres near a

group of retail market; and eventually displaying them in retail shops to be picked up by the consumers. The latter type of distribution expenses incurred extensively by the competitive free trade over and above the former expenses are necessitated by sale promotion of ones own brand of commodity under competitive conditions of free trade.

Sale promotion demands a fancy eye-catching pack for each brand unit with display of attractive pictures and alluring slogans printed in colours thereon. It also demands extensive advertisement in every type of mass contact media to convince consumers that 'our' brand is the best in the market and most suitable to serve their needs. A glance at newspapers, magazines and television display will confirm how lavishly such expenses are incurred, with least regard for the consumer's pocket. These expenses raise the price of commodity manifold boosting its exchange value enormously. The producer recovers every penny of his costs from the consumer by increasing the sale price, and therefore, he is not worried about how lavishly he spends on such sale promotion expenses. But the boosted exchange value thus received helps Marx to magnify enormously the quantity of surplus value or profit. It is quite evident that Marx had no right to twist facts and mislead like this .

Let us now examine the surplus value itself. The physical set up of industrial production has undergone no change even after the advent of socialism. Today manual workers produce under the supervision of foremen and supervisory staff in exactly the same way in Russia and China as they do in England and America. The administrative and managerial staff in both sectors is similar. Since all have to subsist and all work for it, every one gets his share out of the product of their joint toil and effort. The question arises when the top factory management gets paid in Russia and China, are their counterparts in America and Britain entitled to nothing for their contributions towards production? If they are entitled to something, then why Marx deprived them altogether? He does not allow them a single penny and distributes the entire exchange value amongst the manual labour, partly in wages and the rest in surplus value. There is no share whatsoever for the capitalist in the surplus value. He is not entitled even to a subsistence wage for survival as a human being. Why is it so?

To whom does the surplus value belong deserves our careful attention. The capitalist's stand is that there is no surplus value as all the four factors of production receive their shares and there is no surplus left. They say that the pertinent question can only be of an unfair and inequitable distribution, which the deprived party can raise. Labour unions have been pressing for their full dues and extracting them from the management successfully without seriously disrupting industrial development and economic growth, and without resorting to Marxian tactics. They claim that the factory workers in developed capitalist countries always remained

better off throughout the current century as compared with their counterparts in socialist world. But Russia keeps the controversy about the surplus value alive through its cheap literature distributed in every country with the help of the local communist parties. We have therefore, to analyze the issue threadbare.

Analysis of the Marxian surplus value can be split into two parts: first the assessment of its real quantum, and second, the decision about its rightful ownership. The first part requires complete survey of the entire process of production and distribution right from the initiation of productive process upto the consumption or use of the product by members of society. We have conducted this survey in previous pages which leads us to conclude that the Marxian concept of surplus value cannot be ignored, since some quantity of surplus value does exist which belongs to manual workers but which the factory owners expropriate under the cloak of profit. Its quantum is measurable though it is not so large as claimed by Marx, nor large enough to swallow the entire profit. It is only a fraction of the real profit as determined by capitalistic accounting method. Theoretically its quantum can be considered to be the difference between the ideally necessary wage and the existing real wage of the worker, where ideally necessary wage means so much money which should suffice to cover all normal human aspirations of a frugal man with his family. Practically it is the difference between the existing real wage and that wage to secure which the trade union has successfully negotiated with administration by deploying the strength of their united front. The real quantum of surplus value is not and cannot be a stable figure. It changes with changes in social conditions of different classes of society, which determine the aspirations of the labouring class, fulfillment of which is the real aim. It is the stringiness of the entrepreneur which always retains a portion of surplus value, howsoever small. But that acts as a catalyst for promoting unity amongst the workers, and keeps the flame of their desire to fight for their cause ablaze.

Since surplus value is defined to be that portion of the product value which belonged to the worker but was wrongfully expropriated by the entrepreneur, the ownership of surplus value is decided by the definition itself, leaving nothing to argue. Still it needs splitting into two separate parts for delivery to two different labour teams who worked at different times and places to earn it: one whose past labour now congealed into capital helps the other or current labour, to whom Marx awarded the entire surplus value without any justification.

Exploitation by capital is not confined to industrial labour alone, nor is it carried out only by usurping the surplus value. Its field is much wider and its operational methods are varied and many. By confining capitalistic exploitation to a much narrow field, and by expending all his energies in that narrow sphere alone, Marx has left the issue unresolved and reached wrong conclusions.

Capitalism has thrived so much more after the death of Marx as it did not during his life time, and it happened inspite of all the barriers Marx could raise against it. Is it not a living proof of his defective research and wrong conclusions? Capitalism discovered means to look after its labour force to mutual satisfaction, and it boosted research, discovery, industry and trade to heights never dreamt of before. It landed on moon, and it encircles stars with the help of the same economic system for which Karl Marx had tolled the death knell a century and a half before. But all this does not mean that capitalism is flawless and commendable. The mere fact that it robs the poor to enrich the rich is reason enough to reject it. Proper course to condemn and thwart it is to expose its exploitative tactics and prescribe effective remedies.

To thoroughly comprehend the act of exploitation and the real nature of capital are the two essential pre-requisites of any fruitful discussion about capitalistic exploitation. Let us commence with explaining what human exploitation in economic field really means and how it originated. Commodities are produced primarily to satisfy human wants. It is human toil and exertion which produces these commodities by converting natural resources into goods of utility. Therefore, only such persons who indulge in such productive exertions personally, and none else, should be entitled to share the fruits of joint human toil embodied in the commodities. All others who avail of their utilities without taking any part whatsoever in their production and necessary distribution, are usurpers, who exploit the toils of those who produced them. This is the real nature and origin of human exploitation in economic field, which adorns various garbs as economy adopts more and more complex forms.

Human wants are diverse and so is the diversity of commodities which are produced to satisfy them. Therefore, to cater for all the needs of an individual, exchange of commodities became necessary. For so long as the barter exchange served the purpose, the element of exploitation remained suppressed. But the expansion of trade necessitated the introduction of money as a medium of exchange. To remain a reliable and stable medium, money had to have its own intrinsic worth, due to which it became a store of wealth itself. The combined attributes of money as a store of wealth and a universal medium of exchange made it capital, the object of our quest. Economists use the word 'capital' for that part of wealth which is used to produce more wealth. Since this part of wealth invariably takes over monetary form, it turns out to be money and money alone which acts as capital in fact.

Labour and capital join hands to produce, both being indispensable for production. In the act of production both merge to become a single unit which produces by joint operation. Neither labour alone nor capital alone can produce. It is their cooperation for a joint venture and a common cause that works. As use of capital in production is necessary its right to a share in the produce

is valid and clear. The product must, therefore, be subjected to distribution. The exchange value of a product is not a monopoly of either labour or capital, it is to be equitably shared. Only a judicious and equitable distribution can maintain harmony in capital and labour by keeping both of them fully satisfied. Significance of efforts to curb capital and to make it desist from becoming exploitative is quite clear.

To refrain from misappropriating other's wealth it is essential to discriminate between economic practices which actually produce additional wealth and those which only misappropriate. To do so is not difficult. Wealth of a community can be considered from two different angles: an individual's personal angle, and a collective community angle. A genuine wealth increase will make itself felt in both the cases from whichever angle you see. But a mere act of misappropriation, when seen from a personal angle, will show a wealth increase for some with a corresponding wealth decrease for some others; and when it is viewed from the collective social angle no change will be visible since the collective wealth of the community has remained unchanged. This phenomenon provides us with a reliable criterion for segregating harmful economic practices. All such increases in individuals wealth which do not increase the national wealth are mere misappropriations of existing social wealth on individual level; and therefore, all economic practices which do not increase the collective national wealth must cease to operate. Speculative pursuits, gambling and games of chance thus become extinguishable.

Next the credit comes under fire for its indiscriminate lending to both the productive and non-productive enterprises with no regard for how they use it. Interest itself, which is a charge for lending, is not at all concerned about genuine increase in wealth. Judging by the above mentioned criterion, lending on interest is a clear cut expropriation. It increases the wealth of lender by decreasing the wealth of borrower without increasing or decreasing the collective national wealth at all. Then why should this practice, which happens to be the life-blood of capitalism, be allowed to survive? Prohibition of interest can shatter the entire capitalist economy with a single blow without resort to Marxian tactics. It should, however, be enforced with determination and perseverance tempered with wisdom.

For communities which like to retain economic freedom for individuals and groups, yet wish to bridge the widening gap between the rich and the poor, the only way out is to introduce an interest-free economy. In spite of being a Herculean task, this is the only remedy. These concluding remarks complete our review, and permit us to visit Marx at his residence.

13.12. FAMILY LIFE AND HOME ECONOMICS.

Karl Marx was born in Trier, an old German City, on Fifth: May, 1818 in a Jewish Rabbi family. A Rabbi is a qualified Hebrew

scholar who expounds and applies religious traditions in Jewish society. Marx's father earned enough to buy a house and lead a comfortable life with a bunch of children, by his legal practice. But when in 1815 the Prussian Government debarred all Jews from holding any public office including legal practice, Marx's father was forced by circumstances to become Christian. He was baptized in 1816 at the age of 35, and the children were baptized in August 1824, when Marx was six years old. Marx studied at Bonn and Berlin universities and received his doctorate in 1842.

Much earlier he fell in love with a beautiful and wealthy girl Jenny Westphalen, who was four years older than himself. His passion for Jenny and his secret engagement with her in 1836 worried his father much, who pressed Karl to study harder for some lucrative profession to keep his future wife happy. Jenny was a daughter of the Privy Councillor Ludwig von Westphalen, who liked Karl for his potential scholarly aptitudes.

After studies Marx intended to seek a teaching job in some university, but his interest in local politics made him a journalist and a bitter critic. He married Jenny in 1842, but his political career deprived him of a settled peaceful life. Born and brought up in a wealthy family Jenny cherished a posh standard of living which Marx's meagre income could not provide. Both loved each other dearly and spared no mutual sacrifice, but they lived in a bourgeois society and wished to lead a respectable life, avoiding to be looked down upon as poor. The children they begot were all girls, whose decent upbringing and suitable education was essential. All this needed a lot of money which was nowhere to be seen. Under such circumstances a prudent person would have given up his infatuation for socialism or atleast reduced it to a part-time hobby, seeking some lucrative job and devoting major part of his time to it, for earning a decent living for his family. But Marx did no such thing. He relied entirely on the benevolence of his relatives and friends. His friend Engels helped him most, in fact supported Marx's family throughout his life.

Friedrich Engels belonged to a prosperous business family of Huguenot origin in Germany. His great grandfather created a bleaching and spinning works at Barmen in Rhineland. Engel's father took his share of the business, and in partnership with two Ermen brothers, Peter and Godfrey, a new enterprise was formed owning factories both in Barmen and Manchester. Born on 28th: November, 1820, Friedrich was the eldest of a family of eight which professed Christianity in Pietistic creed. He joined his family business at an early age, and while going through his military course in Berlin in 1841, he studied Hegelian philosophy. He was sent to Manchester in 1842, to look after their business, and on his way he met Marx at Cologne. Their meeting developed into a life-long friendship based on unity of views about politics and economics.

Engels lived in a terraced house in the outskirts of Manchester

with Mary Burns, an Irish working class girl with whom he had developed illicit relations. After Marx shifted to London with his family, they started exchanging visits, spending weekends and holidays together at both the places. When Mary Burns died unexpectedly in 1864, Engels wrote to Marx: "I cannot tell you what I feel. The poor girl loved me with all her heart.... I feel that I have buried with her the last particle of my youth". But soon afterwards, her younger sister Lizzie moved in to take her place. Later on Engels wrote to Marx: "Lizzie was of genuine proletarian stock and her passionate innate feeling for her class was of far greater value to me and stood me in better stead at moments of crises than all the refinement and culture of your educated and aesthetic young ladies".

Engels lived a perfect bourgeoisie life engaging himself in all their beloved activities, yet he continued to promote the communist cause. He lived like a cotton-lord in Manchester till 1869, when he retired. Thereafter he shifted to London for closer contact with Marx's family and rented a house in Regent Park, about fifteen minutes walk from Marx, whom he visited almost daily. Lizzie kept his house, but she died in 1878, and Engels married her on her death bed.

Many biographies of Karl Marx are available and everyone of them mentions his pecuniary problems. We have read most of them as well as the Marx-Engels correspondence, published recently. Mr. David Mc Lellan, Professor of Political Theory at the university of Kent, England, in his book "Karl Marx, His Life and Thought" says that:

"A hasty reading of Marx's correspondence gives the impression that Marx's family difficulties were largely due to their living in the most grinding poverty; and Marx's own description of his lack of funds appear to bear this out. 1852 seems to have been the worst year. In February: 'Already for a week I have been in the pleasant position of not going out because my coat is in the pawn-shop, and of not being able to eat meat because of lack of credit'. In the same month Jenny wrote, 'Everything hangs on a hair, and 10/- at the right time can often obviate a terrible situation'. In April Marx had to borrow money to bury his daughter; In September he gave a detailed description of the situation. 'My wife is ill, little Jenny is ill, Lenchen has a sort of nervous fever, I cannot and could not call the doctor because I have no money for medicine. For 8-10 days I have fed the family on bread and potatoes of which it is still questionable whether I can rustle up any today. Naturally this diet was not recommended in the present climatic conditions. I did not write any article for Dana, because I did not have the penny to go and read newspapers. I had put off until the beginning of September all the creditors who, as you know, are only paid off in small sums. Now there is a general storm. I have tried everything but in vain.....The best and most desirable thing that could happen would be that the landlady threw me out of the house. Atleast I would then be quit of the sum of £. 22. But I can scarcely trust her to be so obliging. Also baker, milkman, the man with the tea,

green grocer, old butcher's bills. How can I get clear of all this hellish muck? Finally in the last 8-10 days, I have borrowed some shillings and pence (this is the most fatal thing, but it was necessary to avoid perishing) from layabouts.....)

The pawnshop was an indispensable institution for the Marx's household. It was also, on one occasion, a source of discomfort: Marx tried to pawn some of Jenny's family silver with the Argyll crest on it. The pawn broker considered this so suspect that he informed the police and Marx had to spend the weekend in prison before he could establish his bonafides. In the summer of 1855 more drastic measures were required, and Marx retired with his family to Imandt's house in Camberwell partly to avoid Dr. Freud who was prosecuting him for non-payment of a bill; he spent from September to December incognito with Engels in Manchester for the same reason.

However, a closer examination of Marx's revenues gives the strong impression that his difficulties resulted less from real poverty than from a desire to preserve appearances, coupled with an inability to husband his financial resources. This is clearly what one would expect from Marx's incapacity to manage the large sums of money that he had previously received and was again to receive in the 1860s. On his arrival in London Marx was quite prepared to rent a flat in Chelsea that was very expensive more than twice the rent Marx eventually paid for a house when he moved out of Dean Street.....Marx's creditors were quite naturally angry in 1854 when he spent considerable sums on Jenny's trip to Trier which necessitated all sorts of new outfits because naturally she could not go to Trier in tatters".

(KARL MARX BY DAVID MC LELLAN PAGES-262 TO 265)

A fourteen year old girl, Helen Demuth, was engaged by Marx's parents in 1834 as a maid-servant. After Marx's marriage with Jenny this girl was handed over to Jenny for looking after her household routine. David Mc Lellan states that:

'In the early summer of 1851' Jenny wrote in her autobiography, 'an event occurred that I do not wish to relate here in detail, although it greatly contributed to an increase in our worries, both personal and other's. This event was the birth of Marx's illegitimate son Frederick; the mother was Helen Demuth. This fact was kept so well concealed and the surviving papers of the Marx's family were so carefully sifted to eliminate all references to it that only the recent chance discovery of a letter brought it to light. This letter addressed to August Babel was written by Louise Freyberger (the first wife of Karl Kautsky) who had kept house for Engels on the death of Helen Demuth to whom she had been very close. According to her Engels had accepted paternity for Frederick and thus 'saved Marx from a difficult domestic conflict'. But he gave Louise Freyberger the right to reveal the truth should he be accused of treating his 'son' shabbily. He even told the story to a distraught Eleanor (Marx's daughter) on his death bed, writing it on a slate as he had lost his voice. The secret was confined to the Marx's family and one or two friends. The son was immediately sent to foster parents and had no contact at all with the Marx's household, though he resumed contact with his mother after Marx's death.....

There is no doubt of the general credibility of this letter. The certificate of Frederick Demuth's birth in June 1851 is conserved in Somerset House; the space for the name of the father is left blank; the name of the mother is given as Helen Demuth and the place of birth as 28 Dean Street". (Karl Marx's residence)".

(KARL MARX BY DAVID MC LELLAN PAGE-271-272.)

Engels proved himself to be the most sincere friend one could ever have. He spared neither wealth nor honour from Marx. But Marx turned out to be a thankless spendthrift bourgeois. Yet Engels always remained at his beck and call, ready to help with pleasure. Throughout their lives Engels expressed his annoyance at Marx's behaviour only once. When Engel's mistress Mary Burn died in 1864, Marx wrote a condolence letter to Engels. This letter contained a single two line sentence about the sad event, followed by a two page lengthy tale of Marx's own troubles and demand for money. Engels replied:

"Dear Marx, you will think it in order that this time my own misfortune and your frosty reaction to it have made it positively impossible for me to answer you any sooner. All my friends including Phillistine acquaintances have shown me more sympathy and friendship on this occasion, which inevitably affected me quite closely, than I had a right to expect. You found the moment suitable for a demonstration of the superiority of your cool manner of thinking. So be it".

*(THE MARX-ENGELS CORRESPONDENCE, A Selection by
(FRITZ J. RADDATZ, PAGE-105-106 Published by
Weidenfeld and Nicolson. London 1981)*

Marx apologized and they patched up.

Our only reason for peeping into the private life of Karl Marx is to pinpoint that economics, whether practiced at home or in the market place, is governed by the same principles: first earn by expending your energies wisely, and then spend frugally to preserve your self-respect and to avoid subsequent sufferance. But Marx was a bourgeois spendthrift, which he himself admits in a letter to Engels dated 31 July, 1865.

"True, I live too expensively for my circumstances, and besides, we have lived better this year than usually. But this is the only way in which the children, quite apart from the many things they have suffered and for which they were compensated at least for a short while, can make contacts and connections which might secure their future for them. I believe you yourself will take the view that, even from a purely business point of view, a purely proletarian setup would have been unsuitable here, although that might serve quite well if my wife and I were on our own or if the girls were boys".

*(THE MARX-ENGELS CORRESPONDENCE BY F.J.
RADDATZ. PAGE-112).*

A staunch bourgeois and hypocrite who considered proletarian set up unfit for himself and his daughters, and who failed to manage his house-hold economy could only misguide others in

economic affairs. His desire and attempts to revolutionize social economy were bound to prove themselves a mirage.

13.13. MARXISM IN A NUTSHELL.

Karl Marx was a revolutionary by temperament, and the era which brought him up was pulsating with demands for revolutionary changes in society. The upheaval brought in Europe by the industrial revolution for the working class people, and general sympathy for their plight inspired Marx to believe that the trend of historical events was towards the onset of socialism and communism as inevitable goals of social development. He joined the Communist League and issued the Communist Manifesto declaring the eradication of capitalism and socialization of all means of production to be the destiny of the proletariat.

Marx acknowledged that like so many other 'isms' his socialism and communism was also a Utopian ideology conceived by him to make the proletarians act in a specified manner to reach a specified goal. He also admitted that since the proletarians could not by themselves conceive of such an ideology, some one else had to do it for their guidance; and so he did it. Marx knew that to convince the proletarians about the feasibility of his ideology he had to forge an ingenious rationale in the form of social and economic theories which might infuse in them the needed urge to act with conviction, being simultaneously lured by the bait of their own dictatorship. He evolved such theories elaborately and preached them incessantly but in vain, as explained in the previous pages of this chapter.

You have observed how fragile Marxian theories turned out to be, and how they failed to infuse the desired faith for action, due to their inherent defects. The bait of dictatorship of the proletariat was, no doubt, alluring, but the price demanded was too high, and the reward was uncertain. It is impossible for the proletarians, working under capitalist domain, to overthrow capitalism by dint of force, simply because material force remains monopolized by the capitalist class, and is available to the proletarians only in trickles. Proletarians knew it full well and therefore, they desisted from committing suicide, exposing their families to starvations thereby.

Karl Marx died a century ago, and eversince no abortive or successful attempt was ever made by the proletarians of any country to bring about the overthrow of capitalism using brute force; thereby proving beyond doubt that the Marxian recipe was not at all feasible, and had therefore, to wither away with the passage of time. Marxism is a fallacious concept which breathed its last long ago, leaving behind a carcass entombed in history to entice political adventurers of the under-developed countries and teach them how they could establish their own dictatorships at home, under the cloak of socialism.

What happened in Russia at the tail end of the First World War is quite a different story. Lenin established there his own dictatorship to introduce his own brand of socialism, differing basically

from what Karl Marx had dreamt of and strived for. We will discuss it comprehensively in the next two chapters.



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CHAPTER FOURTEEN

SOCIALISM - LENINISM

14.1. MONGOLS RULE OVER RUSSIA.

The northern part of Europe with the exception of Scandinavia, now called Russia was formerly known as 'Rus' for many centuries. Its original inhabitants were nomads who lived in tents and moved all over the steppes to graze their herds of sheep and horses. In course of centuries they learnt cultivation and settled down in villages and towns. Eventually they built cities and established numerous princely states. These small states used to fight amongst themselves for extension of their territories. They were also over-run by Scythians, Sarmatians, Sokas, Huns, Avars and Khazars in the course of history. Originally they were pagans, but they adopted the Christian religion in the tenth century.

In the autumn of 1237, a Mongol army led by Batu, grandson of Genghis Khan conquered the Russian city of Ryazan and commenced the subjugation of entire Russia. The Khan and his army were collectively known as the Golden Horde. They established their military headquarter at Saray and fought many battles defeating the Russians everywhere. They did not administer the conquered territory as a single unit. The fall of Kiev in December, 1240 completed the conquest of Russia and inaugurated the period of Mongol overlordship described in Russian Chronicles as the 'Tatar Yoke' which was to last for nearly two and a half centuries.

After 1240 the whole of what was formerly Kievan Russia became part of the vast Mongol empire, of which it formed the western section. Batu, now its Khan or ruler established his capital at Saray near the mouth of the Volga. The middle Dnieper area was ruled directly from Saray by Mongol officials, while the rest of Russia was left under the control of its princes as vassals of the Golden Horde. This meant that each prince had to go to Saray, make a formal act of obeisance to the Khan and then receive a 'yarlyk' or patent authorizing him to rule his principality, though

under the watchful eye of a resident Mongol overseer called a 'baskak'. The yarlyk had to be renewed every time there was a new prince or Khan, so that visits to Saray became part of the normal pattern of life for the Russian princes. Sometimes they would spend many months there, competing for the Khan's favour by means of bribes and flattery, since this was the surest way to political success in their quarrels with one another.

To the ordinary people Mongol rule meant two things: financial tribute and compulsory military service. The Mongols at first demanded a tenth of everything. Later the tribute was commuted to money payments, assessed separately for towns and rural areas. The tribute was first collected by tax-farmers, then subsequently, after the reign of Khan Mangu-Temir (1266-79), by specially appointed tax gatherers. Finally under Khan Uzbek (1313-41) the duty of collecting taxes became the prerogative of the leading Russian princes. For military service the Mongols conscripted ten per cent of the male population; they also forced many skilled craftsmen to work for them. In order to make accurate assessments for the purpose of taxation and conscription Russian population was 'counted' in four successive stages during the second half of the thirteenth century.

The heavy burden of taxation and conscription following the devastation caused by the invasions had a depressing effect on the economy of the Russian lands. Outside the city of Novgorod, which reached the height of its prosperity during the 14th and 15th centuries, commerce declined and the Russian economy became more agrarian in character. As a result land owners became the most important social and economic group in the community. The period of Mongol rule proved important in the development of the orthodox Church in Russia. Khan Mengu-Temir issued a yarlyk exempting all church lands from taxation, and all people working on them from military service. The Church thus became a specially privileged institution. Monastic life flourished during the period of Mongol rule: at least 180 monasteries are known to have been founded, including the famous Trinity Monastery of St:Sergy, founded by St.Sergy of Radonezh, and the Solovetsky Monastery founded in 1429 on an island in the White Sea. In the middle of the 15th century the once powerful Golden Horde split up into three separate units: the Crimean Tatars (under the suzerainty of the Ottoman Empire after 1475), the Kazan' Khanate and the so-called Great Horde, or remnants of the Golden Horde. Their overlordship was weakened and was formally renounced in 1480.

The above-mentioned brief account of Mongol rule over Russia is extracted from 'The Cambridge Encyclopedia of Russia and the Soviet Union' published in 1982. The Encyclopedia fails to tell us anything about the cultural heritage of the dominating Mongols and how it influenced the Russian way of life during 250 years of subjugation. A book no longer remains an encyclopedia with such defaults. That the dominating Mongols embraced Islam and spread

Muslim faith and culture wherever they went is a well-known fact of history which cannot be obliterated by the Western prejudices against the Islamic ideology. Millions of Muslims still surviving in Socialist Russia with the remnants of their architecture, art and literature are living monuments of what their fore-fathers did centuries ago. The impact of two different cultures influence both invariably and remoulds their future relations in a new pattern.

14.2. RUSSIA UNDER THE TSARS.

When Mongols invaded Russia, Moscow was a relatively minor city of the grand principality of Vladimir, which did not acquire the status of a separate principality with its own prince until 1301. It was only a tract of 500 square miles when its administrator and his descendants started extending their jurisdiction. One of its early rulers, Ivan I, helped the Golden Horde in suppressing a nearby revolt, and as a reward he received a yarlyk appointing him as the grand prince of Vladimir in 1327. The descendants of Ivan I made Moscow the capital of the biggest state in Russia, and declared themselves to be the Tsars of "Rus" When the Mongolian overlordship weakened, the Russians achieved independence and the Tsar consolidated all the princely states into a unified Russian Empire.

The despotic rule of the Tsars continued right upto the outbreak of the First World War. The Ivan dynasty ruled upto the advent of the seventeenth century and the Romanove dynasty ruled thereafter. However, their administrative policies and practices were similar. Whether it was Ivan IV the Terrible, Peter the Great, Catherine the Great, the three Alexanders or the two Nicholas, they all ruled with an iron hand being helped by an aristocratic nobility they nourished at the expense of the tillers of the land, who formed eighty percent of the population but lived in grinding poverty.

The Russian economy remained agrarian throughout, since Russia developed its industries too late. The peasants, therefore, were virtually the real backbone of their national economy, but they were treated most shabbily. They lived as slaves or serfs who had no right to claim anything nor freedom to discard the yoke of their landlord. This humble status for the peasants was legally enforced, with the result that the peasant uprisings were few. However, this plight of the peasants reduced the agricultural yield, which in turn dwindled exports, upsetting the national economy. The Tsar was obliged to proclaim the emancipation of the serfs in 1861, and they acquired the ownership of two thirds of the land they have been working upon, on paying redemption dues, for which the state advanced them loans to be recovered in easy instalments.

Spread of education created a class of intellectuals who brought about an all-round awakening amongst the literate people for political, social and economic reforms. As mute resentment at government policies became vocal, many critics came forward with

their suggestions. Some of their proposals were imported from other European countries while others were purely indigenous. German liberalism and Hegelianism were recommended by many. Alexander Herzen, whose journal in exile, 'The Bell' was even read by the Tsar, aimed at a synthesis of Russian tradition with Western ways which he despised in their pure form. A.S.Khomyakov (1804-60) advocated a free Russia based on the village commune and the old Russian form of parliament. N.G.Chernyshevsky (1828-89) organized an opposition movement, Populism, which rejected religion, order, and the family. They were nihilists. The reforms which Alexander II introduced drove people into a radical opposition. In 1870 they attempted to carry their doctrines 'to the people' and they went out to the villages in an effort to convince the peasantry but they failed. The peasants were suspicious of all townsmen. At some places peasants handed them over to the police. In despair a section of the Populists established a terrorist organization called 'Land and Liberty', which plotted assassinations. The most successful of these was the shooting by Vera Zasulich of General Trepov, police chief of St.Petersburg in 1878. Efforts were also made against the Tsar Alexander II himself, culminating in his assassination in March 1881.

Demand for a representative government increased but the last two Tsars paid no heed. War with Japan broke out in 1904 resulting in Russian defeat. Poverty of the peasants was exploding in violence, arson and demand for land. The student community was becoming anarchist. The reign of Tsar Nicholas II (1894-1917) was full of turmoil and political agitation. Numerous political parties with divergent aims and novel tactics were creating chaotic conditions. When Germany declared war against Russia on 1st August 1914, the country was almost at the brink of disaster, although with British and American help it fought till its final collapse in mid-1917.

14.3. LEGACY OF MARX IN RUSSIA.

Marxism has been misinterpreted by its adherents to serve their own ends so much and so often that a correct appraisal of the legacy of Marx has become quite difficult, and to reconcile the different interpretations is virtually impossible. The historians, however, consider it their duty to pass on to the interested public the heterogeneous bundle of appraisals made by different followers of Marx in different countries at different times.

In the previous chapter we have discussed what Marxism stood for and how it failed to reach its goal with the lead provided by Marx and Engels themselves in their life-time. Our conclusion that true Marxism breathed its last with the deaths of Marx and Engels is well-founded and irrefutable. That the only stable achievement of Marxism is that double-edged sword which it bequeathed to political adventures of all countries to establish therewith their own dictatorships, has also been confirmed by the history of the

twentieth century to date. Since Lenin succeeded in establishing a Socialist State in Russia, his interpretation of the legacy of Marx becomes the only valid one for that country; and since Mao Tse-tung's interpretation succeeded in China, that was the only valid one for China. The fact that neither of them could replace each other and still succeeded reveals that they differed vastly and that they inherited very little from Marx and contributed a lot themselves to implant socialism in their respective countries. Our detailed study of Marxism-Leninism in this chapter will enable us to discriminate between the two contributory elements in the formation of the Soviet Union.

After Marx's death in 1883, Engels collected all his manuscripts and memoranda to edit and publish them. The second volume of 'Capital' was published in 1885 and the third volume in 1894. Along with his scholarly work Engels paid full attention to the socialist movement. The German Social Democratic Party (SPD) had been founded in 1875 at the Gotha Congress and Engels together with Marx, was vigorous in his criticism of the concessions made in the programme to the followers of their great rival Ferdinand Lassalle. Engels had constantly opposed the tendencies in the party to form a socialism based less exclusively on class struggle than he would have liked. In 1891, however, he had the satisfaction of helping to draw up for the Erfurt Congress a thorough going Marxist programme. He also exercised a constant influence on the next generation of Marxist leaders: on Wilhelm Liebknecht, who had been Marx's and Engels' disciple from the 1840s; on August Bebel, a lathe operator from Saxony who became the main architect of the Party's organization; on Eduard Bernstein, editor of the Party's newspaper and soon to be protagonist of the Revisionist movement; and on Karl Kautsky, a young journalist from Prague who was to be the party's Chief theoretician for two decades after Engel's death. Engels suffered from cancer of the throat and he died in August 1895. In accordance with his wishes his body was cremated and his ashes scattered in the sea off Beachy Head. He left most of his £. 30,000 to Marx's daughters.

The legacy of Marx is a hotch potch of half-baked theories. He could not clearly explain how capitalism would collapse under its own weight, nor how the proletariat would manoeuvre to pull it down. He left no coherent theory of the state. The only organizations in which Marx was active were the Communist League, which was a propaganda group of only several hundred strong, and the First International, which was a loose federation of sects and trade unions. The era of the mass party came only after Marx's death. Although he had declared that the emancipation of the working class would be achieved by the workers themselves, it was clear that their leaders, beginning with Marx himself, would be almost exclusively of bourgeois origin. Thus anyone, from a Leninist proposing a highly centralized 'vanguard' party to lead workers

(who would otherwise have the most inadequate views about politics) to a libertarian socialist who believed that political power should be vested directly in worker's assemblies could claim, without fear of refutation, that they were in the true Marxist tradition.

After Engel's death, his disciples Kautsky, Liebknecht, Babel and Bernstein kept the Marxian tradition alive, but soon they felt that it needed some revision here and there. Bernstein, the protagonist of revisionism was disappointed by the third volume of 'Capital' and it led him to question Marx's theory of value itself. He saw that with the passage of time capital was becoming more and more capable of regulating itself instead of crumbling down. Therefore, he attempted a synthesis between Marxian and Marginalist concepts of value. Similarly Kautsky felt that imperialism was neither inevitable nor the last stage of capitalism, a view which was subsequently attacked by Lenin. Thus the trend of revision, once started, produced its fresh offshoots in different countries; each while clenching the skeleton of the marxian corpse, wrapped it in a different shroud.

In the mid-nineteenth century Russia was still basically medieval, and even after the emancipation of the serfs in 1891 Russia continued to be an underdeveloped agrarian society. Some, who enjoyed a lively intellectual life, were influenced by developments in Western Europe and wished to make it a model for Russian progress. But the stubborn conservatism of the government turned these intellectual's movements into opposition. The most radical of these revolutionary movements was known as Populism. As the name suggests, their most powerful attachment was to the people who were expected to regenerate the nation.

The Populists were electric in drawing on Western philosophy and socialism. Their central concern was the defence of the Russian peasant commune to make it the basis of a socialist society in Russia. In tactics there were two schools of Populist thought: those who believed in the self-emancipation of the people and tried to achieve this by peaceful propaganda, and those who believed in the necessity of attacking the autocracy directly through small groups of terrorists. These terrorists assassinated the Tsar in 1881.

Marx's 'Poverty of Philosophy' was translated into Russian by a Populist, and the Russian translation of the first volume of 'Capital' was published in 1872. The first Russian revolutionary who came into closer contact with Marx was an anarchist named Mikhail A. Bakunin. He was a Russian Officer of aristocratic origin who lived in Germany from 1840 onwards, where he joined the 'Young Hegelians' and met Karl Marx. Bakunin participated in Dresden uprising but on its failure in 1848 he escaped unhurt. He corresponded with Marx occasionally, joined his fold, but differed violently on many issues like Lassalle. He remained imprisoned in Russia for his anarchist activities between 1851 and 1860, when he escaped and went to London via Japan and America. He joined

the First International of Marx, but was expelled from it in 1872 due to differences. Basically he was a revolutionary anarchist and became their main theoretician, enjoying that position till his death in 1876.

The second Russian revolutionary which Marx encountered was G.V. Plekhanov (1857-1918) a young Populist who drifted towards Marxism when Marx and Engels were appreciating the Populist movement in Russia. Plekhanov was the son of an army officer and had been an active Populist for several years before accepting Marxism in the early 1880s. He was not only the first Russian who embraced Marxism completely, he became the undisputed intellectual leader of the Russian Marxists until turn of the century and educator of a whole generation of revolutionaries. As an exile, Plekhanov remained outside Russia for the four decades preceding 1917, extending his guidance to Russian Marxists from aboard.

Inside Russia many middle class youth were attracted towards Marxism and among them was Vladimir Ilich Ulanov, subsequently known as Lenin. He was a son of an inspector of schools, and his brother was executed in 1882 for attempting to assassinate the Tsar. Lenin adopted a rigid Marxism. He was exiled to Siberia for some years and in 1900, he emigrated to Austria and Switzerland. He pushed the Russian social democracy to extremes.

14.4. THE SOCIALIST MOVEMENT IN RUSSIA.

Despotic autocracy and ruthless suppression of public aspirations exercised by the Tsarist regime had given birth to various schemes for emancipation, the Populist movement being their first materialized form. Since economy was mostly agrarian, the peasantry happened to be the most fertile soil for operation, so the Populists worked accordingly. However, as the local intellectuals, who tried to provide guidelines for emancipation, were condemned as agitators against the state, arrested, and either deported to Siberia or exiled out of Russia; these exiles started exporting socialism into Russia from their abodes in Western Europe. The progress of their activities makes the history of the socialist movement in Russia.

What attracted these exiles most was the Marxian concept of revolution, and its one version or another, according to the individual taste of the Russian exiles, began to trickle into Russia for creating cells within the country to develop in due course. As each cell gathered some adherents and started functioning, differences appeared between the exile leaders directing from abroad and their followers operating within the country about a policy matter. The leaders abroad wished to retain full control centralized in their own hands expecting their followers at site to mutely act like machines according to their dictation; but the site operators genuinely felt that they should be free to use their own discretion as and when local situation so demanded. In short, distribution of authority

became a bone of contention between the leaders and the led.

St. Petersburg became a well developed industrial area, and the labour working in its factories organized itself in due course and became sufficiently strong to stage strikes between 1880 and 1898; the textile strike of 1896 was a memorable one. These strikes led to cohesion between the labour force which laid the foundation of the infant Russian Social Democratic Labour Party in Minsk in March 1898. But most of the founders were arrested, and it was not until 1903 that a real foundation was possible, in conferences held at Brussels and London. Many of the founders wanted to collaborate with middle class liberalism. Lenin opposed this; he preferred alliance with the peasantry, however primitive, and his method involved creation of a highly centralized band of political fanatics who would somehow anticipate the will of the workers before it even consciously existed.

Lenin was born in Samara in 1870. Like almost all other Russian Marxists, he had initially been attracted by Populist ideas. His elder brother was executed in 1882 for participating in a Populist attempt to assassinate the Tsar. Lenin had become a full Marxist by the time of his three years of stay in St. Petersburg during the early 1890s. There he participated in the 'Union of Struggle for the Emancipation of the Working Class', and closely studied the organizational tactics and the developmental views of the working class consciousness from industrial struggles to political struggles, and reached the conclusion that the role of the proletariat the factory worker will play a decisive part and therefore, they should be upheld as the sole and natural representatives of Russia's entire working and exploited population.

In 1896 Lenin was arrested and exiled. As he held that the development of working class consciousness and of the Social Democratic Party went hand in hand with the economic development of Russia, he studied this subject in great detail in his exile and produced a book 'The Development of Capitalism in Russia'. In this book he explained that the proletariat held a unique position in that they were the only class fully to appreciate and be able to articulate the exploitation of all Russian labourers, including the artisans and rural proletariat. He stressed that with the factory proletariat exploitation is fully developed and emerges in its pure form without any confusing details, and that the worker cannot fail to see that he is oppressed by capital and so his struggle has to be waged against the bourgeois class. That is why Lenin regarded the factory worker to be the foremost representative of the entire exploited population. This perspective, with the idea of the proletariat leading the population in the revolutionary struggle, governed Lenin's political thinking upto 1914.

On his return from his Siberian exile, he issued a journal 'ISKRA' with the help of his former colleagues. Due to Lenin's driving force 'Iskra' firmly established itself inside Russia as a propaganda medium, and the Iskra committee spared no pains to

establish its own hegemony in the socialist movement. When other exiled Russian socialists complained about Iskra committee's authoritarian and separatist attitude over the mass movement of the working class, Lenin broke his relations with them.

14.5. BOLSHEVIKS AND MENSHEVIKS.

Those who make history are not ordinary men with normal aspirations. They are men of steel inspired by extraordinary motives. Alexander the Great, Julius Caesar, Genghis Khan, Napoleon Bonaparte, Bismark and Hitler belonged to this class of men and so did Lenin. He too, had fixed his own goal beforehand to replace the Tsarian dictatorship with his own, and he had the drive to achieve it. For such a grand plan if masses of bread-earners are nurtured on hatred against the ruling junta and duped with a promise of their own dictatorship they could prove to be an effective weapon. The legacy of Marx was therefore, adopted only as a means to an end, and not the end itself. As subsequent events revealed neither the uplift of the suffering proletarians nor the honour of the Russian nation were dear to Lenin's heart. He betrayed both of them and sacrificed them at the altar of his own aspirations. The serfdom which the Tsar had abolished in 1861, was reintroduced by Lenin on a nationwide scale in a new garb, which transformed the entire population into wage-earners to sweat like slaves with no scope for any redress. The echoes of their muffled groans can be felt reverberating even today in the proletarian struggle in Poland to regain their right to form trade unions of their own choice free from the dictatorial pressure of the state.

A leader bent on maximum welfare of the working class people would not subject them to tight regimentation with a gag in their mouth; but a dictator bent on concentrating all political power in a very few hands obedient to his own dictation would do just what Lenin did. If a person can be judged correctly by his deeds, Lenin's organizational set up obviously reveals his aims and motives. The principles of the Iskra organization were summed up in Lenin's long pamphlet "What is to be Done?"

There had been disputes among the Iskra editorial board over a programme for the Russian Social Democratic Labour Party. This involved a disagreement over whether capitalism was yet the dominant mode of production in Russia, and therefore, over the Party's attitude to the Liberals over future relationship with the peasantry, in whose support for proletarian aims Lenin had far less confidence than Plekhanov, and also over the relationship of the Party to the proletariat. Nevertheless, on the eve of the Congress of July, 1903, the leadership appeared united. The Congress was crowning success of Iskra's long struggle to build an All Russian Social Democratic Party. The Congress began well with an overwhelming condemnation of the 'Economists' and a rejection of the Federalist principle advocated by the separately organized Jewish Bund. But with the debate on the Party's rules this unanimity

disappeared. Lenin and Martov proposed different drafts for party membership. Martov wanted to keep the rules more elastic allowing greater number of people to join, whereas Lenin wanted them to be rigid. Lenin's draft eliminated not only numerous intellectuals who sympathized with the Party and rendered it assistance while finding themselves incapable of joining an illegal organization, but also a large part of social democratic workers who constituted a link between the Party and the masses, but who for reasons of expediency refused to join its ranks.

Although the difference in wording seemed insignificant, it indicated a wide gulf between Lenin and Martov and caused a lot of ill-feeling between the two. However, Lenin was able to get his way when the Bund delegates walked out of the congress and his own followers were thus in the majority Bolsheviks as opposed to the followers of Martov, who came to be known as 'Minorities' or Mensheviks. At the beginning the dispute undoubtedly owed a lot to personalities, but eventually the two developed a wider gap. The differences became pronounced after 1905 when Mensheviks favoured a closer alliance with the radical Liberals and distrusted the peasantry while the Bolsheviks tended to adopt the opposite view.

One of Lenin's chief opponents in 1903 was Leon Trotsky. Born in 1879 into a family of fairly prosperous Jewish farmers in the Ukraine, Trotsky had early developed an enthusiasm for revolution and a talent for journalism. He had been a member of the Iskra group and a close collaborator of Lenin, but after 1904 he evolved positions that were independent of both Bolsheviks and Mensheviks. He rejected Lenin's emphasis on the organization of a revolutionary vanguard party, and wanted a party whose organization was adopted to the working class movement which allowed the maximum participation of the workers. About Lenin's organizational plans he predicted that "in the inner-party politics these methods lead, as we shall yet see, to this: the party organization substitutes itself for the party, the central committee substitutes itself for the organization, and finally a 'dictator' substitutes himself for the central committee". How correct his prediction turned out to be, is really surprising.

14.6. LENIN AND HIS PARTY.

Lenin's fundamental work on the party was his book 'What is to be Done?' He asserted the pre-1894 period orthodoxy of Plekhanov in it against later developments, and maintained that the proletariat, left to itself would inevitably follow bourgeois ideology. Quoting Kautsky at length he said that "since there can be no talk of an independent ideology formulated by the working masses themselves in the process of their movement the only choice is either bourgeois or socialist ideology. There is no middle course for mankind has not created a 'third' ideology, and moreover, in a society torn by class antagonism there can never be a non-class or

an above class ideology. Hence to belittle the socialist ideology in any way, to turn aside from it in the slightest degree means to strengthen bourgeois ideology. There is much talk of spontaneity. But the spontaneous development of the working class movement leads to its subordination to bourgeois ideology, to its development into trade unionism; and trade unionism means the ideological enslavement of the workers by the bourgeoisie. Hence, our task, the task of Social Democracy, is to combat spontaneity, to divert the working class movement from this spontaneous trade unionist striving to go under the wing of the bourgeoisie and to bring it under the wing of revolutionary Social-Democracy".

Lenin was not against inner-party democracy in principle, but he did not put it into practice. He decided to choose the leadership through the oligarchical principle of co-option. After the split at the Second Congress, Plekhanov and Martov both accused Lenin of dictatorship. Luxemburg published a biting critique of Lenin's ideas, and as we have seen, so did Trotsky. Yet at least until 1905 there was not much difference between Bolsheviks and Mensheviks as regards internal party democracy. The difference between Lenin and his critics was not one of principle but of approach; influence over and support of the masses were absolutely essential to his theory.

In response to the exigencies of changing situations Lenin has been vacillating between liberalism and centralism occasionally between 1905 and 1917, either to enlist greatest sympathy of the masses or to keep a tight grip over his party control; but centralism always remained dearest to his heart. After the revolution of October, 1917 such vacillations disappeared altogether, and he stood firmly by centralism throughout the rest of his life.

14.7. WORLD WAR AND REVOLUTION.

The last Tsar, Nicholas II had an authoritarian disposition and his German-born wife, Alexandra was of similar nature. A mad monk who claimed almost miraculous healing powers, Rasputin, became their family advisor in latter years and supported them in their despotic approach towards public problems. Depression affected Russian industry and agriculture in first years of the twentieth century, boosting working class agitation and agrarian unrest in 1903. The Tsar tried to suppress discontent by brute force. In the early years of his reign there was some justification for this. After all the empire had remained at peace, its economy had been growing satisfactorily, and its frontiers had been prodigiously expanded in Central Asia, the south and now at the expense of China. Moreover it had been able to pose as champion of Pan-Slavism and Orthodoxy, having defeated the Turks in the war of 1878, and having promoted the independence of small Slavic States in the Balkan area. Nicholas could see no reason for change, particularly when he had a ready-made excuse in the Far East.

Russian expansion in Korea and Manchuria had proceeded as

the Chinese empire disintegrated and foreign Powers became involved. The Japanese regarded their interest in Korea as paramount, and many of them wished for some control of northern China, particularly Manchuria, as well. Russian interests were involved in a northern and southern Manchurian railway, to link up Russian Asia with the new port of Vladivostok. Several highly placed Russians also had ambitions in Korea, and hoped to control the ice-free port of Port Arthur.

Russian and Japanese interests clashed, and Tsarist diplomacy was both too incompetent and too ambitious to compromise. Accordingly the Japanese concluded alliance with Great Britain in 1902 and launched a surprise attack on the Russian positions in Port Arthur in February, 1904. The Russo-Japanese war brought considerable humiliation for the Tsar. His armies were badly supplied along the then defective Trans-Siberian Railway, and they were also badly led. One General, A.N.Kuropatkin, failed to appreciate that in the days of quick-firing gunnery, cavalry charges would be a disaster; and no one understood trench warfare. The Manchurian armies were defeated, and Port Arthur itself surrendered. In May 1905 the Baltic Fleet, which had sailed round the world, was defeated by the Japanese at the Straits of Tsushima, and in August, 1905 peace was concluded in the U.S.A. on terms disadvantageous to Russia.

The period between 1905 and 1914 was a period of political turmoil, full of demands for representative government and for social reforms. Many political parties of varying shades and colours appeared with their demands, but what the Tsar offered to appease them was not acceptable. He offered consultative representation which did not work. The unrest continued culminating in a general strike, which the police failed to cope with.

The movement in St.Petersburg was led by a soviet or council which began as a central coordinating strike committee and developed into the spokesman for the entire revolutionary labour movement. Nevertheless when the government arrested all 562 deputies, the workers did not react. In Moscow, the local Bolsheviks had been campaigning ardently for armed uprising, and when sufficient arms had been collected, an insurrection was staged only to be crushed by government troops after a week's bloody fighting.

Bigger European nations like Germany, France, Russia and Britain became power-drunk with their foreign exploits and started subjugating their adjoining smaller states. Sometimes they cooperated with one another for such adventures, but at other times they clashed. One such German exploit gave birth to the First World War in 1914. Germany had geared up her war machine to an unprecedented scale, and having equipped her expanding armies to the hilt, she started hitting right and left. When she heard about Russian defeat in the East, she declared war against Russia on 1st August 1914 and against France two days later. Austria

joined Germany and Britain took sides of France and Russia by declaring war on Germany on 4th August 1914. The war dragged on for four years, but it brought about the Russian collapse by the middle of 1917. For what happened during and after the war in Russia, 'The Cambridge Encyclopedia of Russia and the Soviet Union' tells us that:

"The patriotic upsurge accompanying Russia's entry into the First World War gave way to anxiety when it was seen that the country was poorly prepared and no match for Germany. The absolutist psychology of the Tsar barely touched by the pseudo-parliamentary experience, dictated that war was the business of government. Only after persistent efforts on the part of liberal politicians and industrialists, and after serious military defeats, did Nicholas II agree to allow some degree of public organization of the war effort.

Relations between the tsar, who from mid-1915 was Supreme Military Commander, and his critics sharpened as defeat followed defeat, and the country's economic position grew worse, with galloping inflation, transport chaos and food shortage.

With the tsar at GHQ, the empress's mismanagement of the ministers, and her close relationship (for her son's sake) with the notorious Rasputin, made the imperial family a clear target for the opposition who by the end of 1916 were openly proclaiming the Russia's misfortunes were the result of either treason or stupidity in high places. Duma spokesmen were saying the tsar must go. Even bureaucrats and military leaders saw this as the only way to save the war effort and the monarchy.

On 23 February 1917 (os) bread riots occurred in Petrograd (St. Petersburg until 1914), spreading quickly to working class quarters where the violence increased. Two days later some regiments of the vast garrison, consisting of peasant raw recruits and convalescent troops from the front, joined the rioters. The next day the Duma elected a Provisional Committee of moderate, liberal and radical leaders. Later that day, strikers and revolutionaries formed the Petrograd Soviet of Worker's Deputies in the Tauride Palace, where the new Provisional Committee also sat. One of its deputy chairman was A.F. Kerensky (1881-1971), also a member of the Provisional Committee.

The government lost its head. The ministers were arrested, and the Tsar, totally isolated from his supporters, did not oppose the revolutionary government, and on 2nd March (os) abdicated. His brother and heir, Michael, refused the crown unless it were given to him by a democratically elected constituent assembly and thus the Romanov dynasty was at an end. The Provisional Government, which now emerged, immediately enacted liberal laws, abolishing the police and replacing them by a people's militia.

Also on 2 March, the Soviet issued its Order No. 1, calling for the establishment of soviets (revolutionary councils) in army units to minister Officers. This, combined with the shock of the Tsar's abdication and (despite war conditions) the total freedom of speech, generated an atmosphere of political anarchy so rampant that Lenin could call the Russia of 1917 the freest country in the world.

Lenin had spent the war in Swiss exile, returning to Russia only in April, with the aid of the German Government. Lenin's wartime propaganda was for persuading the belligerent armies to turn the imperialist war into civil war, and this policy, in the context of 1917, meant attacking the new regime in Russia for its determination to prosecute the war to a successful conclusion.

Having displaced the old regime through its incompetence in war, the Provisional Government was committed to improving Russia's fortunes, despite the reluctance of the soviets, swollen by deserters and troops unwilling to go to the front. At first the Petrograd Soviet, and the local Bolshevik leaders took the line that they would support the new government 'in so far as its actions were not counter-revolutionary'. In spirit, the Soviet and the crowds which thronged it were for immediate peace.

Lenin was to exploit this gap, which divided the interests of the two organs of power that co-existed since March, by advocating defeatism in the rear and fraternization at the front. He brought the Petrograd Bolsheviks into line, and with the large funds channelled to him by the Germans via his agents in Scandinavia he mounted a virulent campaign against the government, against the war and in favour of the transfer of all power to the soviets. Although the Bolsheviks were a minority in the soviets, Lenin's purpose was to use this potential weapon to knock the government off balance.

In May a new coalition came into being, when the foreign and war ministers, P.N.Milyukov (1859-1943) and A.I.Guchkov (1862-1936) the most committed to war, resigned. The government now promised to make peace without annexations or indemnities, the Soviet's socialist formula, but was still compelled by patriotic inertia to defend the country and the Revolution, a policy which appeared, especially to the troops, as contradictory. Also in May, a new wave of returning professional revolutionary internationalists, Bolshevik and Menshevik, flooded the Petrograd Soviet, stiffening its militancy.

In July the liberals resigned from the government, the Galician offensive collapsed, with the troops deserting wholesale, and thousands of armed soldiers, sailors and workers poured on to the streets of the capital shouting 'all power to the soviets'. The Soviet declined to seize power and, unsure of the government's military support, Lenin, too, hesitated to lead the armed mobs.

To press the government's fragile political advantage at this moment, Kerensky, now Prime Minister as well as war and navy minister, caused documents to be published, albeit prematurely, alleging that Lenin's party had been receiving money from the Germans to conduct defeatist and fraternization agitation. Tipped off in advance, Lenin had gone into hiding in Finland, but the revolutionary masses, who now saw in the July demonstrations a German-backed manipulation of their revolution, turned against the Bolsheviks, and the Bolshevik Red Guards were disarmed.

Kerensky and the army commander L.G.Kornilov (1870-1918) agreed now to demonstrate the government's strength and resolve by a show of force against the mobs in the capital, aimed at restoring discipline in the army and submission in the Soviet. But while Kornilov's troops were moving towards Petrograd, Kerensky,

fearing that he might be overthrown by Kornilov, reversed his orders. The troops and Kornilov were confused and demoralized, but not before the Soviet, panicked by Kerensky, had rearmed the Bolshevik Red Guards. From this moment the Provisional Government had no credible forces at its disposal.

By September, the Bolsheviks had majorities in the Petrograd and Moscow Soviets, and Lenin was frantically urging them to seize power, but it was Trotsky (Lev Davidovich Bronstein, 1879-1940), President of the Petrograd Soviet, who planned and executed the coup. On 24 October (o.s.) the garrison troops acknowledged the Soviet as sole power, and next day the Peter and Paul Fortress with its arsenal went over to the Soviet. The seizure of the Winter Palace took place that night. The Provisional Government, intimidated by a blank shot from the cruiser Aurora, refused to use force in its own defence. Five soldiers, one sailor and no defenders were killed, and the October Revolution was an accomplished fact."

(THE CAMBRIDGE ENCYCLOPEDIA OF RUSSIA AND THE SOVIET UNION. PAGES-105-106).

When the Second All Russian Congress of Soviets opened on 25 October 1917 the total strength of the Bolsheviks and their supporters was 370 or 380 out of 650, but their position was much fortified when the socialist delegates walked out in protest against the Bolshevik coup. The Congress voted to vest power in an All Bolshevik Council of People's Commissars, headed by Lenin. Bolshevik had supported the convening of a Constituent Assembly to decide the future of Russia and had blamed the Provisional Government for delaying elections. These were held on 12 and 13 November, and all the evidence suggests that the vast majority of the electorate voted freely. The Bolsheviks secured about one quarter of the total votes cast, half the country voted for Socialism and against Bolshevik. When the Constituency Assembly opened on 5 January 1918, it rejected by 237 votes to 136 a Bolshevik declaration endorsing the first decrees adopted by the All Bolshevik Council of People's Commissars. The Bolshevik and their LSR allies then walked out and on the following day the Red Guards refused to admit the remaining delegates to the adjourned meeting of the Assembly. About a week later the Third All-Russian Congress of Soviets, the elections to which had been carefully rigged, approved by an overwhelming majority the forcible dispersal of the last freely elected representative body in Soviet history to date.

The revolution coup got rid of Tsarism but left the capitalists and the land owners on the scene. A state of 'dual power' had emerged with the Provisional Government striving to create a pro-Western liberal-capitalist regime, confronting the soviets, whose control the Bolsheviks had achieved. This situation led the country to civil war.

14.8. CIVIL WAR AND THE RED TERROR.

Peace was signed on crippling economic terms for Russia at Brest-Litovsk on 3rd March 1918. One result of the peace was the

end of the coalition with the LSR who were incensed both by the capitulation to Germany and by Bolshevik policy toward the peasants. On 6th July the German ambassador was assassinated by a member of the L.S.R. and small scale revolts by the party took place in Moscow and Petrograd. Thereafter it was forced out of existence. The Bolsheviks became to be known as Communist Party after 1918. The second result of peace was the civil war.

During July there were several anti-communist insurrections, and anti-communist forces began their advance into the heart of Russia. On 30 August an attempt was made on Lenin's life, and the Bolsheviks inaugurated the mass arrests and execution, accompanied by the suppression of virtually all surviving non-Bolshevik newspapers. These communist measures are known as Red Terror. The civil war lasted in effect from the summer of 1918 until November 1920 when the last of the anti-Bolshevik (or White) forces under General P.N. Wrangel were evacuated from the south of Russia. Apart from the attack in the south Admiral Kolchak attacked from Siberia, while in the north-west General Yudenich's thrust got very near to Petrograd by October 1919. The approach of the White forces to Yeketerinburg (now called Sverdlovsk) where the former emperor Nicholas II and his family were held in captivity, motivated the communist's decision to kill the emperor, his wife and children, his doctor and three servants on 16th July, 1918.

Communist victory can be attributed mainly to three factors. The first was the energy and organizing ability of Trotsky as Peoples 'Commissar for war,' who rebuilt the demoralized Imperial Army into the Red Army, making use in the process of tens of thousands of former officers. The second was the fact that the peasant population, though it did not support the communists, disliked them less than the White forces, whose policy was to restore the land acquired by peasants under the Bolsheviks to its former landlords. The third factor was the presence of enthusiastic communists at key posts to maintain drastic discipline and morale.

There were two main problems facing the victorious Bolsheviks: a political one the role and function of the Party and State; and an economic one how to lay the foundations of a socialist economy. The economic problem was basic and formed the substance of the major controversies among Russian communists, who turned their attention more to internal problems particularly after the failure of their hopes about a socialist revolution in Western Europe following soon after their own. War Communism, the New Economic Policy (NEP) and the doctrine of 'Socialism in One Country' were all different responses to the problem of how to develop an industrialized socialist economy in a backward peasant country. The almost total lack of previous thinking about post revolutionary economic problems meant that the Bolsheviks had to start from scratch, and the ravages of the Civil War involved an even more radical reconstruction. There was little in Marx himself to guide. The October victory had taken the Bolsheviks by surprise

and most importantly, they had relied on the supposedly international nature of the revolution and consequent help from a victorious West European proletariat to overcome the problems created by their own backwardness.

What emerged out of their own efforts to face the situation and overcome it was a new form of economic theory and practice, quite different from what Karl Marx had conjectured and taught. They called it 'Marxism-Leninism', although it was entirely Leninism without any Marx; the name of Marx was added out of respect for a predecessor who had emblazoned a hypothetical road to socialist Utopia.

The period of initial communization which lasted from mid-1918 until spring 1921 was called 'War Communism'. The Bolsheviks had inherited enough chaos from the Provisional Government, and their own measures considerably added to it. In October nationalization of land, with the right of cultivation assured to the peasant, unleashed anarchy in the villages; in the following month industry was disorganized by a decree on worker's control. Before long stringent economic centralization was introduced, and workers control was abandoned in favour of disciplinary management. The problem of food shortage was the most acute; compulsory requisitioning of food from the peasants was soon decreed and class war broke out in the villages on the setting up of 'committee of the poor'. The immediate response of the peasants was to reduce production, and to try to unload their products on the extensive black-market. But in time their resistance took on military form and by the end of 1920 a virtual guerrilla war was in operation in parts of the country. About half the work-force left the towns for the villages. An attempt to nationalize almost the entire industry of the country did not prevent economic collapse: by 1921 gross output had fallen to less than a third on the average, and foreign trade had disappeared, in part owing to the Allies' blockade. The sufferings of the population through death, famine, disease, civil war and communist terror were enormous.

It is not surprising that with this background the new regime should have been faced with serious opposition. The forces opposed to the revolution mostly rallied to the various White armies. The liberal parties were destroyed by murder, arrest and exile. The two main socialist parties the Mensheviks and the Socialist Revolutionaries (SR) were not outlawed and continued to return fair-sized contingents in election to the soviets throughout the civil war. But as their criticism of the communists became more vocal, they were increasingly harassed and impeded in their political aims by arbitrary violence and deprived of their press. The accusation of counter-revolutionary violence levelled against them was untrue. The SR did for some months attempt to collaborate with one of the governments set up by the White forces, but soon abandoned both that attempt and general political activity. The Mensheviks

relied expressly on strictly constitutional means, and expelled individuals who took part in violence. The conclusive proof that the socialist parties were not counter-revolutionary, though certainly anti-communist, is provided by the fact that many thousands of their adherents were left at their official posts throughout the civil war and only afterwards removed from public service. The reasons for their destruction by arrest, exile and in the case of SR by a show trial in 1922, were their increasingly effective and popular criticism of Communist Party policy, and arbitrary violence.

14.9. LENIN IN HARNESS.

Lenin had been the biggest dynamic force behind the Russian Revolution, and he along with his comrades in exile had been educating and guiding the working class people from abroad. After the coup staged by Trotsky, Lenin was voted to power by the Congress of Soviets. On assuming control he faced the grim realities of a shattered country with confidence and courage, and set about to reshape it into a socialist state. His first economic measures were relatively moderate: selective nationalization, an eight hour working day, a redistribution of nationalized land among the peasants on a more equitable, though still individual basis, and the sporadic and semi-spontaneous institution of workers control.

By the spring of 1918, however, the economic situation worsened. Worker's control further dislocated an economy already exhausted by years of war and chaos. Lenin proposed what he called a 'state capitalism' explicitly modelled on the German war economy. It consisted in a dual effort to gain greater central control over the economy by the reinforcement of labour discipline, wage incentives and managerial authority, and to arrive at a compromise with larger financial interests; in other words 'to suspend the offensive against capital' and try to establish a modus vivendi with the old economic order.

By the summer of 1918, the onset of the Civil War rendered Lenin's 'state capitalism' untenable. It was replaced by an extremely state control called 'War Communism'. It had three main aspects. Firstly there was a huge increase in nationalization bringing almost all large-scale enterprises under state control. The state monopolized exchange and government bureaucracy, therefore, increased. Secondly, due to run-away inflation more money could not be issued, and supplies had to be requisitioned from the peasantry. This alienated the support of the middle peasantry and resulted in lowering their productivity. Thirdly, as the pressure of the civil war ended, demobilized units of the Red Army were assigned to particularly urgent tasks and there was a partial militarization of the labour force under the discipline of Trade Union officials, who were appointed from above. In these harsh policies Lenin was guided by Bukharin and supported by Trotsky. But extreme measures of War Communism were time-serving and

could not be indefinitely prolonged. Some more stable solution had to be found. It was the New Economic Policy (NEP), which Lenin presented at the Tenth Party Congress.

The NEP, which was to last seven years, began in March 1921 when the requisitioning system was replaced by a tax in kind which enabled the peasants to keep a fixed share of their surplus. This in turn led to the abolition of restrictions on free trade and the restoration of market relations between agriculture and industry. There was a certain amount of denationalization, but only of small scale enterprises, and industry was organized in trust enjoying a limited market independence. In November, 1921 the State Bank was reopened, hard currency policies adopted, and the rouble stabilized in 1923. The New Economic Policy had full support of Bukharin although Trotsky remained lukewarm towards it.

The Tenth Congress was also notable for its enthusiasm for making the Party increasingly monolithic. In March 1919 a five-men Political Bureau (Politburo), which had a brief existence before the seizure of power, was reconstituted. The Civil War had meant that many major decisions could only be taken by a few, and the Central Committee of twenty seven members was too unwieldy. An organizational Bureau and Secretariat were established at the same time. Only Stalin was a member of all four bodies. As economic policy became more liberal, so the need for tighter political control increased. The Congress violently denounced the Worker's Opposition and banned factions inside the Party which had developed in 1920 such as the Democratic Centralists who demanded more autonomy for the communists in the soviets, and the Worker's Opposition who claimed more independence for trade union communists. Lenin's measures included the prohibition of factions on pain of expulsion, severe limitations on freedom of discussion within the Party, and a call for the suppression of all non-communist socialist parties.

The increasingly monolithic nature of the Party made it easier for those in control to enforce their own domination. With Lenin incapacitated with growing illness, it was natural that Stalin, Zinoviev and Kamenev should form a bloc to oppose Trotsky, who was still the most prestigious of the Bolshevik leaders. Trotsky singularly failed to react to his threatened exclusion from power: he did not exploit Lenin's criticisms of Stalin with the ruthlessness that would have been necessary; and he failed to champion the cause of inner party democracy before it was too late. It was only at the end of 1923, when Lenin lay dying and the balance of power had tipped decisively against Trotsky, that he spoke out. In his pamphlet 'The New Course' (which contained all the major themes later elaborated in his critique of Stalinism) he called for the democratization of party organs and for free speech within the Party, while denouncing the trend to personal rule and bureaucracies.

After the Bolshevik seizure of power, legislative authority was

technically vested in a Central Executive Committee, in session between the intermittent All Russian Congresses of Soviets. In practice, legislative power was exercised more often by the Council of People's Commissars, and by the Council of Workers 'and Peasants'. Defence, of which Lenin was also the Chairman; its main tasks were the supply of the Red Army and the militarization of the population and industry for civil war needs. As for the legal system, the entire body of law left intact by the Provisional Government, as well as the bar, and the judiciary, were abolished by decree, and on 24 November, 1917 Revolutionary Tribunals were set up. These were directed to decide cases by their 'revolutionary conscience' but even after 1922, when codes of civil and criminal laws were promulgated, a great deal of discretion was left in the hands of the courts and of the lay judges who presided over them. Also on 6 December 1918 the All Russian Extraordinary Commission of the Council of Peoples Commissars for combating Counter-Revolution, sabotage and speculation, known as Vecheka was set up. Although its authority was, by the decree, limited to investigation and confiscation of property and ration cards, the Vecheka soon assumed the powers of imprisonment and execution without trial. Administrative arrests were followed by deportation and consignment to prison camps for forced labour, where conditions were appalling.

The First Constitution of the RSFSR was adopted on 10 July 1918. Its characteristic features were: indirect elections to the soviets, inequality of franchise, disfranchisement of certain classes and omission of any reference to the real force in government, i.e. the Communist Party. It included clauses guaranteeing civil rights, but provided no method for their enforcement. A new but similar Constitution was adopted on 6 July 1923, embodying the 'voluntary' union of the Ukrainian, Belorussian and Trans-Caucasian SSRs into the Union of Soviet Socialist Republics (USSR). Since the will that decided for union was that of the local communist parties only, its voluntary nature is open to doubt. The mortally ill Lenin warned his party in 1922 against excessive Great Russian chauvinism in the treatment of national minorities. Yet in 1921 Lenin had apparently authorized the invasion by the Red Army of Menshevik, controlled Georgia in support of a rebellion staged by local communists in flagrant breach of the treaty of 7 May 1920 between Georgia and the RSFSR.

Lenin suffered his first stroke in May 1922, and thereafter could work only intermittently until 1923. In April 1922 Stalin, with Lenin's full approval, had become General Secretary of the Central Committee of the CPSU. By the end of 1922 Lenin had expressed doubts about Stalin's fitness for the post, in a letter to the forthcoming Party Congress, which Stalin succeeded in suppressing. However, when Lenin died on 21st January 1924, he had not suggested his own successor.

Socialism practiced today in Russia is presented to outside

world as Marxism Leninism. This is a misnomer. What Lenin learnt from Marx was merely a hazy idea as to how one's own political dictatorship can be established on enticing the labouring classes with the bait of their own dictatorship. How Lenin put this idea into practice was his own contrivance, half completed by himself and the rest by Stalin after him. It would, therefore, be more appropriate to designate the Russian politico-economic structure and creed as 'Leninism-Stalinism'. We defer our comments on it till after the entire picture is clearly outlined in the following chapters.



LENINISM - STALINISM

15.1. STALIN SUCCEEDS LENIN.

Among the top communist leaders there were four who aspired to become Lenin's successor in power. Joseph Stalin (1879-1953), Leon Trotsky (1879-1940), G.E. Zinoviev (1883-1936) and L.B. Kamenev (1883-1936), but Stalin outwitted others in the contest.

Joseph Stalin was the son of a Georgian shoe-maker. He was born in 1879 and after preliminary education he joined the Tiflis Orthodox Seminary for higher religious training. He was expelled from this institution in 1899 for his Marxist views. Thereafter he became a full-time professional revolutionary in 1901. He attracted Lenin's attention first in 1905, and became a member of the Bolshevik Central Committee in 1912. From then onwards he was one of the most prominent Bolshevik leaders inside Russia.

Trotsky, with whom Stalin clashed during the civil war, had made many enemies in the Party, and had already been defeated in debate in the Party organs which Stalin largely controlled, and discredited on theoretical issues like Socialism in One Country versus World Revolution etc. Stalin also enjoyed full support of the right wing of the Party headed by N.I. Bukharin. The opposition of Zinoviev and Kamenev was easily routed by the Fourteenth Congress of the Communist Party of Soviet Union (CPSU) at the end of 1925, the composition of which was manipulated by Stalin as General Secretary. Early in 1926 Trotsky, Zinoviev and Kamenev joined in a United Opposition formed against Stalin's tendency to become a dictator.

Trotsky's dictating behaviour together with the fact that he was a Jew, made it unlikely that he could ever rally wider support in the Party. On 14 November 1927 Trotsky and his supporters were expelled from the Party and exiled. In June 1940 he was murdered on Stalin's orders in Mexico. Bukharin, whom Lenin had described as 'the favourite of the Party' was in quite a different position. The policy which he advocated was supported by Stalin for some time.

Lenin had described NEP as a more or less permanent device, which he intended to carry on for generations as it would provide an opportunity for the peasants to acquire political maturity and to learn by experience the virtues of co-operation. NEP was also popular with many sections of the population since it repaired the ravages of the civil war. The level of previous production was reached in agriculture by 1925. Intellectual life enjoyed a freedom that it had not known before. There was therefore, every incentive for a man as jealous of political rivals as Stalin to eliminate Bukharin and his supporters, when once their alliance against the Left Opposition was no longer necessary to him.

It was not known exactly when Stalin decided on the 'Third Revolution' enforced collectivization of agriculture and industrialization at break-neck speed. Clear signs of the impending change appeared by the spring of 1928. But rumours of the ending of NEP~ were indignantly denied and Stalin proceeded with great caution in the face of known opposition inside the Party. He also showed great skill in out-manoeuvring Bukharin and the right wing of the Party leadership. This operation occupied the whole of 1928. By the Sixteenth Party Conference in April 1929 Bukharin and his supporters had been condemned, and they were later expelled from the Politburo. At this Conference the ambitious First Five Year Plan and a policy of rapid collectivization of agriculture were adopted unanimously. For nearly five years thereafter the Party was to be engaged in open war against a terrorized, hostile and desperate people. By 10 March 1930 over half of all farms had been collectivized in a campaign which had lasted only five months which engaged at the outset 25,000 Party workers, but which led to the extermination of millions of people through death, imprisonment and exile.

15.2. SOCIAL AND ECONOMIC TRANSFORMATION.

Stalin set about to carry out social and economic transformation of the whole country after achieving firm grip over the Party. A hectic process of state building took place in which much that is now familiar in the Soviet scene was born. Large scale ministries and collective farms were formed, vast construction sites started to cover the countryside with towns and industry, and the repressive organs were extended like the growing GU-Lag empire of concentration camps, forced labour camps and transit prisons. All levels of society changed places: peasants became workers, millions of whom migrated annually to the towns; workers poured into offices to swell the ranks of lower administration, and the trusted party workers became privileged elite by receiving the title of 'Soviet intelligentsia'.

Stalin also harnessed the energies of younger Party cadres of Komsomols and even school children, in a gigantic effort to reshape the culture and economy of the countryside. They formed 'raiding parties' of 'light cavalry' which transformed every area of social life

from grain requisitioning to philosophy into the struggle with 'alien tendencies' and 'class enemies' on each particular front. They were carefully oriented by the Party leadership to form a reliable basis for a dictatorship called Stalinism. Positive discrimination was exercised in favour of the most obedient element. Access to higher education was considered vital for the working class which rose from six to twenty millions during the 1930s.

Stalin reforms within the party were spectacular. He transformed the CPSU into a mass organization whose size swelled from 1.3 million in 1928 to 3.5 million in January 1933, when the recruitment was halted. Percentage quota for representation in the Party was fixed separately for workers and peasants but the targets were not achieved because Stalin wanted a new stabilizing factor in the Party. This was a new 'middle' in Soviet society: one through which it could properly be said that the country was being ruled. This third estate, which lumped together such disparate strata as the local administrators, factory managers, technical intelligentsia and specialists, both old and new, rose steadily as a proportion of Party membership through the 1930s. Among industrial managers, Party members increased from 15 percent (1930) to 70 percent (1933) and among top officials in agriculture the jump was from 15 percent (1930) to 83 in (1933). In the Central apparatus of state the Party soon came to achieve predominance, even saturation, while some critical levels of local government, such as the rayon (district), it reached an average of 97 percent. Thus Party members of this rank became a vital link between the political leadership and the society they were administering.

15.3. OPPOSITION TO STALIN.

During 1929 all leaders were 'Stalinist' in that they upheld basic tenets: collective farming imposed at whatever cost (at least six million peasant deaths occurred during the resulting famines); industrial development by force where necessary; and forced labour by the growing camp and prison populations. Yet despite these original assumptions, opposition started to appear. Already during 1930, serious divisions on policy could be discerned within the Stalinist leadership. Two top officials of the Party and government apparatus, S.I. Syrtsov and V.V. Lominadze appear to have drawn up a secret manifesto which condemned the violent repression of the peasantry, the megalomania of such large industrial projects as the Stalingrad tractor factory and Stalin's autocratic conduct. Little had come of this before they were expelled from the Party as a 'left-right bloc' in December 1930. In the summer of 1932 a new opposition document appeared, the Ryutin manifesto, some 200 pages of analysis which was disseminated quite widely in upper Party circles. It argued that N.I. Bukharin's warnings against adventurous economic policies had been vindicated, proposed an economic retreat, including scaled-down investments and dismantling of the collective farm system, a general amnesty,

and reinstatement of expelled Party members. Much of the text was devoted to criticism of Stalin, whose personal vindictiveness and power seeking were held to be the ruin of the Revolution. Stalin responded with extreme vehemence and is said to have demanded the death penalty for the ringleaders, a request refused by the Politburo, among whom the Leningrad Party secretary S.M. Kirov (1886-1934) is reported to have been particularly firm. No doubt other leaders were united in the expectation that, if the request had been granted, they would be potential victims, and Stalin himself seemed to imply this in the famous telegram of September 1936, which told the security organs that they were 'four years behind' in the work of exposing enemies within the Party.

The 17th Party Congress (the 'Congress of Victors') assembled in January 1934 ostensibly to celebrate the defeat of 'enemies of socialism' in the Soviet Union. Collective agriculture had been established, industrial production put on a firm footing and above all, as Stalin's speech indicated, the hopes expressed abroad that the 'Soviet experiment' would founder had themselves been confounded. But there were other murmurings behind the scenes, of which the most important concerned Stalin's personal position.

During 1933 a new set of tendencies had emerged within Soviet society, that may be summarized as the call for order. Much earlier than anyone could have anticipated, the new social structure, with its growing hierarchies and inequalities, had begun to settle down, exerting pressures, even perhaps demands of its own. In the cultural sphere, as championed by Gor'ky, these took the form of a campaign for quality and a rejection of the shoddy literary standards of the First Five Year Plan. In education, this involved an end to the numerous clauses, renewal of academic standards and a largely conservative school reforms. From the Soviet establishment, with its swelling organs of administration, came the call for routine predictability, the laying down of directives and even of legal regulations. Of the latter, Kirov seems to have been champion. He warned that the agricultural administration was ineffective, calling for the abolition of its much hated political departments. Further he condemned 'extremism' in dealing with countryside, particularly the punitive expulsion from collective farms, which amounted often to sentence of death by starvation. Kirov probably intended to restrict the sweeping powers of the secret police in their usurped judicial role (widened in a circular of July 1929) to the functions simply of arrest and preliminary investigation. Finally, though not publicly expressed at the Congress, came criticism of Stalin's leadership, implying that any restoration of legality would have to begin at the top. voting figures are not known, but Stalin was demoted from the post of General Secretary, while Kirov was promoted and was to move from Leningrad to a position alongside him in the Moscow Secretariat, a transfer prevented by Kirov's assassination in December 1934.

15.4. REIGN OF TERROR.

The Kirov murder was the signal for a new stage in Soviet history, one of mass repression which began in earnest in 1936, and did not subside until 1939. Paradoxically the descent into lawlessness was accompanied by public gestures of legality. Promulgation of the Stalin Constitution took place simultaneously with the great purges and trials of 1936. Bukharin, its main author, appears genuinely to have believed that legal limits could be put on Stalin's powers; he contemplated a project of setting up a 'second party' of loyal socialist intellectuals who would criticize the status quo from an independent viewpoint. Stalin had other ideas. Rather than sanction a second party he resolved to rule without one.

Until the end of 1934 Soviet policies came, nominally at least, from the Party and were confirmed by periodic meetings of its oligarches and upper echelons. These upper ranks were a prime target of subsequent repression. 70 percent of the Central Committee elected at the 17th Congress was executed during the following five years. Of ordinary delegates, some 1108 were arrested or executed in the same period, and only 59 of the original 1966 reappeared as delegates to the next Congress in 1939. Analysis of those purged within the Party shows that terror moved steadily closer to the centres of power. Among the men in the dock at the trials were all the members of Lenin's Politburo, except Stalin himself and Trotsky, who, however, though absent, was the chief defendant. Among them moreover were one ex-premier, several vice-premiers, two ex-chiefs of the Communist International, the chief of the trade unions, the chief of the General Staff, the chief political Commissar of the Army, the Supreme Commanders of all important military districts, nearly all Soviet ambassadors in Europe and Asia, and the two chiefs of the political police.

The first 'show-trial' of top leaders, Zinoviev, Kamenev, and fourteen others was staged in the summer of 1936. Those of others followed in January, 1937, while Bukharin and others were retained for the grand finale in 1938. Terror against the Party was renewed at the Party Plenum of February 1937, where Stalin and supporters forced through, against various doubters, a resolution which demanded further intensification of struggle against enemies of the people. That opened the door to mass arrests in all sections of society, though particular attention was certainly given to leading groups: top administrators, managers, the intelligentsia, military officers and so on. Of total arrests, above eight millions (about 5% of the population) is a likely figure. Of those arrested some 800,000 (one in ten) were probably executed, while the remainder faced incarceration or transportation to the camp system. As to the death rate in camps, a figure of 10 percent in 1933, rising to 20 percent in 1938, is probably conservative, but even so it would mean a death rate annually of well over one million persons

for the purge years. Given that ten years was a standard sentence, it can easily be seen, that only a small fraction of those convicted could have survived.

Four instruments were essential to Stalin's rule. First was his mastery of the Party through its apparatus, a tendency which worried Lenin who had promoted him, and his consequent ability to select delegates to the Party Congress which would choose him. Second was a complaint Procuracy and the willingness of jurists to subordinate themselves to his orders. Stalin's third instrument was the secret police which was even entrusted with the management of his household after the suicide of Stalin's second wife in November 1932. And fourth was the Gulag, which quickly grew to be a basic element of his rule. No wonder that Stalinism soon became synonymous with Gulag. Nevertheless Stalin's era produced achievements, and despite the madness of his methods the main elements of a modern state were formed.

15.5. THE SECOND WORLD WAR.

After suffering humiliating defeat in the First World War, Germany began to prepare for a second one. It was Adolf Hitler, the fascist German Chancellor who started the Second World War in 1939. After crushing France, Hitler had two other big powers to smash: Britain and Russia. He was about to invade Britain, when the diplomacy of Sir Winston Churchill, British Prime Minister turned him towards Russia. He invaded Russia in June 1941. In the early stages of the war the Soviet regime was preserved by the mistakes of the enemy and by luck, rather than by its own efforts. Though it is scarcely credible that Hitler took the ever suspicious Stalin by surprise, he certainly found him ill-prepared. The Great Purge had weakened the Soviet armed forces. The first Soviet commanders in the three main sectors were incompetent old civil war hacks. In the western region, and particularly in the Ukraine and Belorussia, the inhabitants at first often welcomed the German invaders as liberators. By November 1941, one of the three main invading armies was outside Leningrad, which the Germans never succeeded in taking, although millions died in the beleaguered city. The second was 20 miles from Moscow, and the third deep in the Ukraine. Moscow was however, saved by Hitler's own miscalculations in diverting armour from the central sector to the other two and by the early onset of a very severe winter.

The Soviet regime retained its main centre of command and communications, and succeeded in evacuating to the rear some 1500 industrial enterprises, the output from which together with the material aid supplied by the Allies, ensured that in the last two years of the war the Soviet forces were better armed and equipped than the enemy. In 1942 the German drive towards Baku, intended to cut off Soviet oil supplies, was checked, and Hitler made his second great mistake in concentrating too much of his strength on Stalingrad, which had by then become an object of more symbolic

than strategic importance. The defeat of Field-Marshal Von Poulus at Stalingrad in January 1943, and the capture of his huge army, was the turning point in the war. In the next 18 months the Soviet armies recovered all the territory taken by the Germans, and thereafter swept westward and southward into Romania, Bulgaria, the Baltic states, Poland, Hungary, Austria and Czechoslovakia. On 22 April 1945 Soviet forces surrounded Berlin, and linked up with American troops on the Elbe. The unconditional surrender of Germany to the Allies followed on 7 May. On 8 August (two days after the U.S.A. had dropped an Atom Bomb on Hiroshima) the USSR joined in the last phase of the war against Japan and rapidly captured the Japanese forces in Manchuria, to justify the territorial gains promised at the Yalta Conference.

The great victories of 1943-5 might seem to have demonstrated conclusively the loyalty of the bulk of the Soviet population and of the army in particular, and to have shown that the regime was firmly and efficiently in control of the country and its resources. It had certainly raised Soviet power and Stalin's personal authority and his personal popularity had indeed been raised to an unprecedented level. But if the Soviet people expected that after the war the leadership would reward their tremendous efforts by relaxing its heavy political and economic pressures upon them, they were to be disappointed. After the second World War Stalin was still more morbidly obsessed with problems of security, internal and external, than he had been before.

15.6. POST WAR PROBLEMS.

Those sections of the population which had passed out of Soviet Control during the war (and this included prisoners of war and those deported to forced labour in the Third Reich, as well as civilians who had lived under German occupation) were automatically suspect, as were the inhabitants of newly annexed regions. Tribunals with powers of summary punishment followed in the wake of the liberating Soviet armies, condemning to execution or imprisonment not only actual traitors but others who had done no more than continue to teach Soviet school children, or live in their own homes with German soldiers billeted upon them. Perhaps the most tragic of Stalin's victims were the displaced persons forcibly repatriated to the USSR by its Western allies.

Population transfers for reasons of security modified the ethnic map of the USSR. In 1941, in the path of the German advance, the Volga Germans had been moved from what had been their home for nearly two centuries. After the German retreat, the Soviet authorities uprooted whole people: the Crimean Tatars, the Caucasian Chechen Ingush and the Kalmyks, alleged to have collaborated with the occupiers. Mass deportations from the Baltic republics helped to clear the way for Russian immigration. The persecution of 'homeless cosmopolitan' writers and critics, during the campaign to restore ideological discipline in the arts, opened

up a new era of official anti-semitic.

Post-war reconstruction of the country's battered and distorted economy was in itself a task which might have taken a decade. Stalin, however, proclaimed a much more ambitious and exacting programme: a series of Five Year Plans to treble pre-war industrial output and guarantee their mother land against all eventualities. Relations between the USSR and its war-time allies had deteriorated quickly as communist regimes were installed by force or fraud in Eastern and Central Europe. Soviet propagandists proclaimed once again the division of the world into two camps, and the alleged threat of an imperialist onslaught on the USSR was used to justify the narrow concentration of Soviet economic resources on heavy industry and military production. Progress in these sectors was impressive. By 1948 the country had basically reconstructed its war-damaged industries, and expansion thereafter was rapid. By 1949 the USSR had acquired a nuclear weapon. Light industry and more particularly agriculture were starved of capital to make all this possible. Meat, fats, sugar, flour, clothing and footwear were always in short supply. The war-devastated cities of the Ukraine, the mid-Volga region and South Russia were rebuilt with remarkable speed, but in the congested older cities the housing shortage grew increasingly acute. Nowhere were increased investments and generous incentives more necessary than in agriculture, and now have they so heartlessly denied.

Suspicious about the country's security led Stalin and the CPSU to strange discoveries or conjectures. In January 1953 Pravda reported that nine doctors had confessed to murder of Zhadanov and to plotting against other prominent persons on the orders of the U.S. Intelligence services. When Stalin died two months later on 5 March 1953, these charges were dropped and the police officials and false witness responsible for them were punished.

15.7. THE KHRUSHCHEV PERIOD.

After the death of Stalin no single individual attained the dictatorial power which he had wielded during the last 20 years or more of his life. The collective leadership which was established in the first two years following Stalin's death was a product not so much of agreement among his heirs as of disagreement on policy issues and of personal rivalry among the leaders. The struggle for power which took place behind the cloak of collective leadership was, moreover, one between powerful bureaucratic machines as well as between leaders. Those who immediately emerged as potential supreme leaders were G.M. Malenkov who as Chairman of the Council of Ministers of Internal Affairs and head of the security police (later the KGB); and N.S.Khrushchev (1894-1971), a Party Secretary who quickly became defacto head of the Party organization and who in September 1953 was officially accorded the title of First Secretary of the Central Committee of the Com-

munist Party. It was not difficult for a majority of central Party leaders and government ministers to agree on the need to keep the security police in a much more subordinate role than it had played under Stalin. Beria's ambitions threatened this policy and though the secret police chief tried to add political support to the coercive force he could command by attempting to appeal to the non-Russian nationalities, both Malenkov and Khrushchev had much stronger followings at the centre, where power in the Soviet Union was, and still is, concentrated. In July 1953 it was announced that Beria had been arrested and in December it was officially confirmed that he had been executed.

Malenkov initially had the upper hand over Khrushchev and until mid 1954, when alphabetical order was adopted, the former's name headed the list of members of the Central Committee's Presidium (Politburo until 1952, and again since 1966). But already before the end of 1953 Khrushchev had apparently taken over from Malenkov primary responsibility for agricultural policy and he championed the claims of heavy industry as against Malenkov's attempt to place a new emphasis on the consumer goods sector. By so doing, Khrushchev no doubt won support. In February 1955 Malenkov was forced to resign his chairmanship of the Council of Ministers and engage in self-criticism, whereby he took the blame for the failure of past agricultural policy and accepted that the foundation of the economy on heavy industry was correct.

N.A. Bulganin (1895-1975) took Malenkov's seat as Chairman of the Council of Ministers and he, in turn, was replaced as Minister of Defence by the war hero Marshal G.K. Zhukov (1896-1974). Khrushchev's standing within the leadership was becoming greater, but was by no means unchallengeable. Partly to strengthen his position and partly because of his genuine repulsion against Stalin's ruling methods Khrushchev tried to launch a drive against Stalin's personality cult. Like many other he was guilty of sharing the crimes with Stalin, but with a characteristic boldness he was prepared to cast the first stone.

The scene of Khrushchev's attack on Stalin was the 20th Congress of the CPSU held in February 1956. In a four hour speech in closed session at the end of the Congress Khrushchev attacked the cult of Stalin's personality and drew attention to many of the injustices and crimes he had perpetrated. In his discussion of the Terror, Khrushchev limited himself to deploring the execution and imprisonment on trumped-up charges of Party members and did not concern himself with the fate of non-members of the CPSU. Nevertheless this breakthrough into relative frankness had momentous consequences. It contributed to a freer intellectual atmosphere within the Soviet Union itself, though it came as a great shock to many communists and helped to stimulate unrest in Eastern Europe (especially in Hungary and Poland) and dissension within the international communist movement.

Though these consequences of the 20th Congress undoubtedly caused great concern within the Party leadership, they did not deter Khrushchev from returning to the de-Stalinisation theme at the 22nd Party Congress in 1961. There in open session he made points which he had included only in his secret speech' of 1956, and other speakers provided further details of Stalin's crimes. Symbolically, Stalin's body was removed from the mausoleum in Red Square where it had lain, since his death in 1953, alongside Lenin's. Places which had been named after Stalin ceased to bear the name of the discredited leader; even the famous Stalingrad became Volgograd. These changes had been preceded in the mid 1950s by the much more important release and rehabilitation of hundreds of thousands of political prisoners and the posthumous rehabilitation of others, though the process was far from complete.

The struggle for power between Khrushchev and his rivals came to a head in June 1957 when his leading opponents combined to out-vote him in the Presidium (Politburo) and made a determined attempt to remove him. The seven-to-four majority against Khrushchev included such important leaders as Malenkov, Kaganovich and Bulganin. Khrushchev labelled his opponents 'the anti-Party group' because his support lay in the Party apparatus, since a majority of the secretaries at the Central Committee of the CPSU, Union Republican and regional levels had been appointed during his incumbency as First Secretary of Central Committee and looked to him as their patron. Backed by Mikoyan, the senior most member of Politburo and Marshal Zhukov, Khrushchev insisted on taking the dispute to a plenary session of the Central committee, which supported him against the majority of the Presidium. This victory enabled Khrushchev to strengthen his position by ousting from the Party leadership Malenkov, Molotov, Kaganovich and Bulganin among others, and when Bulganin was relieved also of his chairmanship of the Council of Ministers in 1958, Khrushchev himself took over the post and headed both Party and government from then until his removal from the political scene in October 1964.

Khrushchev's style of rule helped to lose him the support he had built up earlier. It alarmed the KGB and conservative party officials. A coalition of Khrushchev's disgruntled colleagues in Party finally brought his career to an end. The top leadership was united against him at the Central Committee of 14 October, 1964. Ostensibly Khrushchev 'retired' on grounds of old age, he was 70, and failing health, but the subsequent almost complete exclusion of his name from the Soviet press, as well as attacks in which he was clearly the unnamed target, made plain to Soviet citizens that he had been toppled against his will.

Khrushchev's career and personality were not lacking in contradiction. He was hard and ruthless politician who yet possessed a warm humanity. The living standards of the mass of the people received far more attention under him than they had under Stalin

and life was made easier for the Soviet citizens. He was a Stalinist from his youth who did more than anyone to shake the foundations of Stalinism; a poorly educated worker of peasant origin who had a sharp intelligence and a remarkable capacity for learning, and a true believer in the goal of a humane world communism who did not hesitate to send tanks into Budapest to crush with armed force the Hungarian uprising of 1956.

15.8. THE BREZHNEV ERA.

Of the two highest political positions in the country held by Khrushchev, the more powerful one, that of First or General Secretary went to L.I. Brezhnev and the Chairmanship of the Council of Ministers to A.N. Kosygin (1904-80). Unlike Khrushchev, Brezhnev accepted that he could not take personal decisions in every policy area from foreign policy to family law and from agriculture to literary culture. Brezhnev gradually strengthened his position in relation to his colleague and acquired a greater prominence in the 1970s than he had in the 1960s, becoming the leading Soviet spokesman on foreign affairs and overshadowing Kosygin who had earlier often engaged in 'summit talks' on behalf of the Soviet Union. Brezhnev was also able to strengthen his position within the Politburo by securing the promotion to full membership of a number of his proteges and supporters, and by removing from the leadership some of his opponents including N.V. Podgorny, the Chairman of the Presidium of the Supreme Soviet, and occupied that position himself.

While the leadership changes of 1970s were to Brezhnev's advantage, and his public honours surpassed those accorded to Khrushchev, it is noteworthy that since 1964 turnover in the Politburo, Secretariat and Central Committee, and among Party officials generally, has been much slower than under either of Brezhnev's predecessors. This, no doubt, reflects both his more cautious, consensus-seeking style and the desire of his colleagues to maintain some counter-weights to him within the leadership.

Under Brezhnev's leadership, many of Khrushchev's policies were modified or even reversed. A number of his administrative reforms were speedily annulled. Military expenditure was increased. Attacks upon Stalin and the Stalin period became virtually forbidden, though the great purges were not so much exonerated as ignored. In these respects the attitude of Brezhnev and his colleagues have been more conservative than that of their ebullient predecessor. In foreign affairs, a policy of extending Soviet influence without taking undue risks has been pursued. But ruthless military intervention in Afghanistan in 1979 is a glaring exception; which proves beyond doubt that Soviet Socialism is stark nationalism in the same old Tsarist garb, being no less imperialist than capitalism for fulfilling its expansionist aspirations by dint of crude force. Soviet determination to uphold the status quo in Eastern Europe was exemplified by armed intervention of August

1968 in Czechoslovakia, which put a stop to the reformist course on which the leadership of the Czechoslovakia Communist Party had embarked.

The early 1970s saw a substantial improvement in Soviet relations with the USA and with Western European countries. The signing of the Helsinki Agreement (the Final Act of the Conference on Security and Cooperation in Europe on 1st August 1975) marked the achievement of an important Soviet goal, the official acceptance by Western powers of the division of Europe and the borders which had existed de facto since the end of the Second World War. Other provisions of the Agreement, on human rights etc: caused the USSR some embarrassment when U.S. President Carter laid stress on the fulfillment of the human rights issue. In 1980 Soviet American relations reached their lowest ebb of the Brezhnev era with the USA cutting grain shipments to the Soviet Union and boycotting the Olympic Games in response to the Soviet invasion and brutal actions in Afghanistan.

Party membership in terms of percentage of population rose from 3.62 percent in 1953 to 6.56 percent in 1981. So far as the social composition of the CPSU is concerned, the post Stalin years have seen an increased proportion of workers entering the Party and a falling percentage of peasants and 'white collar' workers, even though the prospect of a well educated specialist becoming a Party member remains vastly greater than the chance of the average worker. In 1981 the following was the percentage analysis of the CPSU composition: Workers-43.4 percent; peasants-12.8 percent; white collar and others-43.8 percent.

With regards to production of consumer goods and levelling the differences in wages of the workers, efforts are made to improve the situation although the expectations of consumers remain unfulfilled. Basic food stuffs on sale in Soviet shops are heavily subsidized by the state and black markets also exist both for basic necessities as well as for luxury goods.

Leonid Brezhnev died at the age of 75 on 10 November 1982 in Moscow due to heart attack: and Yuri Andropov succeeded him as Party Chief having been chosen as the General Secretary of the CPSU. Soon he established himself as the leader of the U.S.S.R.

15.9. THE TRANSIENT REIGN OF ANDROPOV.

Yuri Vladimirovich Andropov (1914 - 1984) was the son of a railway worker, born on June 15, 1914 at Nagushaya Station in northern Caucasus. He studied at a school for water transportation and worked briefly as a telegraph operator and a Volga boatman, but soon demonstrated his talent for political work. He became active as an organizer in the Communist Youth League (Komsomol). After the Stalinist purge cleaved vacancies in the organization's hierarchy, Andropov was promoted in 1940 into the post of First Secretary in the newly formed Karelo-Finnish Soviet Socialist Republic. He played an important role in consolidating Moscow's

power in this north-western region, which had been partly under the control of Finland before the Soviet-Finnish war of 1939-40. When the Nazis invaded, Andropov served as a political commissar with the Soviet partisans. Due to his efficient service and loyalty, he was promoted to a post in the party's Central Committee in Moscow.

As a Party bureaucrat Andropov proved to be an able diplomat and steadily rose in the ranks. In 1953 he was assigned to the Soviet embassy in Budapest and the next year he became ambassador in Hungary. During his stay at that post for more than four years he became an expert on Hungarian affairs. He was elected to the Central Committee in 1961. In 1967 he took over charge of KGB as its chief. KGB is the police department of the Soviet Russia. As the head of KGB's world-wide intelligence network, he became better informed about foreign affairs than any of his predecessors at the beginning of their reigns. He was a very stern task-master who drove his staff to exhaustion. He took over charge as the head of the State on November 11, 1982 at the age of 68, after consuming all his energies in serving the cause of his nation before bossing over all the bosses. One day the world was not surprised to hear from the Moscow radio, "With deep sorrow we inform the Party and the entire Soviet people that Yuri Vladimirovich Andropov died after a long illness at 16:15 on February 9, 1984."

Taking in hand the reins of power at an old age, Andropov found his grip too feeble to alter the course of a nation of 271 million people. However he encouraged expectations of change. He told the Party's Central Committee tersely, "you cannot get things moving by slogans alone. Shoddy work, inactivity and irresponsibility should have an influence on wages and ranks.: To match his words with deeds he launched a nation-wide campaign to tighten discipline and encourage efficiency and sobriety in the work-place. Police even raided stores, movie theaters and bath-houses in search of "shirkers" who should have been on the job. Andropov became tough even with the ministers. The official press carried stories of key bureaucrats who were summarily sacked and even executed after they were caught taking bribes. But Andropov could make no headway in his foreign policies, since in that field he had to confront younger and more energetic rulers of the capitalist world. He died after a brief rule of 15 months.

15.10. THE FLEETING PERIOD OF CHERNENKO.

Due to lingering ailment of Andropov everyone in Russia and the world was impatient to know who would succeed him: an old crony like him or a younger blood, who might lead the world to a more congenial and peaceful era for every nation to progress fearlessly. Andropov died on 9th February 1984 and the Central Committee took 93 hours to decide and announce on 13th February that Konstantin Ustinovich Chernenko, 72, the oldest man ever selected to hold the reins of U.S.S.R., would take over.

Konstantin Chernenko, (1911-1985) was born on September 24, 1911 in a large and poor peasant family in the Krasnoyarsk region of Siberia. He lost his mother at young age and went to work for a wealthy man to earn his living at the age of 12. In 1926, when he was only 15, he joined the secret young Communist League. He was underfed and poorly clad by his master, but he stuck to the job, hoping for an early arrival of a radiant future promised by the Communist movement. He spent more than 40 years labouring patiently in the Party apparatus. For 34 of these years he was associated with Leonid Brezhnev, acting as a friend, confidant and aid-de-camp. It was Chernenko who turned up Brezhnev's hearing aid and, on occasions, ordered the translators to speak louder so the old man could hear. The best of good soldiers, he was Brezhnev's choice for the succession. But when Andropov was chosen every body assumed that Chernenko's career was finished. Instead Chernenko apparently transferred his loyalty to his former opponent.

Unlike Andropov, who never travelled to a country that was not under communist control, Chernenko was well known in the West as a visitor. People who knew him said that his most impressive attribute was his prodigious memory. While presenting him the Order of Lenin on his 70th birthday Brezhnev told his loyal deputy, "I can think of no case in which you have ever forgotten anything, even when it dealt with things that seemed negligible at first glance." A Soviet journalist who had seen him on numerous occasions observed, "He treats unimportant people like human beings."

Like his predecessor Chernenko exhorted his countrymen to work hard and improve the economic conditions of the Soviet Union, as its economy was plagued by slow growth and widespread inefficiency. "The whole Soviet economic machine was in need of serious resurrection," he said, "We expect from our economic executives more independence at all levels; a bold search and, if necessary, a well justified risk in the name of increasing the effectiveness of the economy and ensuring a rise in the living standards of the people".

As his foreign policy Chernenko restated his country's commitment to the principle of peaceful coexistence. "The Soviet Union did not seek military superiority, but would not allow others to upset the strategic balance", he said, "We are for a peaceful settlement of all disputable international problems through serious, equal and constructive talks. The U.S.S.R. will cooperate in full measure with all states that are prepared to assist through practical deeds to lessening international tension.

But his old age and his failing health did not permit Chernenko to confirm his oral professions with practical deeds. He died on March 10, 1985.

15.11. GORBACHEV: NEW LEADER OF U.S.S.R.

Mikhail S. Gorbachev was elected at the age of 54 on March 11, 1985 to the post of General Secretary of the Communist Party. He is comparatively young and energetic. In fact he is the first Soviet leader whose career started after the death of Stalin. Within four hours of Chernenko's death, the 10-member Politburo and the 300 member Central Committee picked him up for the top post which meant that he has broad support among the Party elite. He knew the problems his country was facing, both internally and externally, and he realized that drastic changes within their politico-economic system had become inevitable. He felt that he could do a lot to change the system simply by changing the people who were running it. To him reforms meant to fire a lot of entrenched figures from within the Party apparatus.

From the West Gorbachev wanted technology, equipment and research to improve his productive efficiency, but before the two super powers could cooperate for mutual benefits a lot of suspicion and mistrust had to be removed. A meeting was arranged between Reagan and Gorbachev at Geneva which could produce no results. The only outcome was, "Why should we trust you more than you trust us?"

Changes that Gorbachev wanted to introduce within the party and the citizens of U.S.S.R. are explained by him in his address delivered at the 27th Congress of the CPSU in March 1986. It is partly reproduced below from a Lahore daily newspaper, "The Nation", dated 1st March 1987:-

"I cannot but recall the 20th Congress of the CPSU. I matured as a Communist, a citizen, an individual under the impact of that congress. It was then that my own restructuring, a life long restructuring began. For the young party functionaries of that time (I was 25 then and worked as head of propaganda department of a party district committee) the 20th congress was a purifying storm-wind which made it possible to look to the future with hope. We began to learn, to think, to act, to speak our minds. And it was with bewilderment, pain, with a revolting sense of my own helplessness that I and my generation saw the idea of one of the truly historic congresses of our party sink into the quicksands of bureaucracy.

"We failed at that time to revive the invigorating democracy of the Leninist standards of party and state life, to overcome the habit of mute obedience, of knowtowing to authority, to speak openly and seriously about our own work. Khrushchev, who had hurled a challenge to the proponents of the Stalin personality cult, soon himself began to permit and encourage eulogies of his own person. Brezhnev, a man unquestionably endowed with innate common-sense, allowed himself to be turned into a monument to himself. And this sort of thing spread far and wide like rings on water.

"I remember the administrative fetters, the excessive centralization, the petty tutelage that were strangling the economy in town and countryside. A beginning was made in extending the rights

and independence of enterprises, in introducing cost accounting, learning to combine the plan with commodity money relations. And again every thing vanished into the sands. Again it all went back to economic irresponsibility, endless "adjustments" which covered up deception and self-deception. At the top the right things were said, and needed decisions were taken, but they were invariably negated by apathy and inertia at the executive level.

"Then came the 27th Congress of the CPSU. Doubly, trebly arduous were the tasks that faced it. It was necessary to go back years to the political and economic problems which we had begun to resolve but had not resolved. And which hence had become all the more difficult, stagnant.

"To resolve these problems a great deal is needed. And indeed many levers, many factors: economic, political and ideological, stimulating the restructuring have already been set in motion. There is, however, still another factor to be set in motion, another reserve to be drawn upon. For the present re-gearing to be successful, we must try to "think back", to remember why the changes embarked upon in 1956 and 1965 ended in failure.

"In all probability the trouble lay in our indecisiveness, the half-measures we took, our inability to carry things to completion. Rights were granted with one hand and taken away with the other. We passed new laws, but left the old regulation intact. We began to speak the truth, but did not go beyond half-truths. And every half-measure, every decision that remains on paper is a bastion, a stronghold for the opponents of change.

"Analysis of the events of those years is not a reversion to the past. It is fully in line with today's concerns and anxieties. Some pages from the past which we pass over in silence take their revenge in the form of repetitions of that past. The fact is that today, too, we have not every-where broken through the barrier of semi-openness and half-truths. Today, too, we have our eye on the brakes even before we have picked up speed.

"Is not that perhaps the reason they were so brazen about the Budnitsky funeral? Is it not because of this that they are again hoping to outlive us? Is not this the reason why there are so many onlookers approving, sympathizing, but not fully believing that this time the party will not retreat?

"In mid-January I was invited to the Moscow University's institute for advance training for social science teachers. The talk was about international affairs. On receiving an unsigned written question I observed that it was surely high time to cease being afraid, to stop hiding behind anonymity. There are no bad questions, there are only bad answers. A few minutes later, I received another note, also unsigned and angry one. Why was it necessary, for questions to be signed? It was necessary, I replied, not for me but for yourself, so that you should hear your own voice, so that you should respect yourself, for without it there is no individuality, no civic consciousness.

"Anonymous questioners, as a rule, are not opposed to change, but neither are they for it. They are waiting, hesitating: they want change but they don't believe in it

(Daily Newspaper THE NATION, LAHORE dated March

1, 1987, reporting Gorbachev's speech as communicated by Soviet Commentator Alexander Bowin and published in NEW TIMES.)

Gorbachev's admission of inefficiency and lack of interest seen among the Soviet workers proves that the malady does exist, and his suggested remedy to allow the people to criticize the Party and bureaucracy freely and with confidence means that he found it essential to loosen the tight Party control to some extent. By his acts Gorbachev has proved that he means a change. He allowed the anti-Stalinist film 'Repentance' to be shown at a dozen Moscow cinemas. Another film "It is Hard to be Young" which is a devastating exposure of today's problems of the Soviet youth, is also on display. Newspapers have been allowed to publish reader's complaints about social and administrative injustices and Andri Sokharov has been released from internal exile. The fair deal of Glasnost has led to unprecedented admissions of incompetence and mismanagement; and a Union-wide crackdown on corruption and irregularities of justice has caused thousands of arrests at all levels, including high officials and ministers. The entire judicial system has been reviewed and improved.

All this is quite encouraging, yet what remains to be seen is whether these changes are only make-shift arrangements for improving the national economy, or a bold step forward to reach the goal of awarding basic human rights to all. If the Soviet Union is really undergoing a change of heart, it is a great leap forward. If the Soviet leaders are really intent on radical changes, they would have to begin by discarding the ruling Ideology itself. Ideology is that hard core of the Soviet system that does not allow the country to deviate too far for too long. Unless the central ideological tenets were to be challenged, long term Soviet strategy would remain imprisoned by its assumptions. As long as there is no doctrinal possibility of peace with the "Class Enemy" how can there be genuine peaceful co-existence with the "bourgeois" world? Nor is peaceful co-existence inside the Soviet Union any more likely.

Apart from these internal problems, Russia has some ticklish external problems to solve. Amongst them the topmost problem is how to maintain her balance of power with the U.S.A. in the field of dominating over the remaining world; and next comes the Afghanistan issue. It looks better to bypass both these political issues in a book concerned primarily with economics, but a closer look prompts us not to do so. Politics and economics overlap each other and are so intermingled that they cannot be separated.

The two super powers make full use of this interdependence of economics and politics, and they continue producing newer and deadlier weapons of war, not to use them against each other, but to sell them to the countries under their respective spheres of influence. Thus they recover their capital outlay and increase their politico-economic grip over the countries under their influence, which use these weapons in local warfare. In this way U.S.A. and

U.S.S.R. both replenish their capital outlay for reinvestment and retain firm hold over the countries which fall within their spheres of influence. The nature of the Afghan issue is such that it has affected the third world countries much more acutely, and, therefore, it deserves some detailed treatment. But in the international sphere, there is little doubt that the Soviets would like to get detente back on the rails. They would rather not get into an economically ruinous military race in space, and would like to come to some accommodation on land-based nuclear weapons.

15.12. THE AFGHANISTAN TANGLE

To comprehend correctly why Brezhnev invaded Afghanistan in December 1979, we should know how the People's Democratic Party of Afghanistan (PDPA) was formed in that country and how it snatched political power before inviting Russia to step in with military might.

Communists have remained active in forming secret communist cells in other countries, big and small. Their contacts with peoples of Afghanistan also continued for long, which attracted sympathizers from different walks of life including army and civil servants. With their help an underground propaganda was launched to form a welfare state in Afghanistan by putting an end to the tyrannical rule of King Daoud. For this purpose a secret People's Democratic Party of Afghanistan (PDPA) was formed, of which some civil and military officials took control. According to the American information, Daoud himself was a pro-West but a considerable "leftist" element around him had developed which included both civil and military official. Shah Daoud's Savak Secret Service knew all this, and some of Daoud's Ministers' like the Interior Minister Nooristani hatched a plot for a physical elimination of the leftist leaders.

Before the Sur revolution of April 23, 1978 not many people outside Afghanistan were aware of secret communist factions like Khalq and Parcham etc., but they were almost ready to revolt, and the government had secretly planned to crush them. By a series of accidents the Savak-Nooristani plot was leaked to the leftists. Leftist officers from the Pule Charkhi army camp (house of the 15th Armoured Regiment) rushed to the Presidential Palace, and killed Daoud and his ministers. Thus a fragmented left, quite unprepared for power found itself in possession of the throne in Kabul, and Soviet help followed.

The Khalq leader Noor Mohammad Taraki was the first to wield power, and he was followed by the extremist Hafizullah Amin thoughtlessly narrowed the base of their support by despatching all Parcham leaders on ambassadorial posts outside the country. Babrak Karmal was sent to Prague, and Dr. Najibullah to Tehran. Amin started arresting Mullahs and PDP raised the slogan of land-to-the-tillers to win popular support from the poor. These actions attracted younger generation and helped to put up an

anti-God but rickety regime among the devoutly religious Afghans.

Ruthless killing by thousands and anti-religious activities of Hafizullah Amin angered the masses, who were forced either to retaliate or leave their homes to seek asylum in the neighbouring countries of Iran and Pakistan. Arrival of Soviet troops in December 1979 escorting Babrak Karmal as the new dictator for the unfortunate Afghans made them realize that the real cause of their calamity and therefore the real target of the anger was Soviet Russia. From then onwards the self-respecting brave Afghans remaining within the country started fighting bravely with whatever weapons they could get from anywhere. The fight continues in its eighth year without producing any solution for either parties.

Two million Afghan refugees in Iran and three million in Pakistan for the last eight years have become a serious drain on their economies. The belated replacement of Babrak Karmal with Dr. Najibullah has contributed nothing towards a peaceful settlement of the problem. No one likes to see bodies of dead soldiers returning home in peace time, and so the return of ten to twenty thousand coffins in ones and twos to Minsk, Frunze Ata and other places must have brought home to the Soviet public monstrous visions of a War the nation was involved in, when Gorbachev and his predecessors have been posing in Kremlin as apostles of peace.

Whether the present move of Gorbachev towards reconciliation is a genuine attempt towards peace and amity or only a trap to consolidate and regroup, is a matter on which opinions differ; and arguments are weighty on both sides. But it is a fact that Afghanistan has become Russia's "bleeding wound", draining her much needed resources. Yet USSR is far from exhausted, and UN resolutions and public opinions do not matter even in countries much smaller than Soviet Russia. However the year 1989 promises the withdrawal of all Soviet troops out of Afghanistan so as to let the Afghan refugees return back home and form a government with the local communists by mutual agreement.



RUSSIAN SOCIETY AND STATECRAFT

16.1. LENINISM CONTRADICTS MARXISM.

Theoretically all means of production can either be left at the disposal of private individuals and groups for their management and control or they can be managed and controlled entirely by the central authority of the state; but in actual practice the choice is not so free as it appears to be, simply because to begin with the society itself is free, with every individual busy in pursuit of means of subsistence for himself and his family. This struggle for existence distributes all available means of production amongst individuals and groups who try to grab more and more of them for their own control and management. Therefore, in every epoch of history society finds itself owning and managing the means of production privately with very little state control.

State controlled management of all the means of production and distribution is called socialism. Whether it was practically possible to introduce it or not came under discussion for the first time in history during the eighteenth century in Europe. Socialists of various shades appeared whom Karl Marx joined in mid-nineteenth century with his own researches and speculations. According to Marx socialism is a phenomenon which is produced naturally by the march of events in history as economic progress develops. When society passes out of the stage of feudalism to enter into industrial capitalism and brings about an industrial revolution, it does not stop there. The stress and strain of industrial relations between capital and labour generated by the industrial revolution goad society on to socialism automatically. Industrial capitalism splits society into two sharply antagonistic classes, and the conflict of their respective interests generates hatred in the minds of the exploited and down-trodden proletarians, which spurs them on to rise in revolt and bring about the downfall of the capitalist class, grab all means of production and hand them over

to the state for socialistic management. As this socialist revolution was an inevitable destiny of the then industrialized countries, it was bound to take place simultaneously in Britain, America, Germany and France, whether they liked it or not, according to the Marxian forecast. It could be expedited by the efforts of his Communist International, but its inevitability was in no way dependent upon it.

Whereas Marx considered industrial revolution to be the fountain-head and sole cause for the advent of socialism, and he regarded his Communist Party to be merely an auxiliary service to prepare workers for its reception, Lenin's approach was diametrically opposed to it, as evidenced by his attempts to introduce socialism artificially in an agrarian feudalistic society of Russia, which was as yet merely at the threshold of industrial development. For Marx the advent of socialism was the achievement of historical forces exploding at an appropriate stage of industrial development, while for Lenin it was entirely an act of human planning and execution in whatever state the society might be. Consequently the role which Lenin's Party was called upon to play was obviously different from the role of Marx's communist party, as the previous two chapters clearly show.

Marx's socialism was an unadulterated dictatorship of the proletariat established exclusively by the proletariat and for the proletariat, without anybody else dropping in from above to usurp it, and that is why even the state had to wither away. But for Lenin such a dictatorship of the proletariat was a mere bait to enlist the sympathy of the workers and peasants in his drive to capture political power for himself and his party. Since socialism had been declared to be the goal by Lenin, it had to be adopted not only for saving face, but also for its own inherent utility as a yoke and a gag to stop people from claiming freedom of thought, action and expression.

For Marx socialism was only a transitional preparatory phase of short duration to let people become a classless society for entering into the Communist Utopia where they would find the State withering away. There was no reason to linger on in socialism long after the classes had been abolished. Entry into the Communist Utopia to witness withering away of the State should have been spontaneous. But in Russia after the lapse of more than half a century over the demise of Lenin, no such phenomenon is visible. This can only mean that the Leninist brand of socialism has nothing in common with the Marxist brand. Russian socialism is a goal by itself and it has no Marxian Utopia to offer. Its state is solidly established to last for ever, which does not hesitate to condemn any dissident to captivity, death or deportation, be he a proletarian, a state official or a party leader. For Russian socialists Marxian Communist Utopia is an idle dream.

This chapter aims at exhibiting in some detail various aspects of Russian Socialist Society as it exists today. Efforts will be made

to depict its social stratification, to explain its financial structure and economic organization, to outline its Party machinery and its political system. These details will bring home to the reader Russian anxiety to secure their state from withering away, confirming thereby that Marxian and Leninist socialisms are poles apart.

16.2. SOCIAL STRATIFICATION AND PRIVILEGES.

Russian society consists of more or less three distinct strata: the manual workers, the brain workers and the intelligentsia. The last named category comprises of engineers and technically trained personnel engaged in planning and in supervising the execution of their plans in various sectors of the state organization. Some analysts in the West argue that a stratum of the intelligentsia with policy and Party support, forms a new exploiting class by virtue of its control of surplus value created by the working class and peasants. Others regard the Party elite and various government bureaucrats as a new ruling class, having differential access to power, position and education, as well as enjoying a higher standard of living.

Wage differentials have narrowed over time. In 1979 the average money wage was 163.3 roubles and the minimum was 70 roubles per month. In industry wages varied from an average of 180.3 roubles for manual workers, 208.9 roubles for engineering and technical personnel and 142.9 roubles for non-manual employees. But these averages mask high salaries enjoyed by the various elites. For instance it has been estimated in the West that a top party secretary will receive 900 roubles per month in money income, while a Republican government minister 625 roubles and a Marshal of the USSR (the highest military rank) 2,000 roubles. In addition, of course, are payments in kind, which are difficult to estimate. The ratio of the money wages between a factory manager and a worker receiving the average wage has been estimated at about thirteen to one.

It is now officially acknowledged that some occupations enjoy greater popular esteem than others; this is held to reflect the unequal contribution made to society by various occupations. Prestige is seen as a social reward which the authorities should be prepared to monitor and influence to ensure a desirable structure of incentives. Different social groups appear to attach importance to different criteria in evaluating occupations. Studies constantly reveal favourable popular evaluation of professional and technical occupations, especially in sciences, medicine and the arts, while unskilled manual occupations are ranked lowest, as in the West. Prestige ratings appear for the most part to align with relative earnings and benefits associated with specific occupations. There are however exceptions; doctors are ranked higher in terms of popular esteem than in terms of earnings. In contrast with the West, intermediate 'white collar' occupations are rated less

favourably than manual occupations. Official attitudes, in part, determine the low relative pay and benefits attached to clerical and sales works, which reinforce their low social standing.

According to official ideology the Soviet Union is gradually losing its remaining class distinctions and moving towards a state of egalitarianism. Undoubtedly industrialization, urbanization and certain social policies have contributed to such a development. At the same time important egalitarian principles have been made unattainable by political and economic circumstances, or deliberately abandoned by the government. As a result there is a significant gap between privileged and disadvantaged citizens which is not too dissimilar from that found in capitalist states. Such as:

16.2.1. Purchasing Power.

Persons in the most responsible jobs have the right to purchase deficit goods, particularly foodstuffs, in 'restricted' shops, take-away 'buffets' in their offices, or through ordering services at work. The higher salaries which go with these posts mean that employees can buy fresh garden produce, when available at collective-farm markets; prices here according to observations in 1979 were about three times those in the state shops. People with access to foreign currency or the equivalent in so-called 'certificate roubles' may spend it on foreign or scarce high quality Soviet goods at special 'currency' shops. Other Soviet citizens must rely on the goods on public sale; supplies can be sporadic, shortages are frequent, while durable goods, including clothing are expensive; purchasing them involves also standing in long queues for hours to take ones turn. Given state prices, many people on low incomes have difficulty in making ends meet, and deprivation is a recognized but unpublicized feature of Soviet life.

16.2.2. Living Space.

The long-term and acute Soviet housing shortage has meant that the right to extra living space in a publicly owned apartment or the chance of buying a private flat in a cooperative, is particularly valuable. This requires either inclusion in a favoured legal category (such as for service to the state), influence (blat) with local authorities, or possession of the money for the deposit and repayments on a cooperative flat. The less privileged citizens, on the other hand, still have to share flats with other families, sometimes living in slum conditions. According to one published source, in 1976 only 47 per cent of the families in Leningrad had separate accommodation. Collective farm housing, though more roomy is frequently primitive because local electricity supply, sanitation and even roads may be lacking.

16.2.3. Holidays.

The most privileged people in Soviet society have the use of better holiday facilities in the form of subsidized, high-grade

rest-homes and sanatoria, state owned or private dachas, and the opportunity, through various channels, of travel abroad. The poorest may not be able to afford to go away at all, or may have to make do with poorer-quality trade union rest homes or shared lodgings in private houses.

16.2.4. Medical Care.

There is a distinct gradation in the quality of medical facilities from the special hospitals for people of importance through state clinics where fees are charged, and private consultation is provided; down to the ordinary public institutions which tend to be crowded and treatment is of poor quality.

16.2.5. Education.

The education system is more differentiated than might appear at first sight. Here one may contrast the state 'special' schools providing additional facilities for languages, science, arts leading to more prestigious training, with the ordinary general and vocational schools whose graduates may go straight into unskilled or low skilled jobs.

16.2.6. Honours.

Many titles for meritorious service to the state for example Hero of the Soviet Union, Hero of Socialist Labour, Honoured Artist etc; and a number of Orders such as Order of Lenin have been established, particularly since the 1930s. These awards can also bring extra accommodation, pension and travel rights, together with holiday benefits. State money prizes are awarded for outstanding achievements in science and the humanities.

16.2.7. The Elite.

The occupational groups which have easiest access to some or all of these benefits, and thus a relatively elitist life style, comprise leading officials of the party and State apparatuses, managers of the largest production enterprises, directors of education, research and medical establishments, leaders of the cultural intelligentsia (editors, writers, artists), senior military KGB (Committee of State Security) and diplomatic personnel. Though numerous in absolute terms they make up only a tiny proportion of the labour force. The least privileged Soviet citizens are to be found amongst unskilled workers, particularly in the less developed branches of industry, low-grade white-collar' and service staff, poor farm workers and 'marginal' categories (poorer pensioners, the temporarily unemployed, vagrants and 'deviants'). Since the mid-1960s a number of Soviet sources have suggested that a third or so of the labour force earns insufficient to bring family cash income upto a recognized minimum requirements.

Despite their relative well-being, privileged groups in Soviet society suffer from marked restrictions as compared to elite in capitalist societies, including an inability to amass great wealth and an almost total dependence on the state for their well-being.

The social attitudes of persons at the extremes of the social scale are not easy to determine, but instances of group cohesion and distrust of outsiders have been noted by observers.

The policies of successive Soviet leaderships towards social differentiation have varied considerably, albeit within the official egalitarian ethics. Lenin's main egalitarian policies were designed to suppress the previous 'exploiting elements' and improve the rights and well-being of the poor. Party and state administrators were expected to forego a high wage, but the need to reward them (and other key-groups) adequately prompted the introduction of many of the material privileges which exist even today.

16.3. SOCIAL CONTROL.

Every Soviet citizen over the age of sixteen carries an internal passport. Besides name, date and place of birth and nationality the passport has entries recording marriage and divorce, dependent children, military service and place of residence. The passport must be shown when applying for a job, changing address, entering an educational establishment, registering for stay in a hotel, getting married or divorced, collecting mail at the post office, enrolling children in school or nursery, collecting pensions and other social benefits, applying for housing and on many other bureaucratic occasions.

A residence permit is compulsory for a stay of longer than one and a half month or even for temporary registration for shorter stays. It must be obtained from the passport department of the local militia within three days of arrival. No one is given a residence permit unless he can prove he has housing space of at least nine square meters available to him, which due to shortage of housing and overcrowding in cities becomes impossible. Moreover he cannot legally be engaged by an enterprise until he has a local residence permit. Anybody caught living and working without this document is liable to prosecution, fine and imprisonment.

Crimes are negligible due to harsh control and lack of that freedom which promotes antisocial tendencies. The mass contact media in the form of newspapers, radio and T.V. are managed and controlled exclusively by the state and Party apparatuses. Thus freedom of expression and free access to information do not exist. Mass contact media feeds people what the Party and bureaucracy want them to know but no more.

Various fields of games and sports, centrally financed and locally managed thrive. The Russians have shown good results in international and Olympic games.

16.4. SOVIET ECONOMIC AND FINANCIAL SYSTEM.

As central planning and financial controls administer all economic activities in Russia, the fixation of priorities between social and national demands becomes a matter of opinion for the ruling clique, and the consumers stand to suffer. Food, clothing,

footwear and housing industries continue to lag far behind the public demands and variations in designs and fashions become rare as a consequence. Imports from East European countries are resorted to for making up the deficiencies. Although housing industry has made some progress in manufacturing, transporting and erecting pre-fabricated labour flats, housing accommodation still lags far behind the public demand, and family living is extremely cramped. Over 75 per cent of the urban housing stock consists of one and two roomed flats, even though the average size of an urban family is 3 persons with 74.8 per cent of all urban families consisting of three or more people. The national average space standard in 1980 stood at 12.8 square meters of overall living space including kitchen, bath room, corridor and hall for a family, having risen from 8.8 sq. meters in 1960, needing yet further improvement. Consumer services are available under state control and private domestic service is also permitted. However, a second economy of substantial dimensions exists in consumer services, especially in building repairs and transport, using private or official cars and larger vehicles. Unofficial activities also include trading and manufacturing, but economic crimes such as 'speculation' (buying with intent to sell indulged in by unauthorized individuals) are punishable by imprisonment and death penalty. Although no statistics are published, earnings from unofficial sources must fill what appears to be a sizeable gap between visible living standards and what would correspond to officially reported wages divided by shop prices.

THE SOVIET BUDGET is prepared by the Ministry of Finance in a consolidated form for Federal Union, Republican and Local authorities. This unified budget consolidates some 55000 budgets and its analysis becomes very difficult because detailed breakdowns are not provided and entries do not sum up to totals frequently.

Revenue is derived overwhelmingly from indirect taxation, the principal elements being 'turnover tax' (on sales) and 'payments from profits' (about one third of which now comprise payments as a proportionate charge on capital assets. The income-tax is low, being about 13 per cent., and it yielded only 8 per cent of total revenue in 1979. The federal budget invariably show a small surplus of revenue over expenditure, which is stated to be used for credits or as a reserve.

Expenditure consists mainly of three large items in order of their magnitude: (i) Finance of the National Economy, (ii) Social and Cultural measures, and (iii) Defence. In 1979 all the three amounted to 95 per cent of spending with another one per cent for State Administration. Social and Cultural measures comprise education and science, health services and physical culture, social security and social insurance. By far the largest element is education and science.

The budget is presented to the Supreme Soviet usually in

December of the preceding year, but it is not substantively debated and is quickly adopted by unanimous consent with only trivial amendment.

THE PRICE SYSTEM. Prices play a somewhat different role in the Soviet centrally planned economy than they do in a market economy. The State Committee on Prices generally sets relatively low prices for necessities and high prices for luxuries or products the consumption of which the government seeks to discourage like the use of spirits as part of its campaign against alcoholism. Wholesale prices always include the costs of materials, labour and an allowance for depreciation plus a small profit margin calculated as a percentage of costs. The domestic wholesale price system is divorced from foreign prices by a system of taxes and subsidies implemented at the level of the foreign trade on enterprises implemented at the level of the foreign trade enterprises which carry out import and export transactions. Because wholesale prices based on input costs are inter-dependent, the planners must set millions of prices simultaneously in a price reform. Price revisions of this kind are, therefore, infrequent, and prices once set continue to operate for a decade or more. A retail price is so set that households buy just that amount of it which is available for sale under the production plan. The authorities are reluctant to change any consumer price once set in response to excess demand or stock of unsalable goods. They either tolerate the situation or adjust supply rather than price. Similarly changes in wholesale prices are normally absorbed in the subsidy or by the turnover so as to retain the retail prices unchanged.

Evidently inflation can be abolished by setting prices and wages centrally, allowing incomes to rise only in line with consumer good supplies. This is what the planning officials have always tried to do, but perfect administration is as rare as perfect markets.

THE WAGE SYSTEM. Wage rates are determined centrally by the State Committee on Labour and Social Questions. The objective is to simplify and nationalize existing wage scales, to reduce differentials within and between industries and to increase the share of basic wages in take-home pays; the number of wage scales in use after 1977 has been reduced to less than fifty, and the spread of pay differential has also been considerably reduced. It is claimed to be no more than double.

MONEY, BANKING AND FOREIGN TRADE. The role of money and banking in Soviet Russia fundamentally differs from their role in capitalist economy. In a centrally planned economy money and banks play no important role except for payment of wages to the workers which they carry home to surrender it soon at the state-run stores in exchange for necessities of life. The requirements of both the state and the public is thus reduced to the minimum possible i.e. payment of wages and purchase of necessities of life. The quantity of money needed to perform this function within the country can be judged fairly accurately, and money is issued by

the state authorities only to that extent. The bank issuing currency is called 'Gosbank'.

Both notes and coins (100 kopeck=one rouble) are issued in needed quantities. The rouble is not convertible, its export is prohibited and its exchange rate with foreign currencies remains at the discretion of the government. There is no money market, no stock exchange and therefore no avenue for speculation to increase one's wealth. A few stores are permitted to accept only precious metals or foreign currencies from the tourists. Gambling is prohibited in all its forms.

Every state enterprise is required to keep an account at the State Bank, whose duty it is to monitor the accounting system and to report if amounts or prices diverge from those stipulated in plans or contracts. Credit from one organization to another is not permitted.

The sole investment bank is the Construction Bank (Stroybank) which handles the bulk of investment funds in accordance with the plan. The Foreign Trade Bank is called 'Vneshtorgbank' and it handles external transactions. There are state saving banks as well to encourage saving by the people and they pay a low interest rate, to the account holders.

Two basic characteristics of Soviet conduct of their foreign trade are worth noting: imports and supplies of goods for export are subject to detailed administrative allocation by the central authorities; and the rouble is a strictly domestic currency, not convertible into other currencies. An exporter to the USSR cannot spend the proceeds as he can in a market economy. Thus the Soviet system endows the central authorities with a degree of direct control over import flows and balance of payments, which the capitalist governments lack.

Soviet gold production was not officially published after 1928 nor has the USSR State Bank revealed its reserves of gold and convertible currency since 1935, but its official or commercial agencies have never had to deal payment on a foreign obligation. The State uses bullion to make up some of the deficit in balance of payments. (There was a \$ 210 million surplus in 1980). CIA of America estimates that the gold reserve had been rebuilt from a nadir of 920 tonnes in 1965 to 1581 tonnes at the end of 1979.

16.5. THE CPSU ORGANIZATION.

At the base there are Primary Party Organizations whose main duty is to recruit individuals for Party membership. Citizens from the age of 18 are eligible if recommended by local Party members of five year's standing and approved by the District Party Committee. The applicant becomes probationary candidate for an year in which he establishes his personal qualities and political reliability. A small monthly membership fee is charged from him. Regular members are required to pay ten per cent of their incomes regularly.

The formal Party structure places the Congress at the top, and the Congress delegates elect a new Central Committee and Central Audit Commission. Congresses are convened only once in five years and they usually work for about ten days. In the meantime the politburo, and the secretariat of the central committee act as the Policy-making bodies. At all levels of the Party hierarchy except the lowest the organization follows the territorial structure of the country. Thus there are Union Republican Party organizations with their own five yearly Congresses, their Central Committees and Secretariats and their bureaux, these being functionally equivalent at that level to the Politburo at the all Union level.

Regions, cities, towns and districts each have their committees, the leading members of whom compose the bureaux, and the power of the Party organization reflects the importance of the territorial unit. At the lowest level come the primary Party organizations which are based upon place of work rather than residence.

THE POLITBURO. The Party is not simply one political institution but an entire complex of institutions, the most powerful of which is the Political Bureau of the Central Committee (or Politburo), a body charged in the Party rules with the direction of the work of the Party between plenary sessions of the Central Committee, which meets only twice a year for a day or two each time, while the Politburo meets once or twice weekly and is intended to be a more effective policy making organ than the large body, the Central Committee which nominally elects it. Powerful though the Secretariat is, a move from that body to the Politburo is recognized as promotion.

THE SECRETARIAT OF THE CENTRAL COMMITTEE. The Secretaries of the Central Committee are in overall charge of Party apparatus, acting as overlords to the various departments of the Central Committee, and having themselves considerable powers of appointment and in execution of policy.

THE GENERAL SECRETARY. Among the Secretaries of the Central Committee who enjoy Politburo status, the most powerful single figure, who has the advantage of chairing both Politburo and Secretariat, is the General Secretary of the Central Committee.

THE APPARATUS. A much greater power is wielded within the Party by its full time employees its secretaries and the staff of the departments at various levels of the hierarchy than by the Party member who combines membership with another job. The term apparatus (apparat) is applied to these full-time Party functionaries. Soviet sources do not give precise information on its size.

Virtually all posts of political responsibility in the country are held by Party members and the same is true of positions of influence in the economy, education and the mass media, although Party members are only just over six per cent of the total population and only ten per cent of adults according to 1981 figures. There are more than twice as many Jews in the CPSU as their proportion

of population would warrant.

16.6. THE FEDERAL STRUCTURE.

The USSR is the world's largest and most heterogeneous multinational state, comprising over one hundred nationalities grouped in 15 Union Republics and 38 subordinate autonomous units and officially claims to be the first state to have solved the problems of multinationalism; despite such claims the whole nationalities question remains one of the most serious problems facing the Soviet leadership. The universal difficulties of integrating nationalities with such different cultures and traditions are compounded by the somewhat contradictory institutional and policy framework within which Soviet nation-building takes place. Official policy legitimises the existence of distinct national groups and the federal structure provides an institutional base for their development. At the same time, the legacy of imperial Russia, the centralism of the Soviet State and the Russians' numerical, economic and political hegemony with the USSR make it difficult to separate Soviet integration from assimilationist Russification.

Soviet federalism is nationality based, its major administrative divisions correspond to the territories occupied by national groups united by ethnicity, language, culture and tradition. These divisions fall into three groups, Union Republics, Autonomous Republics (ASSR), and Autonomous Regions (AR) and Areas (Aa) which constitute the upper tiers of the territorial administrative structure. All Union Republics are in principle sovereign states, complete with their own Constitutions, Supreme Soviets, Councils of Ministers and Supreme Courts. Located as they all are on the borders of the USSR, the republics have a constitutional right to secede from the Union, a right which is unique to Soviet federalism. The secession right has never been more than a symbol of the supposed voluntary nature of the Union.

An examination of the constitutional division of power between the national (all union) and republican level indicates the highly centralized nature of Soviet federalism. Defence, state security, foreign trade and national foreign policy come exclusively under all-Union jurisdiction. The whole federal structure is set within a system based on democratic centralism and ruled by a highly centralized unitary Communist Party. Given this context, it comes as no surprise to find that all-Union laws prevail constitutionally over republican legislation and that the all-Union government is empowered to countermand and override actions taken by its republican counterparts. Components of this federal system are as under:-

16.6.1. THE MINISTERIAL SYSTEM.

In July 1978 the Supreme Soviet, which is the parliament of the USSR, passed a new statute on the Council of Ministers. In this law the Council of Ministers is described as 'the government of the

USSR and the highest executive and administrative organ of state power', responsible to the Supreme Soviet, by whom it is appointed and to whom it reports. Its tasks include the issuing of decisions, preparing the national economic plans and budget, ensuring the maintenance of law and order in the country, working out social welfare and cultural programmes, administering foreign policy, and supervising the execution of decisions by individual ministries, republican and local agencies. When the Supreme Soviet is not in session, the Chairman of the Council turns to the Presidium of the Supreme Soviet with his proposals.

From 1978 the Council of Ministers has had approximately one hundred members. Its size and the range of its work reduces the feasibility of frequent meetings and decision making by the whole Council, which meets four times a year. It is to an inner cabinet, the Presidium of the Council of Ministers that much essential decision making falls.

The Ministries: The minister appoints and dismisses his deputy ministers, the heads of the chief administrations and departments and other ministerial staff, aided by the personnel department, the Party Committee and the trade union in the ministry. An individual can appeal against dismissal or demotion only to the organ above that which appointed him; he has no right to be present at the hearing; he cannot turn to the courts.

16.6.2. KGB, STATE SECURITY COMMITTEE.

The initials (KGB) are the Russian abbreviation for Committee for State Security, since 1954, the main Soviet organization for national security at home and intelligence operations abroad. Although formally part of the USSR Council of Ministers, and thus of the government, in practice the KGB reports primarily to the top Communist Party organs. From its grass-root offices in every workshop and work place of any size the KGB tries to prevent or combat political crime and dissent. The KGB role in foreign intelligence has been very important ever since the USSR came fully into international politics at the end of the Second World War. Agents operate around the world under cover of postings as diplomats, trade officials, journalists and so on. The organization appears to have about half a million employees, of whom some 90,000 are Officers, 220,000 are border and internal security troops, and the rest support staff. In its achievements it is no less efficient than the American CIA.

16.6.3. FUNCTIONS OF THE SOVIETS.

The Soviets of People's Deputies are officially referred to as 'organs of state power, and are the product of a line of evolution that goes back to the revolutions of 1905 and 1917. The Soviets exist at all levels in the administrative hierarchy. Headed by the USSR Supreme Soviet (the only two chamber soviet in the country), there are Supreme Soviets in the Union and Autonomous Republics, and over 50,000 local soviets at regional, city, urban

and rural district, settlement and village levels. They are elected by the adult population, in an electoral process carefully guided by the Communist Party of the Soviet Union. They consist of representatives, the deputies, numbering perhaps 30 at village level, and 1500 in the USSR Supreme Soviet, 750 in each of the chambers: the Soviet of the Union, and the Soviet of Nationalities.

They are intended to serve politically as representative institutions, and with this in mind, candidates are carefully selected to achieve the appropriate social balance before the electors are invited to endorse the choice at the poll. Nevertheless representation is not proportional, as has been recognized inside and outside the Soviet Union. The Party is over-represented, women are under-represented, as are some of the nationalities and certain occupations; religious and dissent groups have no representatives at all among the deputies, all of whom are endorsed by the CPSU and are deemed to be members of the 'bloc of Communists and non-Party people', carefully chosen as the 'best sons and daughters' of the nation.'

The formal meetings of soviets are held four or six times a year (twice for the Supreme Soviets), and it is in this forum that the deputies perform one of their most important functions: giving legal force to policies decided on by the Communist Party. This circumstance leads many critics to dismiss the sessions as mere rubber-stamping occasions. In fact the Party's own members form a majority of deputies in soviets at any level of importance (about 75 per cent in the USSR Supreme Soviet), and the voting, by show of hands, is always unanimous.

16.6.4. THE CONSTITUTION.

The latest Constitution was adopted, in October 1977. It is not radically new, stressing in the Preamble the 'continuity of ideas and principles' with its three predecessors. This Constitution reflects postwar social and industrial changes, incorporates the effects of much post Stalin legislation, and lays greater emphasis on individual rights.

The first Part describes the social and political principles of the system. The USSR is defined as 'a socialist state of all the people, expressing the will and interests of the workers, peasants and the intelligentsia and of the working people of all the country's nations and nationalities'. All power belongs to the people and is exercised through the Soviet of People's Deputies; the latter can, however, decide to have a law enacted by nationwide referendum. The state and its agencies are to operate on the basis of socialist legality and to ensure the rights and liberties of citizens. The CPSU is now formally recognized as 'the leading and guiding force of Soviet, the nucleus of its political system and of state and public organizations. The economic system is based on socialist ownership of the means of production; private property (called 'personal') is based on earned income and covers housing, personal effects and the

like. No one may use socialist property for selfish purposes, nor his own belongings to acquire unearned income or to harm the interests of society.

The theme of State and individual is developed in the second Part, thereby preceding the provisions on the State structure. This part lays down the principle of complete equality and lists a bill of rights: work, health care, social security, housing, education, freedom to criticize, freedom from arrest, etc.

The third Part (the state structure) reiterates the federal nature of the Union of 15 Republics, confirming the right to secede and giving virtually unlimited power to the USSR itself over its constituent parts by Article 73. The two-chamber Supreme Soviet of the USSR is the only body to enact federal statutes. It also 'elects' the Presidium (a chairman and 37 members) which acts by decree, amending statutes if necessary, subject to later ratification by the Supreme Soviet, supervises the constitutionality of laws, (there is no judicial review), interprets them; ratifies treaties, and so forth. The government (council of Ministers) is appointed by, and accountable to the Supreme Soviet; within its jurisdiction it makes binding regulations. The Union Republics may be subdivided into Autonomous Republics and Regions. Within federal limits each republic has its own constitution, internal sovereignty and (in theory) the power to enter into international treaties.

In the Union and Autonomous Republics their supreme Soviets exercise similar functions and appoint similar bodies.

The Constitution contains only the basic principles about the Judiciary, and the court structure; which is governed by various All-Union and Republican statutes; and is extremely complex. The Criminal Code lays down two pre-requisites to criminal liability: the judgement of a court, and the infringement of an express provision of the criminal law. The main law enforcement agency is the Militia or police, but besides the militia, People's Guards also exist. They are volunteers of 'professional, moral and political qualities, who organize detachments in factories, collective farms, institutions, apartments, blocks and so on, directly appointed by Party agencies to increase people's respect for law, and they must report suspected crimes to the police. To protect them the criminal law equates them with policemen in cases of resistance and violence.

16.6.5. THE ELECTORAL PROCESS.

Elections figure prominently in the Soviet political calendar with all-Union and Republican Supreme Soviet elections taking place every five year and those to local soviets every two and a half years. All Soviet citizens over the age of 18 may vote and extraordinarily large number of them do so with remarkable unanimity. While such near perfection is hailed by Soviet commentators as proof of political democracy, it confirms Western observers in their view of Soviet elections as highly manipulated plebiscites.

Nothing in Soviet election law precludes more than one candidate standing for any seat, yet voters are never presented with a choice. The three week election campaign is organized by the district Party in collaboration with the local Soviet executive and election commission. Media promotion of national policies is intensified, and increased coverage is given to local issues which are taken up at electors' clubs and agitation centres and by canvassers, each of whom contacts 15 to 40 voters twice before polling day. There is no legal obligation to vote but the authorities make every effort to get the maximum turnout. Polling usually takes place on a Sunday and polling stations are established in every conceivable location. Electors may choose to vote for the candidate by placing an unmarked ballot paper in the box, or may register their disapproval by crossing out the name.

Soviet elections perform several important functions. The campaign period and the act of voting can further political education and socialization. Elections provide unique opportunities to test governmental capacity to mobilize the entire population, and local organizations are judged by their performance. More importantly, elections are ritualist public acclamations which reaffirm the legitimacy of the Party and the regime.

16.7. THE DISSENT AND ITS TREATMENT.

While political opposition of any consequence has not existed in the USSR since the 1920s, except in the Ukraine and the Baltic republics during 1944-53, open dissent from various Soviet norms and policies began to emerge soon after Stalin's death. This dissent did not take on organized forms until 1965-8 years which saw the maturing of the Human Rights Movement. Initially this was a defensive reaction by a few thousand well educated urban people. As the movement developed, it resisted injustices steadily in more areas of human rights and sought reforms and dialogue with the authorities. When the authorities declined to enter into any but occasional and usually indirect discussions and launched counter measures more readily than reforms, the dissenters increasingly called for support from their fellow-citizens and from organizations abroad.

Many dissenters have been concerned not only or even mainly with defending the human rights of others, but also with free self-expression, individually or in groups, in such areas as literature, the arts, politics, economics, trade unions, law and religion. Thus dissidents have put loyalty to each other above obedience to the secret police (KGB); have formed unofficial groups; interceded for persecuted individuals and groups; founded samizdat (privately circulated typescript) periodicals to publish independent writing and information on conflict situations involving human rights; spirited samizdat material out of the country to be published abroad and, more important, broadcast back into the USSR by foreign radio stations, thus circumventing the censorship which

denies them access to Soviet media; given press conferences for foreign journalists, etc. The 5000 odd samizdat items which reached the West between the early 1960s and 1980 vary in length from one-page protest documents to novels and anthologies of 800-900 pages.

A second category of dissenters contains the emigration movements among the USSR of three million Jews and two million Germans, who by their militancy forced the regime in 1971 to allow a significant scale of emigration; between 1968 and 1980 some 250,000 Jews left for Israel and elsewhere, and over 60,000 Germans had emigrated to West and East Germany.

A final category comprises, first the Crimean Tatars movement which aims at return from the exile in Central Asia to which Stalin deported their people (with great loss of life) in 1944; and second, the analogous movement of the natives of southern Georgia.

The Democratic Movement has also developed strong links with dissenting religious groups. Some of these, like the dissenting sectors of the Baptists, Pentecostalists and Adventists, are concerned almost exclusively to resist state control of their activity and achieve greater freedom for religion. Others like Lithuanian and Ukrainian Catholic, or Russian or German Orthodox, often support in addition the socio-political aims of their own nationalist movements. Organized dissent among most denominations began in the early 1960s, in response to Khrushchev's anti-religious campaigns.

The dissenting groups and movements have considerable achievements to record. Mainly because of the Human Rights Movement's capacity to cooperate with all groups and act for them as both a sounding-board and a civil liberties organization, the outside world and the Soviet population have gained access to extensive and accurate information about their situation. This information and other writings by dissidents have contributed substantially to the tarnishing of the official Soviet image of the USSR as a liberalized and contented society ruled by a peace-loving and universally popular regime.



CHAPTER SEVENTEEN

CHINESE SOCIALISM

17.1. ANCIENT CIVILIZATION OF CHINA.

From the time the first united empire in China was established by the Han Dynasty in the second century B.C, China had been an exceptionally stable society inspite of frequent dynastic changes. With very little influence from outside, China constituted a self sufficient fertile land mass bounded by deserts, mountains and oceans, and nurturing a self-centred, independent civilization. The economy was dominated by an efficient agriculture and rural handicrafts, and the official philosophy of Confucianism sanctioned a hierarchical society which viewed change as degeneration.

The era that was coming to an end in the last centuries of the first millennium B.C. was an era very similar to the age of feudalism in Europe. It was succeeded in China not by a bourgeoisie society as in the West, but by a bureaucratic society, which is often referred to as 'gentry' in modern books. By virtue of the fact that they combined ownership of land, education and official status, the gentry were in fact the ruling class. They were already established as such in the first century A.D, and the power of the feudal lords was vanishing. The power of the gentry depended on their social position. Theoretically any peasant, worker or merchant could become one of the gentry. In many periods such social climbing and likewise declines were comparatively frequent, but at other times they were rare or virtually impossible. The Chinese emperor had despotic powers, still they needed support from the gentry to survive. Therefore, they always tried to win and retain their cooperation, even if they had to champion the cause of the gentry at times.

Changes of the ruling dynasties were fairly frequent in the first millennium A.D. apart from the almost 3000 years rule of the Tang dynasty. These changes could occur in three different ways:

1. As a result of invasion by foreign people whose leader became the Chinese emperor as for example in the case of

the Mongols in the thirteenth century or the Manchus in the seventeenth century A.D;

2. As a result of a rival gentry group coming to power;
3. As a result of peasant's revolt.

Peasant's revolts would generally contribute substantially to the weakening of the ruling dynasty, even if other forces usually took the final step to overthrow the old and to set up a new ruling house. Only infrequently were peasant leaders able to assert themselves and found a new dynasty.

Throughout its past history China has always been a land of farmers. The peasant class consisted for the most part of small farmers or tenant farmers. There were no large agricultural enterprises. The peasants either owned or rented the land they cultivated; or they may have combined the two: owning part and renting part. Sometimes they cultivated either totally or partially rented land and let their own land for hire. The large land owners primarily gentry families did not cultivate their land themselves. They lived on the incoming dues, residing part of the time in countryside and part in towns. They not only collected rent for their own property, but were often employed by the government to collect the taxes due to the state from the independent farmers of their area. Officials and other gentry families were excused from all public duties or from the taxes which took the place of such public service, and in addition they frequently used their privileged social position to evade in various ways the taxes they should legally have paid. Thus eventually almost all taxes and duties had to come from the non-privileged section of the population, namely the peasants. Frugal means and an extremely strong passive power of resistance on the part of the Chinese peasants together with the possible last resort of flight usually set certain limits to the caprice and encroachment of the officials and land owners and thus contributed towards a tolerable *modus vivendi*.

However, in times of political and economic decline, pressure on the peasants increased so much that it became intolerable for many of them. If harvests failed or some natural disaster supervened, many peasants could not pay the required taxes and were compelled to sell their land or surrender it. Thus land prices fell, enabling the rich gentry families to accumulate more and more lands. Ruined peasants had to leave their homes and take to roaming the countryside as bandits. In the distress and uncertainty in which they found themselves, they quickly banded together. They were ready for anything, for they had nothing to lose. Such a peasant unrest and revolt could quickly seize whole districts and provinces, for secret societies and sects scattered everywhere like smouldering embers. In times of trouble, sparked off by natural catastrophe or human folly, they could suddenly blaze up into bright flames of rebellion, in which social and religious elements also united.

Alongside the official Confucian doctrine on which state, so-

ciety and family in China were based since the beginning of the Christian era, the teachings of Buddhism and Taoism also played significant roles. Confucius was a Chinese law-giver who lived between 551-479 B.C. He was a contemporary of Guatama Bud-dah, who lived and preached in India. Taoism was the religious doctrine of another Chinese called Lao Tsze, who lived in second half of the fourth century B.C. Whereas Confucianism was life affirming and provided the standard and guideline for public and family life, Buddhist and Taoist teachings pointed the way of resignation and rejection of this world or to struggle against the existing order of state and society.

In spite of all its political changes China owned an admirable civilization, which inspired respect for the emperor and for family elders. A civilization which brought peace within the family life and cultivated love for art, literature and industry was what China inherited. China was the first nation of the world to breed silk-worm, to manufacture silk-cloth and to print it with exquisite colourful designs. She was also the first to have produced high-class porcelain pottery and decoration pieces painted with beautiful designs and pictures in natural colours. China invented paper in 105 A.D. when the rest of the world knew nothing about it. Chinese advanced civilization is acknowledged by all.

17.2. MONGOLIAN CONQUEST AND RULE.

Mongolia is a vast stretch of barren land in the north of China, stretching from Manchuria in the east to Central Asia in the west all around the Gobi desert. Only grass and shrubs grow in this area, due to which its inhabitants lead a hardy nomadic life, moving about with their tents, sheep and horses.

Genghis Khan, the great Mongol conqueror, was born about 1162. His father, a petty Mongol chieftain, named the boy Temujin, after a defeated rival chieftain. When Temujin was nine his father was killed by members of a rival tribe, and for some years the surviving members of the family lived in constant danger and privation. When Temujin grew up to be a young man, he was captured in a raid by a rival tribe. To prevent his escaping, a wooden collar was placed around his neck. From this extremity of helplessness, as an illiterate prisoner in a primitive, barren country, Temujin rose to become the most powerful man in the world.

His rise started when he managed to escape from his captor. He then allied himself with Toghriq, a friend of his father and chieftain of a related tribe living in that area. There followed many years of internecine warfare among various Mongol tribes, in the course of which Temujin gradually fought his way to the top. The tribesmen of Mongolia had long been known as skilled horsemen and fierce warriors. Throughout history they had made sporadic raids into northern China. However, before the rise of Temujin the various tribes had always spent most of their energy in fighting

each other. By a combination of military prowess, diplomacy, ruthlessness and organizational ability, Temujin managed to weld all of these tribes together under his leadership, and in 1206 an assembly of the Mongol chieftains proclaimed him Genghis Khan (the Universal Emperor).

The formidable military machine that Genghis Khan had assembled was then turned outwards upon neighbouring nations. First he attacked the Hsia state in north western China and the China empire in northern China. While these battles were going on, a dispute arose between Genghis Khan and the Khwarzem Shah Muhammad, who ruled a considerable empire in Persia and Central Asia. In 1219 Genghis led his armies against Khwarzem Shah. Central Asia and Persia were over-run and Khwarzem Shah's empire was completely destroyed. While other Mongol armies were attacking Russia, Genghis Khan himself led a raid into Afghanistan and northern India. He returned to Mongolia in 1225, and died there in 1227.

Shortly before his death Genghis Khan requested that his third son, Ogadai, be named to succeed him. It was a wise choice for Ogadai became a brilliant general in his own right. Under his leadership the Mongol armies continued to advance in China, completely overran Russia and advanced into Europe. In 1241 series of Polish, German and Hungarian armies were completely routed by the Mongols, who advanced well past Budapest.. However, in December 1241 great Khan Ogadai died in Karakorum, and the problem of succession created a split. Genghis Khan's two grandsons Mangu Khan and Kublai Khan claimed succession, and both advanced to complete the conquest of China. Mangu Khan died in siege of a Chinese town in 1259 and in 1260 the assembly elected Kublai Khan as the agreed successor. The Mongols took many years to over-run the entire China, in view of the vast area and difficult terrain. By 1279, when Kublai Khan completed the conquest of China, the Mongols ruled the largest land empire in all of history. Their domains included China, central Asia and Russia in addition to Persia and most of south west Asia. Their armies had raided successfully from Poland to northern India, and Kublai Khan's sovereignty was recognized in Korea, Tibet and parts of southeast Asia.

Kublai Khan shifted his residence and centre of Mongolian power to a place in China where he built his own city called Cambaluc, 'Khan-balik' or the city of the Emperor. (The city of Peking developed nearby after the Mongols were overthrown). The Mongolian ruling house and the Mongolian nobility, which were war-like in origin and nomadic in culture underwent a great change by this shift. Gradually they succumbed to the influence of the refined Chinese culture, which counteracted their war-like ways and made them receptive to the pleasures of a higher civilization. Signs of decadence and decline gradually began to show themselves. In 1368, with the great Khan's power weakened

through efforts to conquer both Japan and southeast Asia, the Mongol control over China ended, and the Ming Chinese succeeded to power in the country. The great Ming Emperor Yung-lo after his fifth expedition against the Mongols died in 1224 on his way back to Peking, which he had built near the site of Cambaluc. The Mongols, although ousted from power in China, still exercised dominant power in Central Asia for a few centuries. Even today their love and respect for the Great Genghis Khan is as warm as ever. The following quotation from a book confirms it.

"Anyone who is disposed to doubt the importance of history in the Asian world would do well to ponder the story of the ashes of Jenghiz Khan. Whereas to the rest of humanity Jenghiz Khan is still a name of terror as the greatest destroyer and slaughterer of all times; by the Mongolians he is revered as the leader who first welded them into a single state. For centuries his resting place at Echinoro had been protected by five hundred Mongolian families. During the Sino-Japanese war, it became a bone of contention between the Japanese invaders and the Kuomintang, both of whom thought that the possession of the remains of Jenghiz could be exploited in their own interests. The Japanese built a memorial shrine to him in Wangyin Sum (now Ulanhot in the eastern part of Inner Mongolia, which was then under their control. The Kuomintang, in 1939, sent troops to regain possession of his ashes. Ignoring the anger of the Mongolian guards, they took them away, first to Kansu and then to Chinghai. After the People's Government was set up in 1949, the Mongolians asked that the remains be restored to their original burial-place. This was approved, and early in 1954 a group of eminent Mongolians, headed by the leader of the Ikechao League went to Chinghai to escort them home. Drawn by a sacred white camel (as required by tradition), the catafalque arrived at its destination in April, 1954. On April 23rd, the 727th anniversary of the death of Jenghiz, a week long celebration began in Echinoro. The silver coffin containing the ashes of the Great Khan and his wife Burpegelchin, with articles they had used in their lifetime including their bows and arrow, were placed in five yellow satin tents with pinnacles of gold. The five-star flag of the People's Republic of China flew above the celebrations attended by some 30,000 Mongolian visitors".

(CHINA BY VICTOR PURCELL PAGES 190-191
PUBLISHED LONDON 1962).

17.3. EUROPEAN INVADERS OF CHINA.

We can skip over the Ming dynasty period (1368-1644) which remained plagued with internal strife and invasions from Mongolian chieftains of Central Asia. The Manchu dynasty which began its rule in 1644 and lasted till 1911, fared much better. It was a vast and prosperous empire which included Manchuria, Korea and Formosa in the east, Tibet, Burma and Annam in the south, and which touched the Russian Siberian border in the north, tapering on the north-western side down to touch Kashmir near Pamir. Since we are more concerned with the modern China, it would be useless to dwell upon this bygone period of Chinese history. A brief

account of the European inroads on China would be more helpful.

The sea route to China was pioneered by the Portuguese in the sixteenth century who established themselves as traders at Macao; then came the Dutch, and finally the English. After 1757, all foreign trade was confined by the Chinese authorities to the port of Canton, because Europeans had started penetrating deep into the country to play mischief. The British started exporting opium from India to pay for the Chinese tea and silk, which was prohibited. When Chinese Commissioner Lin confiscated the forcibly imported opium, the British declared war in 1840 which is known as the Opium War. Chinese were no match and they were easily defeated. The Treaty of Nanking (1842) inaugurated the era of the 'unequal' or 'unilateral' treaties whereby China conceded rights and privileges to the foreigners without receiving anything in return. Other European nations followed Britain in demanding treaties, and in all the treaties was now included a 'most favoured nation clause' whereby China agreed that any new concession made to any other nation would automatically extend to the nation with which the treaty was made.

When the Taku forts opened fire on a small Anglo-French naval force conveying the foreign diplomats who were on their way to Peking to exchange ratifications of the treaties, Britain and France declared war, occupied the capital and ordered the burning of Summer Palace near Peking. The French were clever enough to take away every movable thing from the palace before setting fire.

An outstanding instrument for indirect foreign political control was the Imperial Maritime Customs. During 1854 the Taiping insurgents occupied the city of Shanghai. So the British, Americans and French appointed their representatives to control and collect the Shanghai customs on behalf of the Manchu authorities. The foreigners thus enabled themselves to control the activities of the Manchu government by controlling their revenues and at the same time to lay down trade and tariff regulations favourable to themselves.

China's traditional economy had been threatened by the West from the end of the Opium War onwards, but it was not until the closing years of the nineteenth century that foreign penetration threatened it with complete collapse. Just before the outbreak of the Sino-Japanese War, Western Powers including America began to export capital to China and to establish banks there which issued their own notes. This development was as much to provide the machinery for financing foreign loans to China as for meeting the requirements of the expanding export trade and foreign capitalist enterprise. To secure the loans, the foreign lenders obtained further liens on the Imperial Maritime Customs and on the salt gabelle as well.

It was under these circumstances that the Boxer movement was born. The Boxer's revolt was ferocious against the Manchu dynasty as well as against the foreigners, but the foreigner's

counter-attacks were deadlier still. The Boxer's uprising was crushed by the foreign Powers mercilessly in August 1900 Mr. Purcell tells us that:

"In the wholesale looting, arson, and rape which ensued, all the foreign troops took part, though it is fair to add that the Japanese on the whole behaved with exemplary discipline and forbearance, and the Russians behaved the worst. The total foreign casualties during the Uprising amounted to a couple of hundreds; the number of Chinese killed to many thousands.

The peace imposed on China by the victorious allies was harsh and vindictive. An indemnity of 450 million taels (£. 67 million) was imposed on an impoverished people and the methods of payment decided upon by the Powers involved further extensive invasion of China's sovereignty. The princes and officials implicated in the rising were punished by death or some lesser penalty-except the Empress Dowager, who returned from Siam to Peking with her Court, and whom the Powers found it convenient to consider as victim of the rebellion now resuming her rightful position as head of the State.

The Boxer Uprising failed..... But they were the first body of Chinese patriots, the virtual founders of Chinese Nationalism, and after 1900, any notion of partitioning China was dropped by the Powers as quite impracticable'.

(CHINA BY V.PURCELL. PAGES-70-71).

17.4. DR SUN AND HIS KUOMINTANG.

Oppression of the people and their revolts against the alien Manchu monarchy and foreign intrigues prepared grounds for mature political thoughts and actions. Young Chinese studying abroad produced a number of leaders. One such leader was Sun Yat-sen. He was born into a small peasant family in a village near Canton in 1866 in the southern province of Kwangtung. One of his elder brothers went to Hawaii to trade and Sun Yat-sen, who was then twelve years old went with him to Honolulu. He went to an Anglican mission school, where he learnt English. Three and half year later he returned home.

In 1883 Sun Yat-sen went to Hong Kong for further studies. His Christian education in Hawaii had made a strong impression on him, and he was baptized as a Christian by an American missionary in Hong Kong. From 1887 to 1892 he studied medicine and surgery in Hong Kong and subsequently settled down as a doctor in Macao.

During these days a good many political parties and secret societies had cropped up in different parts of China and all were busy agitating people to rise in revolt against the Manchus, who had come from Manchuria to rule over China. All these revolutionary movements increasingly made their headquarters in the Japanese capital, Tokyo, which became an asylum for the various revolutionary leaders, when they had to flee from their native country. They were able to get to know one another in Tokyo and

discuss their mutual aims and plans in peace, supported by Japanese friends and under the benevolent protection of the Japanese government.

In 1905 three bigger societies formed themselves into an alliance in Tokyo, calling it the Chinese Revolutionary Alliance, which later grew into the 'National Party' or 'Kuomintang'. Members representing provinces, i.e. all excepting Kansu were present at its inception. Dr. Sun Yat-sen was elected leader. As a sign of their protest against the Manchu dynasty the revolutionaries cut off their pig-tails, as the Taiping revolutionaries had done; these pig-tails were forcibly introduced into China by the Manchus to discriminate the conquering Manchurians from the conquered Chinese.

The Empress Dowager died in 1908. Yuan Shih-kai was sent by the ruling family to negotiate with the revolutionaries in October, 1911. He began at first as an official of the imperial government and later on for his own ends. On 12th February 1912 the dynasty finally announced in a solemn edict that "Yuan Shih-kai has full powers to organize a provisional Republican Government" and with these words abdicated. Sun Yat-sen was in the United State when a revolution broke out. Immediately after his return to China on 29th December 1911 he was elected acting President of the Republic in Nanking by delegates from sixteen provinces, all of which belonged to the Revolutionary Alliance, or were closely associated with it. But all that they needed to run the government was to negotiate with the powerful war-lord Yuan. Therefore Sun Yat-sen and his provisional government stepped down on 13th February 1912, in favour of Yuan Shih-kai, who had also been named as its successor by the defeated dynasty. On 10th March Yuan administered the oath to the Republic; Peking remained the capital and as acting President Yuan became the most powerful man in China.

The Parliamentary elections, which took place at the beginning of 1913, gave the Revolutionary Party, now called the Kuomintang or the National Party a majority of seats. Yuan was a general whose power rested chiefly on his military strength. With the help of foreign loans Yuan was in a position to support a large army and bribe venal elements in the civil and military power structure. Opponents whom he could not win over, he sought to render innocuous by cunning and force. Sun Yat-sen and the members of the Kuomintang soon realized that their revolutionary cause had been betrayed by Yuan's dictatorial methods and so in the summer of 1913 they started a violent insurrection against Yuan and his clique. Yuan's well-trained and well equipped army quelled the rebellion and Sun Yat-sen with other leaders escaped abroad.

After this success Yuan subjected the parliament, which had been elected at the beginning of 1913, and was assembled in Peking, to increasing pressure of generosity coupled with threats to confine it under military guard, he persuaded it to 'elect' him

President on 6th October 1913. Recognition of the new state by foreign governments followed. Soon afterwards Yuan ordered the dissolution of the Kuomintang and the arrest of a large proportion of its members because of 'connections with the rebels'. Parliament, now reduced to less than half, lost its quorum, and was dissolved shortly afterwards. This was followed by the proclamation of a constitution which gave Yuan almost dictatorial powers; it was soon revised to confer the presidency on him for life, and even gave him the right to determine his successor. Thus he and his three successors ruled the country till 1927.

The 4th May 1919 became a memorable day in the history of China. The Western Allies in the First World War had compromised with the warlords and had brought China into the war on their side in 1917. In the light of point 5 of President Wilson's declaration before the end of the war, when he predicted a free impartial and absolutely unprejudiced settlements of all colonial questions, the Chinese hoped for a fair deal, particularly against the excesses of the Japanese, who had threatened them with their 'Twenty-One Demands'. But when the Chinese public got to know what had been decided in Paris, there was a great outcry and agitation, especially in the academic circles of Peking and Shanghai. The fourth anniversary of the delivery of the Japanese ultimatum to China was 7th May 1919. Three days previously, on 4th May, on the initiative of the University of Peking, several thousand students assembled for a mass demonstration in front of the Tien-an Men (Gate of Heavenly Peace) in Peking. They carried banners with slogans such as 'China belongs to the Chinese', 'Restore Chinese Rights in Shantung', 'Reject the Twenty-One Demands', 'Refuse to sign the Paris Peace Treaty', 'Punish all Traitors'.

The arrest of a number of students provoked students of other universities throughout China to hold similar demonstrations everywhere on 4th May, with appeals to boycott Japanese goods. Large sections of the trading population went on strike for a time in support of the boycott on Japanese goods. For the first time Chinese workers held public demonstrations on a large scale in Peking, Tientsin, Shanghai, Hankow and other cities, thus uniting themselves with the general national movement inspired by the students. Confronted by such a national movement, which continued to expand, the Peking government was finally compelled to give way, in spite of being friendly to Japan and quite averse to any active anti-Japanese policy. This is how the May 4th movement of 1919 ended.

However, it became a significant landmark in the history of Chinese struggle for emancipation from the yoke of warlords and European intrigues. Chou En-lai and others founded socialist groups in this memorable month of 1919. Dr. Sun Yat-sen and his Kuomintang continued their fight for liberation relentlessly till the youthful Mao Tse-tung also joined them. Dr. Sun Yat-sen died of cancer on 12th March" 1925.

17.5. THE YOUTH OF MAO TSE-TUNG.

Mao Tse-tung was born on 26 December 1893 in the village of Shaoshanchung near Hsiangtan in the province of Hunan. His father called Mao Shun-sheng, was a tall and strong peasant, but poor and heavily in debt. He joined the army to escape from his creditors. A year later he returned home to deal in pigs and rice. He managed to save some money and bought two and a half acres of land. With this modest beginning, aided by a strong character, thrift and astute management, he improved his fortunes. He married Wen Chi-mei from the neighbouring town of Hsiang-hsiang, who gave him three sons and a daughter, Mao Tse-tung being the eldest. The father did not reinvest his increased saving in land; he lent them to others on usury, till his monetary capital reached the impressive sum of 3,000 yuan or about £. 300.

Mao's mother was a woman of medium height with a square face, kind eyes and a kind heart., She had a deep-rooted faith in gods and was ready to help the less fortunate people. She was a hardy woman spending her day in cooking, weaving, mending and darning, washing and gathering firewood. In contrast to her love and kindness, the father was stern, despotic and high-handed. Mao Tse-tung felt a filial loyalty towards both, but he was more closely attached to his mother.

Young Mao began to work on his father's land at the age of five. Two years later he was sent to a tutor to learn how to read and write, so that he might be able to keep farm accounts and write letters. But in the mornings and evenings he continued to help in the fields. After a little learning he left his tutor to work full time on his father's farm. At the age of fourteen his parents married him to a girl four years his senior, but according to Mao himself, the marriage was never consummated, and so he repudiated it later on.

Mao went to a primary school in his mother's home town, at the age of seventeen and after studying there for a year he joined his middle school at Changsha in 1911. One of the first publications Mao read there was the 'People's strength; an organ of the Alliance Society of Dr.Sun Yat-Sen. In great excitement he wrote an essay and stuck it on the wall of his school. In this essay he proposed that the monarchy should not be preserved any longer, but that a Republic be established with Dr.Sun Yet-sen as the president. Soon after this the impending revolution broke out in Changsha on 22nd October 1911, which Mao also joined. He was a private soldier and remained so until 15th February, 1912.

After discharge from the army at the age of nineteen Mao moved into cheap lodgings in the hostel for Hsiang, (Hsiang students in Changsha), lived on 'bread and water', and spent his day in the Provincial Library. In his own words, "the library was to him as a vegetable garden to an ox". There he devoured the Chinese translations of the 'Wealth of Nations', 'On the origin of Species,

Huxley's 'Evolution and ethics', Mill's 'Logic', and other Western books, and Chinese newspapers.

Early in 1913 Mao was admitted into the First Teachers Training School which he attended diligently. He stayed there from the autumn of 1913 to the summer of 1918. He was elected one of thirty four model students by some 400 schoolmates in June 1917, for he excelled in ethical conduct, self control, literature, speech, ability and courage. Despite a quiet exterior his boldness was noticed by his masters and friends.

The most daring of his exploits occurred after the fall of Yuan Shih-kai, when the local forces worked to oust Tang Hsiang-ming. Tang went but Fu Liang-tso came. Some of Fu's northern troops were defeated and retreated northwards with the Kwangsi army chasing after them. The retreating units, not knowing the actual situation in Changsha, were wary of entering it while the city itself was a temporary vacuum. Scattered bands of Fu's troops wanted to take over the school building as their headquarters. The school had broken up and the building was then occupied by a handful of students who had nowhere else to go. Mao was one of these students who went to a nearby police station and obtained a few real and some dummy rifles there. Thus armed, they hid themselves on a hill and in the night rushed down shouting: "Fu Liang-tso has fled; Kwangsi troops have entered the city! Surrender, surrender!" The troops in the school surrendered.

It was not until the October Revolution in Russia that Marxism, in the interpretation and dogmatic form given to it by Lenin, suddenly began to attract attention in China. One of the first visible effects of Marxism was the 'Society for the Study of Marxism' set up by Li-Ta-chao in the spring of 1918 at the university of Peking, the centre of the May 4 movement. Li-ta-chao had also belonged to the Revolutionary alliance during his time as a student in Japan, like the majority of those associated with 'New Youth'; he was now a professor at Peking university and director of the university library. As such he was the immediate superior of Mao Tse-tung, who in the winter of 1918-19 worked in a subordinate position at the library and was a member of Society. Chinese Communist Party was founded on first July, 1921, and Mao Tse-tung was one of the twelve founder members. Mao married miss Yang Kai-hue, in the winter of 1921 and there were a boy and three girls of this marriage. In 1930 Yang Kai-hue, the boy and Mao's sister Tse-hund were all arrested by H.O. Chien, the then governor of Hunan. General H.O. insisted that Yang should renounce her marriage to Mao, but she refused and was consequently killed.

The Chinese Communist Party was guided and controlled by Russia, who considered a friendly China of great value to her, but in China the Kuomintang (KMT) was leading in local politics. Russia, therefore, took the momentous decision to form a united front between the KMT and the C.C.P. in 1923, when Dr. Sun Yat-sen was still alive and agreeable. Communists were directed to

retain their identity as such but to join the KMT in their individual capacity and take full part in their political activities, which they did. The alliance worked during Sun's life time.

Dr. Sun's successor was not a political theorist like him, but a soldier. Chiang Kai-shek's father is variously described as a farmer-proprietor and a trades man. Chiang was born in 1887, and received a military training in Japan. He returned from Japan in time to take part in the 1911 revolution and was henceforth closely associated with Dr. Sun Yat-sen. In 1923 he spent four months in Moscow studying Soviet methods. At the time of his leader's death, Chiang Kai-shak was the head of the Whampoa military academy near Canton.

Chiang had already committed himself to an anti-communist line when at the Second Kuomintang Congress held at Canton in 1926 he had been instrumental in securing the restriction of the Communist's role in their National Party. In his drive against the warlords, he marched to the north. The various provincial governors and generals and the Peking Government he played off against each other and defeated them. The Yangtze was reached in 1926 and the southern government was moved to Hankow. Shanghai, the key treaty port, was now under siege and Chiang made a deal with the Shanghai Chinese financiers and received large appropriations from them, to which was added the contribution of some foreign capitalists. Shanghai thereupon fell to him without bloodshed. On April 12th, 1927 Chiang ordered the liquidation of all the workers' pickets in Chapei, Woosung, Pootung and Nanshih, and any other communist or communist supporters who were within reach. The northern Expeditionary Army then proceeded on its march to the north, occupying Honan province in June, and Peking was taken by Yen Hsi-shan's troops in June 1928. Nanking was however chosen as the capital of the Nationalist Government.

One further event in Chiang Kai-shek's career calls for mention here because of its importance when we come to discuss Sino-American relations, and that is his conversion to Methodist Christianity after his marriage to Soong Mei-ling, who was already a Christian. This event was not officially announced until 1931. The external history of the Kuomintang after 1927 divides itself into the struggle with the Communists and the Japanese which struggle stretched itself for long.

17.6. MAO, WARLORDS AND CHIANG.

The goals of the three contesting forces in China were now quite clear. Kuomintang under Chiang Kai-shek was out to serve the cause of the gentry and the capitalist class; the warlords wanted to consolidate their respective powers in different provinces of their own; the Communist Party under Mao-Tse-tung wished to lead the entire country out of the vested interest of all, on to the road of democratic socialism. The first two parties had their forces and resources with them, but the Communists had nothing except the

suffering populace and their wishes for emancipation. It fell to the lot of Mao Tse-tung to discover how best he could make use of the available resources. To organize the suffering masses in small units of local peasant societies, to infuse them with uplifting speeches and literature, to discover potential talents for leadership in each unit and train them as champions of communist doctrine and field-work practice, was the first step Mao and his Party took to accomplish. They were particularly successful in Hunan and Kwangtung provinces.

There were three categories of peasants in China: the rich, the middle and the poor. Those who farmed less than one acre of land belonged to the class of poor peasants. Also in this category were the agricultural labourers who hired their services to the middle and large farmers. Mao addressed them with fiery speeches and gave them inspiring slogans to agitate the suffering masses for enlisting them in the socialist army. With financial help from Russia and with Russian advisors to organize and train this army in guerilla warfare tactics, Mao and his comrades commenced their activities against the local administrators of the warlords, to make themselves felt as a force to reckon with. Mao insisted that it was necessary to overthrow the whole authority of the gentry, to strike them to the ground and to keep them there.

Patiently working for years inspite of all difficulties, the Communists succeeded in raising their armies in almost all provinces of China and their activities began to scare the warlords and the Kuomintang, which increased military pressure upon the communists, who were forced to withdraw into the province of Kiangsi. It was here, in their mountain retreat that the communists created their first experimental Socialist State and applied their theories of land reform. Against them Chiang conducted a series of military campaigns until the pressure became so strong that in October 1934 the communists abandoned their Kiangsi base and undertook an adventurous journey en-masse through western China, via Kweichow, by various routes, skirting the outward edge of Tibet, and eventually in a year reaching Shensi, where inspite of repeated attacks by Chiang's forces, they founded a Socialist State with Yen-an as its capital. This was the famous 'Long March'.

Besides the Communists Chiang had to deal with the northern generals as well. The contest for power with them was however, conducted more by diplomacy and bribery than by force of arms. But Chiang proved himself a master of this intricate game, and being supported by both the financiers of Shanghai and the foreign governments he had now the wherewithal with which to conduct negotiations. By 1936 all opposition to Chiang from this quarter had ceased and he was ruling the greater part of China as a dictator.

Meanwhile Japan had concentrated on her Manchurian ambitions, only occasionally intervening in China south of the Great Wall. In 1931 she occupied Manchuria without much bloodshed

and then pressed on into Inner Mongolia and north China by an immense system of smuggling, currency manipulation, and propaganda. Then on 7th July 1937, Japan utilized the incident at the Marco Polo Bridge, south of Peking to extend her conquests to the south. She did not aim at the overall conquest of China, but at forcing Chiang's government to accept terms that would give her an effectual control over China's resources. Chiang and his government fled first to Hankow and then to Chungking. On 9th November Nanking fell, and soon by a series of landings, Japan conquered the whole coast of China and occupied key economic centres well into the interior. Puppet governments were set up in Peking, Canton and Nanking.

In the meantime Chiang was kidnapped by Marshal Chang Hsueh-liang in December 1936, and was held prisoner in Sian (Shensi). There he was visited by the communist leaders and forced to suspend operations against them and to co-operate with them against the Japanese. A truce between Nanking and the Communists ensued, and Chiang broke off the negotiations he was engaged in with the Japanese. But this ended the Japanese hopes of bringing Chiang to terms, he continued to regard the native communists as his major enemies.

The only real opposition to the Japanese came from the Communists operating from the areas they held in north China and Manchuria. In fighting the Japanese, moreover, they were perfecting their art of guerilla warfare in preparation for the post-war 'show-down' which both they and the Nationalists regarded as inevitable.

The Japanese surrender took place in August 1945; the civil war between the Kuomintang and the Communists ensued, though it remained 'undeclared' for a few more months. The communist leader, Mao Tse-tung flew to Chungking in September to negotiate with Chiang and an agreement was reached on 10th October for a Political Consultative Conference, but before the Conference could take place, Communist bases were attacked in many parts of China and National Government forces were landed from American transports with the object of wiping out all Communist bases in Manchuria and Hopei. Realizing that Communist successes in China would mean a death blow to capitalist aspirations in the Far East, President Truman had decided to give all out aid to Chiang's Nationalist Government.

The indiscriminate bombing by Chiang's American built aircraft drove the vast masses of the civilian population to the Communist side, and turned the civil war into a semi-foreign war. Whole divisions complete with their arms and equipment (all American supplied), went over to the Communists. Chiang fled to Formosa, and in September 1949 the People's Government of China was set up in Peking.

Communist victory in China was due to the spirit of self-sacrifice and discipline infused by their worthy leader, Mao Tse-tung

in his followers. It is worth noting that in the last phase of the struggle the Communist armies, without any foreign help worth mentioning, marched nearly two thousand miles on foot within the space of a year, from November 1948 to November 1949 in a unique triumphal march from Mukden in the north to Canton in the south and to Chengtu in central China. It was conducted in such an orderly manner that the population had no need to fear for their lives or their property; and women and girls had nothing to fear from the Communist soldiers, who molested none and paid for all that they needed to take.

17.7. INFANCY OF THE PEOPLE'S REPUBLIC.

A good many books have been written about China's struggle for freedom and her subsequent development on socialist pattern. Some of these books point out that the Chinese socialist pattern differed significantly from that of the Russians and say that this difference generated mutual mistrust between the two great socialist countries of the world.

Mao's first challenge as head of the Chinese People's Republic was the need to make things up with Stalin. This was an extremely awkward duty for him, since he had arrived in his pre-eminent position largely on the platform of not following the Russian model. But now, as the first Communist ruler of China, he had to go to Moscow to make his peace with the acknowledged head of the International Communist movement. After the victory of the Chinese Communists, Stalin 'suspected China of being another Yugoslavia'. Mao recalled thirteen years later, 'and that I would become a second Tito'. Mao went to Moscow on 16th December 1949 with some misgivings.

One of the first things Stalin put to Mao was, 'why did not you seize Shanghai?'. "Why should we have?." Mao replied. "If we had captured the city we would have had to take on the responsibility for feeding the six million inhabitants". This answer only strengthened Stalin's suspicions: rather than enter Shanghai and enlist the support of the proletariat there, Mao had worried lest the job of providing food for the city would detract from his struggle against Chiang in the rest of the country.

"What kind of a man is Mao anyway?". Stalin said to his colleagues when recounting this conversation afterwards. "He calls himself a Marxist, but he does not understand the most elementary Marxist truths. Or may be he doesn't want to understand them".

Stalin aggravated Mao's fears by asking for concessions in China very similar to those which China had been forced to give to Westerners in the past. He proposed a joint stock company, for example, for exploiting natural resources in Sinkiang, and he also asked Mao for territory to set up a rubber plantation: both ideas being highly reminiscent of capitalist European imperialism in bad old days.

After a fruitless month in the bitter winter cold of the Russian

capital. Mao summoned Chou En-lai from Peking to salvage the negotiations. The myth that the two supremos could settle their problems face to face was shattered. In March 1953 Stalin died and Khrushchev took over. He visited China in 1954. Further misunderstanding was caused because Khrushchev wanted a million Chinese workers to be sent to Siberia to help the USSR exploit its vast timber resources there. Mao's response was typical. "You know, Comrade Khrushchev, for years it has been a widely held view that because China is an underdeveloped and over-populated country, with widespread unemployment, it represents a good source of cheap labour. But, you know, we Chinese find this attitude very offensive."

There could hardly be a better example of mutual misunderstanding and mistrust between Marxist-Leninist Comrades. After his return from Russia, Mao went on a tour of the urban industrialist area of the north-east, in February and March 1950. He visited factories and enterprises in such cities as Harbin, Changchun and Shenyang. The local officials tried to make him comfortable and provided good food, but Mao discouraged any special arrangements. Seeing a spring-bed in his room in one city he told his bodyguard: 'We are not used to such a bed. You had better use our own'. The spring bed was taken away and Mao's simple bedding was laid out on a wooden board.

The problem of land reform in the south was particularly difficult. The redistribution of land would upset the national bourgeoisie with whom the Party was trying to collaborate. Mao, therefore, urged that the rich peasants in south China should not be touched for the time being in spite of the Communist victory. He advised the intellectuals to study materialism in order to shed their idealism. He advised them to let people say that man was created by God, we say man evolved from the ape'.

The Korean war interrupted Mao's plans for developing the Chinese economy and introducing socialism. It also provided an incentive for Kuomintang, still alive and kicking in Taiwan, to redouble with full-scale American support, its effort to sabotage and subvert the main land which it had so recently vacated. In 1951 much of Mao's time and energy were spent in directing campaigns against counter-revolutionaries and other delinquents and miscreants. The so called Three-Antis (against corruption, waste and bureaucracy), followed by the Five-Antis (against bribery, tax evasion, fraud, theft of government property and theft of state economic secrets), together with a campaign for thought reform among recalcitrant intellectuals, were all inaugurated during this period.

By 1953 land reform was complete and China's peasants were being introduced to the virtues of cooperative agriculture as a first step towards collectivization. Simultaneously people were told to be frugal and avoid wasteful expenditure. Mao ordained: 'The first is a ban on birthday celebrations. Birth day celebrations do not

beget longevity. the second is a ban on gifts, at least in the Party. The third is to keep toasts to minimum. The fourth is to keep applause to a minimum. There should be no ban and no pouring of cold water on the masses who applaud out of enthusiasm. The fifth is a ban on naming places after persons. The sixth is a ban on placing Chinese comrades on a par with Marx, Engels, Lenin or Stalin. Our relationship is one of pupils to teachers and that is how it should be. Observance of these regulations is true modesty. In 1954 a new Constitution was drafted for the People's Republic of China.

At Shanghai Mao cracked a joke reflecting upon the hypocritical enthusiasm displayed for socialism by the capitalist community of that city. Dick Wilson narrates it as under:

"As the Shanghai capitalists competed with each other to profess enthusiasm for their socialist transformation, a story went round their dinner tables illustrating the different approaches of Mao and his two senior colleagues, Liu Shao-chi and Chou En-lai. Mao, this tale went, once asked Liu and Chou how they would make a cat eat pepper.

'That's easy', Liu replied,.....'You get somebody to hold down the cat, stuff the pepper into its mouth, and push it down with a chopstick'.

'No no!' Mao raised his hands in horror. 'Never use force, that is undemocratic. Everything must be voluntary'. 'How would you do it?' he asked, turning towards Chou.

'I would starve the cat', replied the Premier.... 'Then I would wrap the pepper in a slice of meat. If the cat is hungry enough it will swallow it whole'.

But Mao still shook his head. 'One must not use deceit either' he declared. 'Never fool the people'. The other two looked questioningly at him. What would he do? 'It's so easy', Mao replied. 'Rub the pepper thoroughly into the cat's arse. When it begins to burn, the cat will lick it off-and be happy that it is permitted to do so'.

(MAO BY DICK WILSON. PAGES 295-296).

Before recording further social reforms and developments a look at the family life of Mao Tse-tung would not be amiss.

17.8. FAMILY LIFE OF MAO TSE-TUNG.

Mao fell in love with Yang Kai-hue in 1920. She was the daughter of his ethics teacher Yang Chang-chi at Peking. Mao married Yang Kai-hue in the winter of 1921. She bore him some children. As Mao was busy fighting with the Kuomintang forces, he considered it safer to keep his wife and children in Changsha. But the Kuomintang troops arrested his wife and their son Mao An-Yang and Mao's sister in 1930, and executed Mao's wife in public on 24th October 1930. Dick Wilson tells us that:

"During 1928 Mao began to live with HO Tzu-chen, a small delicate woman with a pretty face and a shy, modest manner, who was barely half his age; eighteen to his thirty-five. A landlord's daughter, she had studied at the Hunan Normal School, became

a teacher and joined the Communist Party in 1927. She had led a regiment of women in the Nanchang Uprising, and was in all these respects a natural partner for Mao in his exile.

The only criticism made of her was that because of her family's high living standard, she never got used to manual work and was unwilling to undertake the chores of domestic life. On the other hand she was regarded by the other Communist women as a 'domestic' type who preferred to look after Mao personally rather than delegate the job to others.....

Mao admitted in discussions with comrades that the sight of a pretty girl would arouse his voluptuous feelings.....

Sometimes after Yang's execution, Mao legitimated his union with HO Tzu-chen by marrying her.

(MAO BY DICK WILSON. PAGES 129-130 AND 145).

It was in the summer of 1937 at Lochuan that Mao first met a woman who was to influence his family life. A group of young people from artistic circles in Shanghai arrived on their way to Yen-an to meet the Communists. Among them was the twenty three years old film actress who became known as Chiang Ching, but was then known by her film name Lan Ping, i.e. the Blue Apple.

Chiang Ching was born in 1914 in Shantung as the youngest daughter of a poor wheel-maker. She was selected as one of the few token girls from working class families for admission to gentry school 'for show'. When her family moved to Tsinan, Chiang Ching joined the city's Experimental Art Theatre, where she studied drama and music. She was so keen on acting that she joined a touring theatrical group which went to Peking. She was sixteen at that time. She read books including her first Marxist book: Lenin's 'State and Revolution'. In 1933 she joined the Communist Party and got her Party card. In 1935 she played the role of Nora in 'A Doll's House' and in 1936 she entered the cinema world as a film star. Dick Wilson tells us that:

"When Mao told his friends that he intended to divorce Ho in order to marry Chiang Ching, the Party was scandalized. The Central Committee withheld its approval, observing:

'Ho Tzu-chen has always been a good comrade to you, she is a reliable and faithful companion and has shown her true worth in battle and in work. Why are you no longer able to live together with a woman like this?'

To which Mao replied: 'I esteem and respect Comrade HO, but, really, we should not think along feudalistic lines any more, where divorce is considered an injury to a woman's reputation or position'. He allegedly added that 'without Blue Apple I cannot go on with the revolution'.....

After about a year of pressure, enhanced, according to malicious gossip, by Chiang Ching's becoming pregnant by him, Mao persuaded by special 'court' of the Central Committee, which had been set-up under Chen Yun, to give him his freedom., The final arrangements were made with characteristic tact. Ho Tzu-chen was sent with her young daughter 'for medical treatment' to Russia, while Lily Wu was despatched home to Szechuan. Chiang

Ching joined Mao's household in 1938, first as his secretary and then as his wife. Probably Kang Sheng, an old Party colleague of Mao who had been born in the same district as Chiang Ching, helped to arrange both the job and the marriage.....

It was later to be claimed that Mao's colleagues made it a condition of the divorce and remarriage that Chiang Ching should play no part in public or Party life. Chiang herself later denied this but, if there were such a condition, it was certainly observed for at least twenty five years, until the Cultural Revolution".

(MAO BY DICK WILSON PAGES 196-197).

17.9. SOCIALIST REFORMS AND DEVELOPMENT.

The study of Marxism was made compulsory at all levels in the schools and universities. Manuals and editions of classical Marxist texts were widely used in the re-education campaigns for intellectuals. As a result most of the new positions that had been created in all areas of society were given to intellectuals who had an advantage because of their academic background and their superiority in oral and written expression. However, the spread of Marxism did not prevent an emphasis on the richness and originality of the Chinese cultural heritage. The traditional opera was encouraged everywhere, to the great pleasure of Chinese as well as foreign audiences.

The marriage law (1950) was one of the most radical measures of the reconstruction period. The institution of marriage was now based on equality and free mutual consent which improved the position of women in society and encouraged them to take part in productive work on equal footing with men. The law also defended the children, making killing or selling girls illegal. The immediate result of the marriage law was a wave of divorces in case of forced marriages which were supported by the women's organizations.

The rehabilitation of women also included the abolishing of prostitution. In big ports such as Shanghai and old urban centres like Peking the pimps were arrested and the bordellos were closed; the prostitutes were given medical care and emotional support and were re-educated politically. At first grouped together in special units of production they gradually re-entered society.

Opium addiction was attacked on a nationwide scale. The peddlers of opium and other drugs were hunted down; the re-education and cure of opium addicts was organized; games of chance and public gambling were outlawed. The picturesque headquarters of these illegal business were closed including the Dashigie ('High Society') of Shanghai, the Tianqiao ('Heaven's Bridge') of Peking, and the floating city of unused sampans in Canton, anchored in the River of Pearls and used by gangsters as a hide out. These gangsters were severely punished, often after popular trials.

In economic field the first Five Year Plan (1953-57) achieved some progress and disclosed where mistakes had been made. The

plan aimed at doubling industrial production and diversification of products; emphasis was laid on technical specialization, institutional structure and the quantitative aspect of culture and education. In education the plan aimed at quantitative growth, discipline and increasing the number of graduates. In industrial production the plan aimed at accelerating the pace, lengthening the work day, extending the piece work salary and profit bonuses and lightening discipline. In 1957 China manufactured electrical, mining and railroad equipment, special alloys, pharmaceutical products, watches and pens for the first time. Agricultural prices were fixed centrally and were kept low with a view to feed factory workers cheaply. Mao and his comrades solved their agricultural problems by accelerating the cooperative movement in 1955.

On the side of cultural development all intellectuals were allowed to express themselves freely and with confidence. This was the meaning of the slogan 'Let a hundred flowers blossom, let a hundred schools of thought contend'. This slogan was publicly launched in May 1956 with Mao's personal support.

The difficulties of the first Five years Plan affirmed the need for a radical change in outlook. It was necessary, said Mao to engage all the people's energies in combating backwardness and attacking its roots in the countryside. It was necessary to depend on each man, on his capabilities when equipped with just political principles. The Great Leap Forward was thus an economic answer to the crushing preponderance of agriculture and the small amount of accumulated capital. But it was more than a fresh case of planning. It was a fundamental and original political choice: though the struggle against complacency, superstition, prejudice and bureaucracy it would reshape the land of China and remake Chinese man. The radical change in direction of the Great Leap Forward had been defined by the Central Committee at the end of 1957.

China had little capital, But it possessed an abundance of that "most precious of all goods", a people that was active, free of prejudice, animated by a just political orientation, and therefore capable of accomplishing in two or three years of exceptionally hard work "a general transformation towards better conditions in almost all regions of the country", and a qualitative and quantitative leap that would allow China to overtake the most advanced countries in Western Europe". "Overtake Great Britain in fifteen years", was one slogan. "Make steel production jump to ten or twenty times that of Belgium", said a text that appeared in 1958. It was believed that all this would be possible if the economic organization was decentralized and if the burden of planning was eased.

The people's communes, which had been few and isolated, spread throughout China in 1958, and the privately owned plot of land no longer existed. Work was organized on the basis of teams which were in turn grouped into production brigades. Payment was made within the team and was a function of the work done; the

brigade was the basic accounting echelon. A maximum of 30 percent of the women folk had to take part in production work, and the rest had to get themselves engaged in certain services: child care, the mending of clothes, communal meals, the upkeep and improvement of the dwellings, etc.

Haste makes waste is an old adage. Mao and his supporters were anxious to see China socialized and developed overnight. Planning and execution exhibited lapses here and there. The Great Leap Forward did not succeed as desired and this created bickering within the Party after heated debates; and a section of the Communist Party formed an opposition block against Mao Tse-tung and his supporters.

From the inception of the Peoples Republic of China, Mao Tse-tung had been shouldering the responsibilities of the President of the State besides being the Chairman of the Chinese Communist Party. He felt the strain of too much work and in December 1958 he resigned from the post of the President of Peoples Republic. In April 1959 the National Peoples Congress elected comrade Liu Shao-chi as President of the Republic, and Chairman Mao was relieved to devote himself exclusively to the work of the C.C.P.

Ideological differences between the two brands of Socialism Chinese and Russian reached an unprecedented height between 1963 and 1964. China published the 'Nine Articles' accusing the Communist Party of the Soviet Union of having betrayed the principles of the October Revolution and of restoring capitalism etc. At the end of the ninth article "On Khrushchev's Phony Communism and Its Historical Lessons for the World". Mao Tse-tung presented fifteen points that explicitly related the current Sino-Soviet conflict to China's current political needs: drawing attention to the bond between intellectual and manual workers, to the participation of the cadres in production work, to democracy in the army and the take over of public security duties by the people etc; conditions that would prepare the country for taking part in the Cultural Revolution that was soon to come.

The Cultural Revolution was an expression of the tensions and conflicts surrounding the fundamental choice of a type of society. It was an attempt to shake up the bureaucracy through mass participation. Formally the Cultural Revolution began in the summer of 1965 with a controversy over a play 'Hai Jui Dismissed From Office', which had as its hero a sixteenth century civil servant who criticized the Emperor himself. The Cultural Revolution proper began in August 1966 in the universities with a mass campaign to eliminate what were seen as the 'rightists, to re-emphasize the importance of Mao's thought, to lessen specialization, and substantially to restrict the role of examinations. The work teams sent out by the Party apparatus to direct these campaigns ran into difficulties from staff on the one side and the students on the other. A good deal of chaos ensued.

The Red Guard movement was launched in the context of a

struggle at the top of the Party, but gradually acquired its own momentum. The Red Guards were students whose lack of experience of pre-Communist misery made them readier to criticize present policies and whose absence from the universities would not be immediately damaging to the economy. They organized huge demonstrations in Peking, they went on long journeys in teams to help in production and participate in the autumn harvest; and wherever they went they emphasized the importance of the masses who had to make themselves felt, freedom to criticize, opposition to all conservatives and the right to rebel. The one guideline to all this ferment was loyalty to the Party and to Mao Tse-tung's thought.

The chief target of criticism was Liu Shao-chi, who was accused of having too monolithic a view of the Party, of not being sufficiently opposed to the Soviet Union, and of putting too much emphasis on 'expertness' and in general encouraging the profit motive and material incentives. Liu, referred to as China's Khrushchev, was pictured as the embodiment of all that Cultural Revolution was opposed to, and the polar opposite to Mao Te-tung's thought.

Some of the Red Guard movement was spontaneous but most could not have been effected without the party's help in arranging free transport, providing board and lodging and so on. However, when the Red Guards attacked the offices of the Party officials and tried to involve the workers in their demands, the movement took a serious turn. The decisive turning point occurred in the industrial centre of Shanghai. Here the decisions of December 1966 to extend the Cultural Revolution to the workers led to widespread unrest. A wave of strikes and agitation for higher wages and better working conditions had broken out by the end of 1966. There had been talk of the Paris Commune as the model to be followed and in early February 1967 a Shanghai Peoples Commune was established. However, when its leaders journeyed to Peking they found Mao unapproving.

The effect of the Maoists in the struggle against the Party apparatus was the establishment of Revolutionary Committees from the Provincial level downwards. They were composed of representatives of the masses, of the Peoples Liberation Army and of 'good' cadres. Their task was to channel the upsurge of popular feelings into political ends and to curb the merely 'economist' demands of the workers. The formation of these committees throughout 1967 and 1968 was closely supervised by the Party's Central Committee and by the PLA which acted as a moderating force against the students and mass movements, which were out of key with the PLA's sense of discipline and order. At the height of the crisis in December 1967 the Central Committee decided that all past directives concerning the army's non-involvement should be annulled, and that when the proletarian revolutionaries are still unable to control the situation and the protection of the Peoples Liberation Army is called for, the armed forces should at once

enforce military control. It is significant that the proportion of military members on the Provincial Party Committees increased during the subsequent two years to more than fifty per cent. Finally in the summer of 1968, the Red Guards were disbanded and large numbers of students and intellectuals were dispersed through the countryside.

With the Cultural Revolution proper at an end, the Ninth Congress in 1969 re-established Party control. The new constitution increased the period between Congresses to five years and thus placed more power in the hands of the Politburo. The swift fall of Mao's officially designated successor Lin Piao in 1971 and the campaign against the Gang of Four in 1976 marked the re-emergence of many of the elements previously disgraced in the Cultural Revolution.

In August 1970 Lin Piao and Chen Pota attempted a political take over, apparently in the belief that Mao had become an impossible leader and that Lin's control over the armed forces would persuade other politicians to go along with their own radical policies. The idea was to install Lin Piao as Head of State and make Chen Pota his prime minister. But the information about Lin's going behind his back and to become Head of State during his life-time made Mao so angry that Chou En-lai and the generals who detested Lin Piao were able to persuade Mao to abandon these two disciples. The Central Committee inserted in the new draft Constitution of China Mao's nomination for life as 'Head of State of the proletarian dictatorship in our Country and Commander-in-Chief of the whole country and the Armed Force'.

Mao criticized Chen Po-ta's attitude as 'idealistic a priori-ism' and Chen was never seen again in public. Three years later, the Tenth Party Congress formally expelled Chen Po-ta and condemned him as a 'principal member of the Lin Piao anti-Party clique, anti-Communist Kuomintang element, Trotskyite renegade, enemy agent and revisionist'.

At the beginning of 1971 Mao countered Lin Piao by dismissing the military leadership in North China itself, relieving the 38th Army of its commanders sympathetic to Lin and moving it out of the capital, thus removing the corner-stone of his former lieutenant's power. Lin Piao, with his wife (Yeh Chun, herself holding general's rank) and son planned from Shanghai and other central China cities a desperate last coup d'etat against Mao. The son as deputy director of operations of the Air Force, had key contacts with the air force. On 18 March the younger Lin said to two senior air force Officers: 'We have to work out a plan for a coup, but attention should be paid to security'. Two days later a third high ranking air force officer arrived in Shanghai to join the discussion. Finally, between 22 and 24 March the famous '571 Engineering' plan was concocted. The sounds of the Chinese words for five, seven and one wu,chi, and it, can also mean 'armed uprising'.

Lin's men allegedly planned to bomb Mao's train on his way from Hangchow to Shanghai. But Lin's daughter Tou-tou, overcome by conscience, rushed to tell Chou En-lai about the plot just in time to warn Mao, whose life was thus saved. When Mao did return to Peking unharmed on 12 September, Lin fled, taking an air force Trident jet from Peitaiho and flying it northwards, presumably to Russia. But the plane crashed over the People's Republic of Mongolia at about 2.30 in the morning during the night of September 12-13, 1971. All nine passengers were reported killed, and thus the rebellion was over.

In August 1973 Mao chaired his last Party Congress, the Tenth. Organized by Chou En-lai, it issued a communique condemning Lin Piao as a 'bourgeois careerist, conspirator, counter-revolutionary, double dealer, renegade and traitor'. Chou, however was already ill with incurable cancer, so Mao's new succession problem was intractable. The government over which Mao loosely presided now consisted of an alliance of convenience between two almost equally balanced groups, the realists under Chou En-lai and the radicals under the so-called Gang of Four, -Chiang Ching, Chang Chun-chiao, Yao Wen-Yuan, and Wang Hung-wen, (the textile worker who had risen to the leadership of the younger generation during the Cultural Revolution in Shanghai, and was then suddenly promoted to be Vice Chairman of the Party).

The radical's chances of ensuring their succession to Mao were greatly enhanced in April when Chou En-lai went into hospital with cancer. Without his firm hand at the helm, it was easier for the radicals, who had better access to Mao, to get things done their way. A few weeks later Chiang Ching began to receive foreign dignitaries. She began to build herself up a political power in her own right. In July she was hailed as an 'Expounder of Mao Tse-tung's Thought', an honour accorded till then only to Chou En-lai and Lin Piao.

At the beginning of 1976 Chou En-lai died. Mao paid several visits to the death-bed of the comrade he had come to trust and who had proved more loyal and steadfast than any of the others. The expected bridging function which Chou would have played in the succession question, had he outlived Mao, was now impossible. The radicals, led by Chiang Ching, hoped to be able to take-over cleanly.

To the general surprise, Mao appointed Huaguo-feng to be acting Premier of the State Council in place of Chou. But on 5 April the so-called Ching Ming riots broke out in Tienanmen Square, where, supporters of Chou En-lai attempting to pay respects to his memory, were harassed by rowdies of the radical faction. Hua controlled the situation with a firm hand. Hua was appointed as the Senior Vice Chairman of the Party and confirmed as Premier.

To this day Mao's true feelings about his wife remain a mystery. His condition worsened. He sent for her in the beginning of September to stay with him. She rubbed his back, exercised his

limbs and sprinkled talcum powder on his body to comfort him. The old man was now on his last journey, and at ten past midnight on 9th September 1976 he died.

At the State funeral in Peking, Mao's body was encased in a crystal sarcophagus. His widow, in a black dress and black headscarf, presented a wreath of sunflowers, green corn, ears of wheat, maize and the fruit of yellow corn inscribed, 'From Your student and comrade-in-arms.....' China was stunned by the loss of the man who guided the destiny of a quarter human race for more than a quarter century. The citizens of the largest nation on earth stumbled past his coffin with their eyes full of tears and their minds full of grief and uncertainty about the future.

17.10. CHINA AFTER MAO TSE-TUNG.

Soon after Mao's death, Hua Guo-feng managed to become Head of the State and Military Affairs as well as the Chairman of the C.C.P. On 12 October 1976 BBC announced that the 'Gang of Four' i.e. Chiang Ching, Wang Hong-wen, Zhang Chun-qiao and Yao Wen-Yuan had been arrested. Details of their arrest have recently been published by an American journalist, Roger Garside in his book titled 'China After Mao's'. According to him Hua Guo-feng issued a call for an emergency meeting of members of Politburo on 6 October in the evening.

"On the evening of 6 October Wang Hong-wen arrived at the Huai ren Hall meeting place on time. He entered the conference room in high spirit, walked round a screen inside the door and was surprised to find the room empty. As he turned to leave several security guards appeared from behind the screen and shouted "Hands up"! Wang attempted to resist but received a powerful kick on the shin and a heavy punch on the chin that sent him to the floor. The guards twisted his hands behind his back and handcuffed him. About the same time, Zhang's car pulled up outside Huai ren Hall. As Zhang hurried into the Conference room a guard shouted, "Don't move!". Shocked Zhang held up his hands to let the guards take him under arrest. The operation to round up Wang and Zhang had been completed in less than two minutes. Ye Jian Ying had personally directed it. He and Hua Guo-feng had watched on closed-circuit television from another room in the hall.

Meanwhile, two operational squads from the 8341 unit were carrying out the arrest of Jiang Qing (Chiang Ching) and Yao Wen-Yuan at their homes. To avoid any misunderstandings and disagreements between the operational squads and the security guards of the two residences, Officers senior to the security guard commanders accompanied the squads making the arrests. According to one account, Yao was amazed at being arrested and, for the first time in years, the master propagandist found himself at a loss for words. Jiang Qing would change her sleeping place from night to night, but it was the duty of the 8341 unit to know where she was at the times. On 6 October she was staying at her residence near the Temple of the White Pagoda in the Western part of Peking. When the operational squad arrived, her security guards led them to arrest her. She was dressed in pajamas and reading

on a sofa in her bedroom; the door was unlocked. As she heard some one open the door of her bedroom and enter, she called out "Who is it?" without looking up from her reading. The commander of the operational squad announced, "On the orders of the First Vice Chairman of the C.C.P Central Committee and Premier of the State Council, Comrade Hua Guofeng, we are here to arrest you and put you under examination in isolation".

Jiang Qing jumped from the sofa and shouted "Guardst". When she realized no one was coming to her rescue, she collapsed on the floor, rolling around and wailing, "You people have started bullying me even before the Chairman's corpse is cold!".

Hearing the commotion, her female attendants came into the room. Reportedly they were delighted to discover what was going on and spat on her, saying "You stinking bitch! Now you have had it!".

In a separate incident, Mao's nephew Mao Yuanxin, who had acted as his secretary for the last months of his life, tried to escape from Peking to northeast China, where he was influential. He was caught as he tried to board an aircraft. He shot and wounded several of the security guards who tried to arrest him, but they returned the fire and he was wounded and arrested.

That night and the next day thirty close followers of the Four were arrested including some members of the Liang Xiao writing group, whose last article, ironically, appeared after the arrest of the Four. Others arrested included the Minister of Culture, who had attempted to flee the country.

The embassy of a country friendly to China had been surprised to receive a sudden proposal from him to visit their country, together with a request for the immediate issue of a visa for him and his party. Four of his vice ministers were arrested with him. The ministers of sports, metallurgy and public health all disappeared after the Four were arrested. On 7 and 8 October Hua summoned the most important members of the Central Committee to inform them of the action, but the plan for dealing with potential opposition in Shanghai and elsewhere, called for keeping the arrests a secret from the public for the next few days.....

The next day, 15 October, posters appeared all over the town (of Shanghai) attacking the Gang of Four, calling for them to be severely punished and for their local agents to be rooted out. That day hundreds of thousands of jubilant Shanghainese poured onto the streets. In the city they had hoped would rise in their defense, the Four were hung in effigy".

(CHINA AFTER MAO by ROGER GARSIDE. PAGES 141-143 AND 151. PUBLISHED IN MAY 1982).

With the Gang of Four imprisoned without trial and their supporters ruthlessly suppressed, a new wave of public demand for democracy and human rights developed. An old veteran Dang Xiao-ping, who once held power in the Party, came forward to curb the dictatorial tendencies of Hua Guo-feng. Dang's followers raised the banner of democracy and encouraged people to put up posters on the Democracy Wall in Peking expressing their grievances against the bureaucracy. This radical upsurge gathered momen-

tum and Hua had to give in. One of Dang's objective was to condemn the practice of presenting Mao as an infallible demigod. Hua renounced the status of supreme leader, and the Party Central Committee constituted a collective leadership, with Hua, Dang and others in the Politburo exercising power collectively, suppressing thereby the revival of the personality cult. Mr. Garside writes:-

"As the 1980s began China's leaders addressed themselves to a cluster of issues in which past, present and future mingled in a volatile mixture.

The Cultural Revolution had left some charges of dynamite in the basement of the Chinese house of politics. What was to be done about its most prominent victim, the former Head of State Liu Shao-chi? What was to be done about the man who had "personally launched and personally led" it, Mao Zedong? Any change in the official evaluation of the two dead giants of the revolution would affect the fate of tens of thousands of office-holders still alive. Should the Politburo bring the Gang of Four to trial? To do so would raise the thorny issue of their relationship with Mao and might evoke unfortunate (and unfair) comparisons with the Stalinist show trials in Moscow in the 1930s. On the other hand, if they were not brought to trial the matter would hang in space, unresolved.

In dealing with these packs of dynamites, the leadership based its actions on the judgement that the fuses were long and the explosives could be removed with due deliberation".

*(CHINA AFTER MAO BY ROGER GARSIDE.
PAGES-388-389)*

In spite of all the political ups and downs, increase in agricultural and industrial production was amazing. Medical care through 'barefoot doctors' was admirable. Medicine was free for a nominal yearly charge of one or two Yuan per person. Increase in industrial production was achieved through new relations established in the factories. Triple Alliance of workers, cadres and technicians helped in devising new projects, machines and products, and in improving the quality and quantity of production. The growing awareness of the fact that the Chinese were just as capable as the advanced industrial countries, led to increased naval construction, civil engineering projects, irrigation and transportation, including an airline network between all the provinces. Now China manufactures computers, data processing machines, television sets and automation etc:

How do people live in China? A French author, in his book on China tells us that:

"Because of material conditions in China, life is frugal but contains few crises or uncertainties. Everyone can be assured the same stability, including the stability of the Yuan (about fifty cents in 1975), and prices are lowered more often than raised (they are lowered when the product reaches the stage of being mass produced and is therefore less expensive to produce). The typical family budget is very small: 10 to 50 Yuans per month for the peasants, and 30 to 120 for the workers. A meal in the communal

dining room costs 2 Yuans, a blue cotton jacket 7 yuans, and in the city rent is always calculated at 5 per cent of the family income. yet quite a few people own watches, bicycles, and transistor radios, which cost from one month's to several months salary. Also the family budget is not the only indication of how well off the people are, since there are many public services: for example, any working woman is freely allowed to take her young children to the factory for the day; there they will be looked after for her. Disparities in living standard are also limited by the authorities: for example, neither cars nor motor cycles are available as private consumer goods.

Yet there is a fairly wide range of salaries. Not only between city and country, but also within urban society. The employees of the tertiary sector and the lower cadres hardly earn more than the most humble workers, 30 to 40 yuan. But factory technicians earn as much as 200 to 240 yuan, and there are some very highly paid people (300 to 400 yuan) who are either left overs from the past, for example, former national capitalists or old university teachers whose original salaries had been guaranteed for life, or part of the privileged hierarchy, like certain high cadres in economy.

In this society, the community certainly comes before the individual. Television, for example, exists all over, but is collectively owned. Each individual has very little space for himself physically, politically and culturally especially in the cities. A person's destiny is not defined in terms of himself or his family, his region or his corporation. The potential economic progress of a particular individual or a particular social group is in some sense absorbed by the delays and inequalities of the country and the people as a whole. To live in China is to live in solidarity with all of China. Chinese society is highly politicized, highly political in the true sense of the word. Its dynamics emphasized the common destiny over the destiny of the individual".

(CHINA, THE PEOPLES REPUBLIC, 1949-1976 BY JEAN CHESNEAUX. ENGLISH TRANSACTION. PAGES=234-235).

Reuter news agency reported from Peking on 18th June 1983 that the veteran economic planner Li Xiannian, 74, was elected that day as China's first President since the 1960s. National People's Congress spokesman Zeng Tao said. Zeng also said that Ulanhu, a Mongolian member of the Politburo had been voted to be Vice-President. The widow of the late Chou En-lai was elected as Chairman of the National Committee of the Sixth Chinese People's Political Consultative Conference. The meeting also elected 22 Vice-Chairmen and 226 members of the standing committee of the Conference. Madame Chou took over the Chairmanship of the National Committee from Mr. Deng, who is expected to be given the Chairmanship of the State Central Military Commission. Diplomats say that Deng has revived the post of President as part of his policy of re-instating institutional rule. A few days later Mr. Zhao Ziyang was appointed as the Premier of the State.

17.11. THE PROLONGED ERA OF DENG XIAOPING.

Mao appointed Hua Guo-feng to be acting Premier in place of deceased Chou Enlai, and made him the Senior Vice Chairman of the Party as well. Mao confirmed Hua as Premier before his own death on 9th September 1976. Hua Guofeng managed to become Head of the State soon after and took over the Military Affairs as well as the Chairmanship of the Communist Party. Hua started abusing his powers gradually and began to act as a dictator, which evoked murmurs of disgust against him. In due course Deng Xiaoping, who was an old veteran and held some power in the Party, came forward with his followers to curb Hua. He raised banner of democracy and forced Hua to renounce the status of supreme leader. The Party Central Committee constituted a collective leadership with Hua, Deng and some others in the Politburo for exercising power collectively.

Deng Xiaoping was born in 1905. He was a boy of 12 years when Lenin laid the foundations of Soviet Russia, but when Lenin died in 1924 Deng was a young man of 19 years. He joined Mao's Party as a worker in one of the provinces and gradually started pushing ahead in ranks. Very little is known about his life and activities during the period of the Long March and Mao's confrontations with Chiang Kai-shek and the War Lords of China. However a recent news item appearing in the Lahore daily, THE NATION, dated 17th April 1987, throws some light on Deng. It is reproduced below:-

"BEIJING, April 16: Chinese leader Deng Xiaoping reminisced publicly on Sunday (12th April 1987) about his personal fall from grace during the Cultural Revolution, just three months after deciding to shunt aside his own protege, Hu Yaobang.

Mr. Deng, 82, fell out of favour with Chairman Mao Tse-tung during the 1966-1976 Cultural Revolution and later with the widow of the 'Great Helmsman; Jiang Qing, during the decades of political turmoil in China.

"In 1975, it was not too long before I was in command again", Mr. Deng told the visiting President of Gambia, Dawda Khairaba Jowara, who last visited China that year. "At that time I was at the helm for one year".

"Premier Chou En-lai was critically ill and Chairman Mao Tsetung helped me to come back from (southern) Jianxi province to Beijing to take over Chou's job," he said in the presence of foreign reporters. "In those days, the situation wasn't too good because the Cultural Revolution was not yet over," he said. "At that time I was rather ambitious and wanted to consolidate things in various fields".

"And I think the efforts I made to rectify and consolidate things had somewhat yielded their results and work in different fields had improved. "It is because of that reason what I did irritated the "Gang of Four" and again at the end of 1975 I was swept away from my position," Mr. Deng said.

"It was not long after the downfall of the Gang of Four that I came

to power again," he added. But it took another two years to "march orderly," he said in a reference to the progressive elimination of nostalgia for Mao, the phasing out of Mao's hand-picked successor Hua Guo-feng and the settling of economic problems facing China after the chairman's death in September 1976.

Mr. Deng made his second come back in 1978, and has become the driving force behind China's economic reforms. He continues to play a major role in all policy decisions, and analysts said that whether Mr. Deng succumbed to pressure from conservatives in the party or acted alone, he was ultimately responsible for the decision to dismiss Hu Yaobang, who resigned in disgrace as party General Secretary on January 16-APP."

[THE NATION, daily newspaper dated 17th April 1987.]

Deng's rule has been a trying time for the People's Liberation Army. Once a bastion of power and privilege, the Army saw its budget and perquisites cut and its influence blunted. Deng replaced the commanders of nine of China's eleven military regions and carried out a wholesale house cleaning of the PLA command headquarters. General Wei Guoqing, the PLA's Chief political commissar was sacked and replaced with technocrat Yu Quili. The navy commander Ye Fei was also fired and replaced by general Liu Huaqing, a former Army deputy Chief of staff, and a modern-minded commander. A large number of replacements in Army and Navy came from the Second Army Group, in which Deng served as political commissar in the 1940's.

Deng has thrown the brunt of the country's resources into agricultural and industrial modernization, cutting the military budget by 25 per cent in the process between 1979 and 1981. In addition the government system of family farms has made it more profitable for country youths to stay home and work than to join the Army, a fact that has hampered recruiting among the peasantry, who provide 80 per cent of the PLA soldiers. Deng's policy is to practice full control over the economy so as to make good use of the limited financial and material resources in modernization. In 1982 China purchased \$ 165 million worth of Sea-Dart missiles and British electronic goods for Chinese destroyers from England.

A heady optimism swept over the entire China at the close of 1983. In the countryside a whirlwind of market oriented reforms started reordering the slow-moving pattern of rural life. Shifting communal agriculture to family farming brought unprecedented prosperity to millions. In Peking, blue jeans began to replace baggy Mao suits, disco dancing and Japanese motor-cycles became the rage and the national treasury bulged with foreign reserves. Elsewhere, fourteen coastal cities were opening their doors to overseas investment. The wave of change unleashed by Deng Xiaoping appeared unstoppable.

In 1986 some of that breathtaking euphoria started to subside. Though the rural peasantry continued to thrive, discontent began simmering just beneath the surface in China's cramped cities.

There, soaring inflation combined with the reappearance of graft and corruption produced an understandable desire for the authoritarian stability of the early days of the Maoist era. Deng's new policies failed to produce a dent in Mao's "iron rice bowl" which guaranteed workers life-time job security regardless of their performance. And the new pockets of wealth created by the reforms stirred resentment among the many who felt left behind.

At the same time many development plans in cities that were opened to foreign trade had gone badly awry. A spending spree on foreign cars and consumer goods began to cut heavily into the government's foreign currency reserves. And Deng himself, once hailed as the man who freed China from the chains of the Cultural Revolution and set it on the path to modernization, had become the object of some mute but unmistakable criticism. People continue to demand more and more but the government finds it has little or nothing to give. It appears that the reforms were built without a foundation and now the whole structure is wobbling.

Nonetheless, the pace of change has already begun to slow down as nervous officials start putting brakes on China's headlong rush into economic and cultural pluralism. According to the current party line the time had come to 'consolidate, digest and perfect' the reforms instituted over the last fifteen months. In Deng's view, the public's growing disenchantment with reforms was an inevitable phase through which China had to pass. As such, he regards it with a distinctly untotalitarian tolerance. "People have expressed concern about these reforms. We will allow differences of opinion to exist and let experience resolve their doubts". But the conservatives were pressing that Deng should demonstrate unqualified success and to do it within the next two years.

Deng's plan for an urban economic overhaul seemed simple enough when it was first announced in October 1984. The idea was to apply in the cities the same free-wheeling reforms that had already achieved results in the countryside. Just as agricultural communes had been dismantled in favour of family-run farms, industry would now be decentralized. Like the farmers, manufacturers would be allowed to sell surplus goods on the open market. And the government would begin cutting state subsidies in an effort to bring prices closer to market value.

As it turned out, the abrupt introduction of wage, price and management reform sent the Chinese economy into overdrive and left state planners reeling. Industrial production jumped 23 per cent in the first half of 1985. There was a mad scramble for funds to increase the output of electricity, the availability of transport and the level of construction. Imports shot up by 67 per cent in just nine months and food prices soared. The cost of pork rose 50 per cent, while the price of beef jumped 80 per cent and fish doubled. Authorities tried to cushion the price hikes by raising wages on average of 9 per cent. But with the inflation rate hovering near 15 per cent or more urban workers saw their standard of living drop.

By the end of the year 1985 Peking authorities found themselves forced to apply the brakes, imposing stringent controls on loans, construction and government spending. To keep production under control while retaining the market oriented incentives was a double-edged dilemma, but Deng was bent on revitalizing the vast Chinese labour force. The new found wealth of some people in the countryside and some in the small privately growing industrial sector had provoked wide spread envy among communist cadres, who were forbidden to engage in profit-making businesses. They resorted to bribery and corruption as a consequence. People were pinning their hopes on the tenth anniversary of both Mao's death and the end of the Cultural Revolution. If Deng could not get the economy under control by then, the occasion could easily become a focus for discontent. Chinese open-door policy for foreign investment in China which commenced in 1978/79 was producing its adverse effects.

Although Deng and his Politburo colleagues claim to have made much by restoring a measure of freedom to Chinese life, it should not be forgotten that they were the ones who sent in the police in 1979 to close down Peking's Democracy Wall and who still sanction a bullet in the back of the head for robbers, extortionists and counter-revolutionaries. With all that we must not forget the humiliations Deng had suffered during the Cultural Revolution including two year's forced assignment as an assembly-line worker in a tractor factory. There is every reason to suspect that he, like millions of other Red Guard victims loathes "the old Man." Nevertheless even today the Official Line is that "Without Chairman Mao there would be no New China, and that only in his last years did the Great Helmsman become badly confused", as the Party Chief Hu Yaobang declared.

A free little piece of farm land for the peasant families has enabled the peasants to own their personal television set, sewing machine and phonograph. Now Deng is extending this facility of private ownership to factory owners as well. We wish him well.

On 16th January 1987, Party leader Hu Yaobang was forced to resign and confess his blunders in matters of policy. This purge at the top was not accidental. As a relative liberal Hu had become identified with the recent spate of student demonstration calling for greater democracy and freedom of expression. Though Deng was in favour of political liberalization upto a point, he believed that Hu had taken the campaign too far. But the Party-men worry that their authority was being undermined. A party that claims a say in every aspect of people's life will always suspect that people told to think for themselves in economic matters will want to do the same in other things as well. In mid 1987 none can dare a forecast, and we can only wait and see.

Like Capitalism, Socialism has become international. It has brought into its fold quite a number of smaller countries besides the two giants of Russia and China. We will consider these smaller

socialist countries and offer our brief comments on socialist theory and practice in the next chapter eighteenth.



CHAPTER EIGHTEEN

A RESUME OF SOCIALISM

18.1. PRE-MARXIAN SOCIALISM.

The industrial revolution in Europe begot the concept of socialism in early nineteenth century to improve the social conditions of industrial labour. Initially it meant no more than these improvements, but the meanings changed fairly fast like the silk-worm casting off its cocoon. To Robert Owen it meant ameliorating the working and living conditions of the factory labour to such an extent as to give them the feeling of dignified partnership in productive activities, remaining still within the sphere of capitalist economy. His successors meant something different by it; something more revolutionary and novel. They aspired to discover some contrivance with which they might topple over the edifice of capitalism itself. They dreamt of a communist Utopia where all means of production would be communally owned by society; where all people would merge into a propertyless working class for it; and where communal organization would cater for the needs of all individuals. How such a communist society could possibly be brought into existence became a subject of debate for the new socialist thinkers, but the goal was mutually agreed.

What prompted them to demolish the capitalist system was its inherent tendency to exploit the labour class, to make the rich richer and the poor poorer by concentrating wealth in fewer and fewer hands both on national and international level; leading thereby to imperialism and worldwide misery. But it is rather surprising to note that none of these socialist thinkers bothered to study the capitalist system comprehensively to find out how these drawbacks crept into it, and how they could possibly be removed; nor did they scrutinize the mechanics of the system to discover which of its cogs could possibly topple down the whole system by its removal, to serve their socialist purpose. Instead of adopting a systematic way of tackling the problem, they took an abnormal course. They fixed their goal first without considering its feasibility

and thereafter they began to ponder over the possible track that might lead to it. Evidently their conduct and approach were both novel and unusual.

18.2. SOCIALISM OF KARL MARX.

Karl Marx stole the march over other socialist thinkers by joining a Communist League and writing its Communist Manifesto in 1848, which explained his own interpretation of socialism, and how he intended to bring it about. He anticipated that the inherent tendency of industrial capitalism to deprive labour of its hard-earned surplus value had reached its climax and was about to boomerang on the system itself. The molested and deprived labour force was bound to rise in revolt against their aggressors, snatch all means of production from them and establish their own dictatorship in all industrially advanced countries. Marx anticipated that this revolutionary upheaval would take place soon in America, Britain, France and Germany simultaneously rather than in any one of those countries. He explained that the role of his Communist Party was merely to prepare the proletarians for the reception of the impending change, instead of provoking them to revolt. The revolt would take place spontaneously, under the motive force of spiteful revenge.

These prophecies of Karl Marx have not come true, although a complete century has now passed after his death. On the contrary the proletarians of the named countries are fully cooperating with their capitalist entrepreneurs, who are successfully competing with the two socialist giants which sprang up unexpectedly elsewhere. Surely it reflects on the misjudgment of Karl Marx and makes him a false prophet.

The dubious role of the Communist Party established by Marx and inherited by his followers deserves a more careful attention in the light of rebuttal of Marxian claims by subsequent events, and the performance of the Party leaders both in Russia and China to date. As the Communist Revolution was inevitable according to Marx, and it was also to be brought about by the proletarians themselves, they needed no such guide which did not rise out of themselves. An alien guide coming from non-proletarian intellectual class could only be a suspected intruder, unworthy of their trust. That is why the proletarians of the industrialized advanced countries could not be enticed by the communist leaders. As none of them desired to establish their own dictatorship they did not fall into the snare. They only wanted their just and fair share in the wealth they joined with other factors of production to produce. And that is also the reason why the unsophisticated and unsuspecting labouring classes of the then less developed Russia and China could easily be lured with the bait of their dictatorship offered by the Communist Party.

The destination of Karl Marx was Communism, for which socialism was a transitional step to last only for a very short period,

But when socialism came in Russia and China, it came to stay there for ever, frustrating the Marxian plan. Communism was an inevitable goal fixed by Marx for the Communist Party to reach at all costs, so much so that the state had to wither away under their zealous march. But the Communist Parties of Russia and China clung to their states instead, as if their states were their ultimate goals. To understand why the Communist Parties failed to discharge the duties imposed on them by the father of Communism and behaved differently needs a careful study.

18.3. ROLE OF THE COMMUNIST PARTY.

Marxism is a political adventure. It aims at establishing a communist society in some chosen country. There are two component parts of the scheme: a political party which would create, guide and control a reserve army for snatching political power at an appropriate time; and a suitable manpower reservoir wherefrom such an army might be recruited and trained for action. As the fixed aim was to pool all means of production under Party's Control, dissatisfied industrial labour force became an appropriate manpower reservoir to recruit the army from. Since the Communist Party became the vanguard of the communist movement, its role gained paramount importance.

The labouring class had to be lured with some suitable reward to come forward and join as Party workers; the dictatorship of the proletariat was, therefore, offered to them straightaway; and to dispel their fears about the hardship of their task, they were told that the march of politico-economic events had already made their dictatorship an inevitable destiny, which they had only to step forward courageously and grasp. It was ready to fall in their lap like a ripe fruit. Courage and ruthless determination was all they needed to reach their goal.

So the Party leaders exhorted them to shed all moral scruples and use all available means to destroy the existing norms: to sabotage the political organization, to disrupt communications, to set factories and houses on fire, and to rise in revolt against the entire capitalist class. The proletarians were taught guerrilla warfare tactics and advised to use them freely alongwith the scorched-earth policy to bring about the downfall of capitalism. But when in 1917 the Communist leaders grabbed political power in Russia under circumstances and by methods detailed in the fourteenth chapter, the promised dictatorship of the proletarians vanished in thin air and in its stead the dictatorship of the Communist Party was firmly established by methods no less brutal than those of the Tsars.

Socialism usurped all legitimate freedoms of the citizens, reduced everyone of them to a wage-earner, and deprived them of their occupational choice and right to protest against low wages. Thus the old relationship between masters and slaves and between lords and serfs was revived under a new label. The Communist

Party retained all powers for itself, and imposed performance of all duties and drudgery of all work on the class of slaves befooled with their dictatorship to start with. Every page of the previous few chapters of this book bears witness to this behaviour pattern of the Communist Party and all news coming from the socialist world confirm it.

18.4. SOCIAL DEMOCRACY.

Oxford Advanced Learner's Dictionary of Current English gives three meanings to the word 'Democracy'. (1) (country with principles of) government in which all adult citizens share through their elected representatives. 2) (country with) government which encourages and allows rights of citizenship such as freedom of speech, religion, opinion and association, the assertion of the rule of law, majority rule accompanied by respect for the rights of minorities. 3) (Society in which there is) treatment of each other by citizens as equals and with the absence of class feeling.

The compound word social democracy is not found in any English dictionary as it is coined in and used by the socialist countries alone. They mean by it the type of democracy those countries permit to be practiced within their dominions.

The meaning conveyed under (1) above can apply to social democracy as in socialist countries all adult citizens make a show of electing their representatives to run their governments. The meaning conveyed under (2) do not apply to social democracy as no such rights and freedoms are allowed in socialist countries. Whether the meaning given under (3) apply to socialist society or not is debatable.

According to our information Karl Marx did not use the term in his writings. It was used for the first time by Lenin before the creation of the Socialist State in Russia while he was impressing upon his Party workers the need to conserve the proletarians for their own revolutionary socialism, and not to let them drift towards the bourgeoisie and trade unionism. After the establishment of the Socialist State Lenin felt the need to drastically curtail the democratic rights of the citizens as given in (2) above, and he made use of the 'social democracy' quite frequently. By this device Lenin strangled democracy outright and reduced it to a caracas, a corpse without a soul.

Real democracy springs from the grass-roots, from the masses initiating democratic activities from below; whereas social democracy is poured down from above by the Communist Party high command only in trickles. In real democracy representatives are nominated by the masses for competing in an election which is open for all to contend. The candidates contact the electorate to explain why they should be voted for instead of their rivals. The ballot papers cast by the electorate of a particular area into the ballot boxes include the names of all the contesting candidates, out of which the voters tick off the name of their own choice. The

election officer opens the ballot boxes after the expiry of the voting time, segregates votes favouring each candidate in presence of all the candidates and prepares a list showing numbers of votes obtained by each candidate, and then declares which candidate secured maximum number of votes and became the elected representative.

But under 'social democracy' no citizen is permitted to offer himself or nominate an other person of his choice as a candidate. For each representative's post in an area only one candidate can stand for election and that particular candidate is picked up, decided upon and nominated for election by the Party high command itself. Thus only one name appears on the ballot paper, which the voters are required to tick off or leave unmarked and put the ballot paper into the ballot box. The ticked and unmarked ballot papers are separated by the election officer to declare how many votes the candidate secured. The announced results show that the candidate usually secure between 99.0 per cent and 99.9 percent votes, and it consoles the high command to know that the masses are most submissively under control. One may call it an election stunt, but that is what social democracy happens to be. It needs no saying that only yes-men are needed by socialism and that is how they are picked up.

Democracy cannot exist in countries where freedoms of thought, choice, expression and action are banned. Leave the dumb masses alone, any freedom of expression, or association within the Party itself is spied upon and eradicated.

18.5. SOCIALISM AND HUMAN RIGHTS.

There are certain basic human rights which none should be denied in a healthy society, subject to the only condition that none would exercise them in a way prejudicial to such rights of others. These rights are freedom of thought, belief, association and action; more or less equal opportunities for acquiring knowledge, choosing occupation according to one's inclination, and having enough job opportunities to get employed for earning sufficient to provide for a decent living and educating one's children; and finally freedom to profess and practice any religion, sect or metaphysical ideology about the universe, this life and hereafter.

Most of the basic human rights are denied to the citizens of socialist countries in practice, although their constitutions and their dialogues on international level concede them., The reason for contradiction between their professions and practices is not far to seek. Socialism itself is a cut-and-dried ideology about politico-economic way of living which brooks no change. Besides that it regards every religion a fabrication and product of hallucination, denies the existence of God and demands a materialistic approach to universe, life and death. It belies all tradition, condemns all morality, and survives through opportunism under the shield of armaments.

As such endowment of human rights goes against the grain of socialism and is bound to breach its sanctity. Both being poles apart cannot co-exist in any socialist state.

18.6. SOCIALISM IN OTHER COUNTRIES.

Socialism as an anticapitalist revolution led by the proletariat to establish their own dictatorship in their respective countries was brought about neither in Russia nor in China. Chief personalities behind the revolutions in both these countries were primarily concerned with freeing Russia from the autocracy of Tsar and China from the clutches of Western Imperialism. After achieving their primary objective Lenin, Stalin and Mao did nothing to establish the dictatorship of the proletariat anywhere. They established their own dictatorships instead; and their foreign policies were guided by their national interests rather than by the spirit of world-wide communism. Such being the motives and intents of the two big Socialist Powers, the advent of socialism in other countries had so little to offer that it could claim only a few pages instead of an exclusive chapter. This section will take care of other socialist countries beginning with North Korea, the nearest neighbour of China.

18.6.1. NORTH KOREA.

Long before Russia turned communist, extension of the Tsarist Rule towards Siberia and the Far East had brought the northern part of Korea under the sphere of influence of Russia while the southern part was under Japanese influence. When the Manchu Dynasty in China was at the zenith of its power, China regarded Korea as her docile protege due to its close proximity. Being thus surrounded by powerful and greedy neighbours on all sides, Korea always found it difficult to preserve its independence and assert its national identity. Hence political independence rather than any economic creed had always been the goal of the hardy Korean people, while the alien powers thrust upon them an ideological war, which they did not cherish.

During the Second World War, by joint decision of the American and Soviet general staffs, the Thirty eight Parallel had been adopted as the temporary boundary between the respective Soviet and American occupation zones in North and South Korea. In August 1950 Soviet Foreign Minister Molotov and Mao Tse-tung agreed that if the American forces crossed the Thirty eight Parallel, China would send its own forces into Korea. An American writer Edmund Club in his book "China and Russia" tells us how the Korean war started. He says:

"In the U.N. debate of October 6, the American and British delegates promised that their countries would withdraw their forces from Korea as soon as possible and would menace neither the Soviet Union nor China. The United Nations General Assembly (UNGA) resolution as passed the following day provided that the United Nation should take "all possible steps" to "ensure condi-

tions of stability throughout Korea" — and this was seized upon by Mac Arthur as sanction for UN military action north of the Thirty-eight Parallel.

By his command the U.S. First Cavalry Division promptly went into action, in full disregard of a warning by Chou En-lai on October 3 that China would intervene if U.N. forces crossed the Thirty-eight Parallel..... Washington's easy disregard of Peking's warning suggests that the top American strategists still held to the traditional estimate of the Chinese potential for retaliation. They were due to experience an unpleasant surprise. On October 16, the first Chinese troops entered Korea, on October 25, transparently camouflaged as "volunteers", they intervened in the fighting in North Korea. By the end of December, the position of the N.N. command had badly deteriorated, and Mac Arthur recommended that, unless there were blockade of the coast of China, destruction by naval and air bombardment of China's industrial capacity to wage war, and both the unleashing of the Nationalist forces for action against the mainland and the securing of other Nationalist troops for reinforcement in Korea, the U.N. forces should fall back on the Pusan beach-head for evacuation.

The Chinese offensive launched on New Year's Day of 1951 thrust the U.N. forces from North Korea, and on January, 3 and 4 the Chinese forces occupied respectively Seoul and Inchon. In February, however, in the vicinity of Wonju, the Chinese were repulsed. There was no evacuation. By June 1951, the UN forces had restored the position roughly at the Thirty-eighth Parallel".

*(CHINA AND RUSSIA BY O.EDMUND CLUBB.
PAGES-389-90)*

Mr. Clubb further states that:-

"On April 2, President Eisenhower said that the United States was ready to meet every honest advance from the other side, and then on April 16, he called for an armistice leading to "free elections in a United Korea."

April 18, 1953 saw a rare example of unanimity in the UN General Assembly: by a vote of 60 to 0, there was passed a Brazilian resolution expressing the hope that further negotiations would bring about an early armistice in Korea. There is no evidence that there existed any fundamental difference of opinion among Moscow, Peking, and Pyongyang respecting the aspirations voiced in the resolution. Truce negotiations resumed a week later. On May 22, having concluded that the Chinese were again using obstructionist tactics, Dulles on behalf of the Eisenhower administration sent a private message to Peking through Indian channels threatening the use of atomic bombs against China unless it got down to business at Panmunjom. Agreement for an armistice in the Korean War was actually achieved on July 27, 1953".

(CHINA AND RUSSIA BY O.EDMUND CLUBB. PAGE-396)

South Korean President Syngman Rhee was threatened that if he did not release the 27000 enemy POWs, they would be repatriated forcibly. Rhee released them on mounting pressure on all sides. However, the threat of Dulles about using atom bomb against China worked. With the armistice agreement Korea stood divided

between the Socialist North and the Capitalist South along the Thirty-eighth Parallel permanently. Continued financial aid from Moscow and Peking ensured a stable and peaceful rule for the North Korean Premier Kim Il Sung for the future.

18.6.2. INDO-CHINA—NORTH VIETNAM.

Southeast Asian countries of Indo-China were rich in forest and mineral wealth like aromatic herbs, gums, incense, spices of sorts, rice, tea, rubber and tin; and the European colonialists were ruthlessly exploiting this wealth for centuries, while keeping the local inhabitants at bare subsistence level. The coastal part of Indo-China, then known as Annam, was under the French domain. The inner area called Siam or Thailand was occupied by the Dutch and other European nations, while the British and the Americans were busy exploiting the main China land. When the communists, under Mao Tse-tung's guidance freed the main China land, the British and the Americans were forced to flee and take shelter in Hong Kong, Formosa and Vietnam.

In Vietnam the social heritage of that country was completely shattered in the long period of colonialism, when men were obliged to fight the anti-imperialist wars; and major burden of propping up and running the shattered national economy fell on the frail shoulders of the womenfolk. Obviously this was the legacy of the long-drawn anti-imperialist wars fought first against the French and then against the Americans. The men and many of the women too fought, while the remaining women farmed the land, built the houses, and produced more children for the war effort. The atrocities and heinous crimes perpetrated by the American soldiers in Vietnam under the cloak of thwarting the spread of communism in Southeast Asia are too fresh in the memories of the present mature generation to deserve any repetition.

No doubt communist cells existed in every country of the southeast Asia, but like everywhere else, they existed only as underground agitators of no significant strength. The majority of the public wanted to turn out the European exploiters instead of choosing this or that politico-economic creed for their future use. However, the thoughtless American tyranny drove them to own and adopt communist methods for their national emancipation. Ho Chi Minh, a trained mature communist established his socialist state in the north part of Vietnam, with material help from Russia and China; and then he started advancing his armies deeper down into the South to fight the American forces and pushing them towards the sea. When matters took a serious turn, the United Nations Organization stepped in to negotiate cease-fire and peace, which became effective as the result of Geneva Conference of 1954, along the lines the North and the South Vietnams stand divided at present into almost two equal halves. Mutual understanding between the Russians and the Americans have almost permanently assured this division like the division of Korea along the Thirty-

eight Parallel.

18.6.3. LAOS, CAMBODIA AND THAILAND.

But the game of power politics is not so simple. Under Russian instigation, North Vietnamese started infiltration into Laos and Cambodia, being guided by the local communist parties; and this annoyed China who considered these countries under its own sphere of influence. To teach them a lesson China sent her own forces with war materials into Laos and Cambodia to push the North Vietnamese out. Although it surprised the Western world to see socialist countries fighting among themselves, it only proved that the national interests always prevailed upon and overruled the ideological concepts. China had rightly assumed that Russia would not intervene openly at the expense of world opinion. So as soon as Laos, Cambodia and Thailand were overrun by the Vietnamese communist soldiers, these countries felt extremely relieved by China coming to their rescue. However, the balance of power once disturbed in these countries could not be re-established permanently. Local communist insurgents continued to create chaos. The antagonism between North Vietnam and China subsided, as the Vietnamese conceded the paramountcy of China in this area. It is interesting to know how it came about.

With a view to see Cambodia as a socialist state under her own sphere of influence, China had been herself encouraging the local communist insurgents there against the existing regime of Prince Norodom Sihanowk. When the Khmyr Rouge insurgents overthrew Sihanowk and kept him under house arrest, they renamed the country as Kampuchea, and established a communist regime there with Pol Pot as the First Secretary of the Kampuchean Communist Party. He was a tyrant ruler and ruthlessly killed many innocent people to firmly establish his own regime. The Chinese Government hinted many times that it did not approve the domestic policies of Pol Pot but without any effect. When the Kampuchians reported that units of the Vietnamese army had attacked their territory and intended to establish their own puppet regime in the capital of Phnom Penh, China sent her own forces to fight against the Vietnamese. The Vietnamese invasion had however, forced Pol Pot to free Prince Norodom Sihanowk from his three years virtual house arrest in Phnom Penh, and send him to China. The Prince gave a long press conference in the Chinese capital at the Great Hall of the People, condemning the communist tactics. The fate of Kampuchea still hangs in the air. A Reuter report published in the newspapers of 10th: September, 1983 reads as under:-

*NEW ASEAN MOVE AT U.N. ON KAMPUCHEA. BANGKOK, September 9: The Association of Southeast Asian Nations (ASEAN) is planning to launch new joint moves on Kampuchea at United Nations General Assembly session starting on September 20, an Asian diplomat said today.

The diplomat, who asked not to be named, said the new move by non-Communist ASEAN could urge stronger international sup-

port for a Kampuchean coalition headed by former Kampuchean Head of State Prince Norodom Sihanowk.

The coalition whose main backer is China, links the ousted Khmer Rouge with two non-communist Kampuchean resistance factions. The 'Bangkok' reported a joint draft had been drawn up by Singapore.

ASEAN has persistently pushed for a political settlement in Kampuchea. It has won General Assembly approval for resolutions demanding the total withdrawal of Vietnamese troops and self-determination for Kampuchea.

The U.N. recognizes the Sihanowk-led coalition as the legitimate representative of Kampuchea. Hanoi and its allies argue that no international forum on Kampuchea is credible without the presence of the Heng Samrin Government".

*(REUTER. THE PAKISTAN TIMES, LAHORE DATED:
SEPTEMBER, 10, 1987)*

Situations in Laos and Thailand fared no better. Instability and perplexity rules there still.

18.6.4. LATIN AMERICA—CUBA.

Latin America had been subject to a colonial domination far longer than China. The success of the national liberation struggles of the nineteenth and twentieth centuries, largely against Spain was blunted by the proximity of the United States with its pervasive economic influence. This influence has worked both for the speedy development of a technological capitalism and for the preservation of large landed property serviced by landless labourers. Side by side with this there has persisted a large number of artisans who are still more numerous than factory workers in most Latin American countries. Finally there has emerged a huge urban sub-proletariat irregularly engaged in service occupations, who number more than all manufacturing workers, artisans included.

Marxist communism entered the Latin American scene in the 1920s. But because of the uneven industrial development, Marxism tended to be seen as protecting the interests of the relatively small industrial proletariat whereas the masses were more open to populist or corporalist ideas such as Peronism. The official Communist Parties seemed therefore, to have become defenders of a particular interest group within the system rather than revolutionary parties of the Marxist Leninist type.

The Cuban revolution is an illustration of this state of affairs, in that the initiative for it came neither from the working class nor from the Communist Party. Fidel Castro and his followers drew their original inspirations from the traditional national liberation movements against Spain and the United States that had little to do with socialism. Fidel Castro's first attempt to overthrow Batista in 1935 and his subsequently successful guerrilla struggle, starting with only a handful of men in 1956, did not depart from this tradition. Castro's emphasis on the support of the masses and the need for Cuba to control her own destiny were reactions to the

corruption and violence that characterized the United State backed Batista regime and Batista's middle-class allies. The manifesto of the 26 July Movement, issued in November, 1956, declared the movement to be democratic, nationalist and dedicated to social justice, supporting the Jeffersonian approach and subscribing to the formula of Lincoln of a government of the people, by the people, and for the people.

In particular, Castro did not see the necessity for a party. He is quoted by Debray as saying that "there is no revolution without a vanguard but this vanguard is not necessarily the Marxist-Leninist Party. Those who want to make the revolution have the right and duty to constitute themselves a vanguard independently of these parties." However, at the initial assault on the Moncada barracks, there was considerable support of the working class, although the Cuban Communist Party had publicly supported Batista's first government in 1940 and prominent Communists were members of his government even after the 1952 coup. Although Castro's Rebel Army was composed largely of radical petty-bourgeois and peasant elements, its opposition to the ruling bourgeoisie drew strong support from the proletariat, whose general strike at the critical point in 1959 enabled Castro to seize power.

The Communist Party opposed the Castro guerrillas as being 'putschists' and only gave them its overt support when it was clear that they would be successful. On the other hand the organization of a post-revolutionary government and the twin tasks of agrarian reform and mass education would have been impossible without the active participation of the trained and disciplined cadres of the Communist Party.

The fact that the Cuban revolution took a socialist turn was due more to external pressure than to its internal momentum. Initially Cuba adopted a neutral foreign policy and a reformist internal policy which tried to attract private investment. The growing nationalization measures and the starting of agrarian cooperatives were greeted with boycott and blockade from the United States which took them to be signs of Communism. This had the effect of encouraging a large section of the Cuban bourgeoisie to emigrate to the United States and the further radicalization of Cuban politics, culminating in Castro's declaring the revolution to be "socialist" following the abortive United State backed invasion at the Bay of Pigs.

In July, 1961 Castro formed a new party (PRS) which incorporated the Communist Party as well. Although after the fall of Batista there had been a strong emphasis in the Cuban economy on the development of a heavy industrial sector along Russian lines, this was abandoned in the mid-1960s in favour of concentrating on raising the level of sugar production in order to generate the necessary surplus for subsequent diversification. Some of Cuban projects had been over-optimistic, but the achieve-

ment in social equality and education are most impressive. There is much evidence that the Cuban revolution was highly specific and therefore unrepeatable.

Only a few days after the Chinese assault of October 20, 1962 on northeast of India, the Cuban missile crisis brought the United States and the USSR to the verge of thermo-nuclear war. At the end of a tense week, the crisis was resolved by the Soviet decision to remove the offending Soviet missiles from Cuba after obtaining assurance from President John F. Kennedy that Cuba would not be invaded by U.S.A. or any other Western hemisphere country.

18.7. CAPITALISM VERSUS SOCIALISM.

Economics is a social science which owes its origin to individuals exertions to produce wealth for their own well-being. As its early practices developed with an individualistic bias, capitalism raised its super-structure on the foundation of self-interest having supremacy over the interests of society as a whole. It patronized all practices which helped individuals to amass personal wealth regardless of the fact whether such wealth was an actual fresh production or only an expropriation of other's existing wealth. Award of supremacy to individual's self interest over the interest of society as a whole was the first blunder committed by capitalism and the second blunder was to raise the entire superstructure of capitalism on this shaky foundation. On the contrary socialism laid undue stress on the interest of society as a whole, and under that pretext usurped all means of production to place them into the hands of a powerful dictating party, which made everybody a wage-earner, without any say in fixation of their wages. Depriving people of all their basic human rights, socialism thus reduced free human beings into slaves exerting for a bare subsistence.

Private property is a conspicuous distinguishing feature between the two economic systems. Under socialism no one is allowed to possess any private property worth its name; whereas under capitalism acquisition and retention of unlimited private property is the prerogative of everybody, and cherished goal of that economic system. Capitalism not only encourages acquisition of limitless wealth, it also sanctifies its retention regardless of how it is acquired and used. In fact, concentration of boundless wealth with individuals, groups and institutions is the soul and essence of capitalism. Wisdom condemns both extremes and recommends a via media between the two, by imposing some restrictions on the mode of acquisition and use of wealth.

Whichever economic system a country might adopt, commonsense would recommend it as a human privilege to possess and enjoy the use of a reasonable quantity of wealth in the form of residential accommodation, conveyance and furnishing consistent with the demands of modernity. Deprivation from such facilities while forcing individuals to produce wealth for the state becomes tyrannical and barbarous. However, sanctity of private property

cannot become an unqualified privilege. Social justice admits this sanctity provided the property is acquired by socially admissible legitimate means and is not hoarded idle but is put to some productive use.

Since natural resources of a particular territory are free gifts of nature for all the people living in that territory and not for any particular person or group, monopolizing any part of such natural resources by any person or group to the exclusion of all others becomes unacceptable. Thus ownership of large tracts of land, forests and mines becomes a debatable question. In fact justification for acquisition of wealth in any form must precede to sanctify its possession.

There are a good many points of contrast between capitalism and socialism even within the confined economic bounds, such as the monetary system and the manner in which prices of commodities and services are computed. Capitalist countries operate in free market and therefore, the law of demand and supply fixes the prices of money, commodities and services; but in socialist countries no open market exists, therefore the state fixes the prices of their money and all commodities and services. Whereas monetary units of all capitalist countries are backed by some tangible reserves commanding international values, no such reserve is needed for currencies of the socialist countries which are meant only for domestic use and are not allowed to get out of their own territories. The prices of money, commodities and services are so carefully fixed by the socialist states for indigenous use that they remain in force unaltered for decades, and still they keep inflation out of bound for ever. Foreign trade is carried out by the socialist countries through a special state agency under barter exchange, the evaluation of goods exchanged is done through bilateral negotiation and the balance of payment is settled either in goods or in gold.

Employment is another distinguishing feature between the two economic systems. Unemployment is a curse of capitalist economy which is nowhere to be seen in socialist countries. Since everybody gets employed under socialism and receives a wage, death by starvation is unheard of there. However, the wages are more or less subsistence wages, which leave little margin to save and enjoy a sumptuous dinner in a dandy suit of clothes. On the contrary the capitalist economy displays luxury and hunger side by side. You see squalid slums alongside posh palaces at every turn of the corner. You observe opulence and deprivation using a common dust bin in each street: one throws superfluous foodstuff therein for the other to pick it up and subsist thereby. They co-exist without any human bondage between them.

Socialist economy runs more or less smooth experiencing no booms or slumps and undergoes no trade cycles which visit the capitalist economy regularly after every two or three decades.

Economics is said to be the handmaid of politics. This adage

is older than history itself; and every epoch of history in every corner of the world has vouched for its truth. Both Capitalism and Socialism confirm it. To establish the dictatorship of a chosen Party, Marx befooled the workers with the bait of their own dictatorship. Political freedom exists to a large extent under capitalist democracy; but no such freedom exists under social democracy, where people are not permitted even to choose their representatives for the state apparatus or for their own trade unions. These representatives are thrust upon the people by the Party hierarchy itself. Even freedom to express ones views about the political situation of their country is forbidden under socialism. It is considered a crime against the state and is punishable.

The problems of employment, poverty and riches, and how to tackle them in the best interests of both individuals and society are the major problems of economics. Both prevalent economic systems have failed to solve them. Their failure is due to the wrong foundations they chose to raise the super structure of their respective systems upon. In both the cases the foundations proved themselves to be defective, delusive and unsound, because their choices were neither judicious nor unbiased.

Acquisition of social power and its display to overawe and subdue people lies at the bottom of this sordid game, whether it is played in Washington or in Moscow. The unfertilized egg of this egoistic tendency lies dormant in the human biological frame, but the environments in which the child is brought up fertilize this egg and feed the embryo. The nature of his upbringing either subdues and tames this tendency to remain within healthy norms; or develops it to produce a dictator and an autocrat.

When people with perverted upbringing indulge in political games and achieve power, they abuse national wealth and manpower for threatening the world with destruction. A cursory look at the political history of the modern world will confirm that only a few thousand people in either camps are afflicted with this anti-human egoistic mania, who fail to distinguish between false national pride and real humanitarian values. How to get rid of these vicious few thousands from both the camps and then tame society on humanitarian line of behaviour is the real problem facing the world. Discovery of the solution is the responsibility of every thoughtful citizen of the world.



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***Islamic
Economic
Order***

ISLAMIC CONCEPTS OF POLITY AND ECONOMY

19.1. CONCEPTUAL RESOURCES.

We Muslims firmly believe that the Holy Prophet, (peace be upon him) had established the first Islamic State on this earth under Divine instructions. But after the rightly guided caliphs, the concept of the Islamic state was completely dismantled by those who had lust for power and wealth. The Islamic unitary state disappeared along with the concept of Khilafat. Thereafter the Muslims had kings and sultans; the brotherhood of Muslims was fragmented into nations and nationalities; the rule of law was subordinated to the will of the autocrats.

The basic foundation of the Islamic State is that sovereignty and absolute power vests in Allah. The second basic factor is that Allah has given us a complete code of life in the shape of the Holy Quran. The third factor is that we have not only to obey Allah, but also to obey His Apostle Muhammad who practically demonstrated how to follow the commandments of Allah.

The pattern of the Prophet's government is before us. It postulates loyalty to Allah and not to thrones. Kingship has no room in Islam and Khilafat is the pivot of an Islamic State. Though the Khalifa is a spiritual and temporal leader of the Muslims, he acts like a trustee, within the limits of the Quran and Sunnah, with Adl (Justice) and Ihsan (Mercy).

Islam aims at creating a casteless, classless and partyless society. It is the duty of the Khalifa to establish Salat-o-Zakat, enjoin virtue and forbid evil, and ensure spiritual, social, economic and moral welfare of the people. Tauheed, Risalat, Khilafat and Adl-o-Meezan are the basic pillars of an Islamic State. Mutual consultation is the command of Allah for enforcing the teachings of Islam. So, let us, the Muslims of the world, unite into a single Millat-i-Islamia, under the Islamic flag, headed by a Khalifa who should be the most virtuous and pious man.

A guideline is provided by the Holy Prophet on the most apt way of making use of the conceptual resources. He did so on the occasions of appointing Maaz Bin Jabal as a Qazi (Judge) for Yemen. He questioned Maaz how he would proceed to administer justice in settling disputes. Abu Daud, in his compilation of the sayings of the Holy Prophet records this event as under:-

"When the Holy Prophet Muhammad decided to appoint Maaz Bin Jabal as Judge for Yemen, he asked Maaz how he would judge a disputed case. Maaz replied that he would dispense justice according to the Holy Quran. The Prophet asked what would he do if he found nothing in the Holy Quran to help him in any particular case. Maaz replied that he would seek guidance from the Sunnah of the Holy Prophet. The Apostle of Allah asked him what he would do if he found no instance in the Holy Quran nor in the Sunnah to help him. Maaz replied that in that case he would himself investigate the case from all angles, deliberate upon it and form his own opinion after judicious investigation and careful pondering, and that he would spare no effort to reach a just conclusion. The Holy Prophet patted Maaz's chest appreciatively and said: Praise be to Allah who blessed his Apostle's deputy with such wisdom that pleases the Apostle of Allah".

This event guides us to fix the priorities between Quran, Sunnah and Ijtehad or logical deduction after due deliberation; and approves the necessity of Ijtehad within the limits prescribed by Quran and Sunnah for deciding new issues which the changing times and circumstances confront the Muslim society with.

19.2. ISLAMIC POLITY.

The modern concept of State is that it is an organized institution, which is run by the people through their elected representatives for the collective welfare of the people residing in a specified territory. The ultimate power vests in the people, who are masters of their destinies. They are free to legislate and enact any law, following their own desire. The constitution of the State is moulded according to the history, belief, customs, and ideology of its people. All the Secular States of the World, whether Democratic or Socialistic are administered by man-made laws and institutions and are based on the theory of material advancement and utilitarianism. The Islamic State, however is based on Islamic Ideology as prescribed by the Holy Quran and Sunnah. Allah has given us the Divine Laws by revealing them to the Holy Prophet Muhammad (peace be upon him), and which have been preserved intact for all times to come in the Holy Quran. The Quran furnishes guidance to mankind, so that they may follow the path which would bring them in a state of complete submission to their Maker. It contains fundamental principles and vast treasures of absolute truths for being acted upon to attain the everlasting felicity and contentment, both here and in the hereafter. The Islamic State is only a trustee of God, and acts through the Khalifa or Amir.

The Islamic State, acting as Vice-regent of God, as successor

to the Holy Prophet, and as representative of the people, has to discharge the trust by creating conditions in the state for the benefit of the people, so that they may achieve the purpose of their own creation. The three essential elements of an Islamic State are: Mulk or country, Millat or community with a specific ideology, and Khilafat or vice-regency. The State is, of course, a Divine Trust. Bearing this in mind, let us examine some of the most important functions of an Islamic State.

19.3. FUNCTIONS OF AN ISLAMIC STATE.

The first and foremost function of an Islamic State is to defend and protect its national frontiers from foreign aggression. In order to ward off aggression the State is required to equip itself fully with the most modern and upto-date weapons. We must have a very strong, efficient, well-trained and disciplined army, navy and air force. They must be in constant combat readiness to meet the challenge of sudden aggression. The Government should give military training in the use of all essential equipment of modern warfare to every able bodied adult citizen, making a standing reserve military force for the purpose of defending the country in peace and war, whenever an occasion arose. Our soldiers must be imbued with the spirit of Jihad.

Equally important function of the State is to maintain peace and order, internally in the State. In the absence of peace and order, chaotic conditions prevail, which destroy the very fabric of society. The increase in the desires of the individuals clashes with those of the others, and the State steps in to maintain the equilibrium, with justice, equity and fairplay. In order to achieve this the State occasionally uses the coercive apparatus at its disposal. The State is therefore, required to maintain a well disciplined and highly trained Police Force. The strong arm of the law is absolutely necessary for maintaining sanctions for evildoers.

Says the Quran "And dispute not with one another", (Sura Al Anfaal, verse 46), "and be not divided among yourselves," (Sura Aal-i-Imran verse 103)" be not among those who split up their religion and become (mere) sects," (Sura Rome, verse 32). "Do no mischief on earth, and create no confusion", (Sura At Aaraf, verse 56). "And strengthen one another" (Sura Aal-i-Imran, verse 200) "and hold fast together the rope of Allah" (Sura Aal-i-Imran, verse 103)." The believers are but a single Brotherhood, therefore establish peace among contending members." (Sura Hujurat verse 10)." They are merciful amongst each other" (Sura Father, verse 29)." And keep relations straight between yourselves," (Sura Anfal, verse 1)." Kill not a believer" (S.4:92,93) and permit not yourself to suffer from rancour against the believers, (S.59:10). The State is bound to protect the life, property and honour of the Muslims as well as of the non-Muslims, without any distinction whatsoever. The Holy Prophet has said: "Most surely, your life, your property and your honour are as sacred as this day of Hajj".

One of the most important functions of the State is to enforce the Islamic Way of Life in its totality; and to create conditions for the natural growth of the ideals of Islam. It should implement the tenets of Islam in all spheres of life. Man has been created by God for His service and worship, (S.51:56), and has been put to the test, (S.76:2), and he shall have to give his account on the Day of Judgement. Deen-e-Islam is a complete code of life. It is therefore, necessary to establish the five pillars of Islam in all seriousness, with full faith in them. Tauheed is the basic principle, on which the whole structure of Islam is founded. It is the duty of the State to propound its full implications. But there is no compulsion in religion (S.22:256). Non-Muslims cannot be forced to embrace Islam. (Sura Al-Baqarah, verse 256).

The State must see that believers establish regular prayers, give regular charity (Zakat), and enjoin the right, and forbid the wrong (S.22-41; S.2:110). For this purpose the State must construct Mosques wherever necessary, and maintain them in good and clean condition. Requisite staff, comprising Imams and Muazzins should also be provided. They should be paid decent salaries and should not be allowed to depend on the alms and charity of the people.

Arrangements should also be made for the collection of Zakat and the same should be spent for the purposes indicated in the Holy Quran. The State should open orphanages, widowed' houses, and provide economic assistance to the poor, the needy and the wayfarer.

For the purpose of propagating the principles of Islam, it is the duty of the State to educate and train a band of people whose duty would be to invite people to the Straight Path of Islam, (s.3:103;S.9:122). The State must see that believers fast during the month of Ramzan, and do not violate the sanctity attached to fasting. (Sura Al-Baqarah, verse 185).

People who have got the means should be encouraged to perform Umra and Hajj, and they should be given all facilities in this regard. More particularly arrangements should be made for their residence in Makkah, Madina, Mina and Ara'fat. Numerous hostel should be constructed for the convenience of the intending Hajis, and a mobile dispensary for free distribution of medicines, under the supervision of highly qualified male and female doctors should move about day and night to look after the health of ailing Hajis.

The State must guarantee to all its citizens the fundamental rights, i.e. protection of life, honour and property; freedom of thought and expression, belief and worship; freedom of assembly and association; freedom to adopt any profession or occupation; the right to own, acquire, and dispose of property; equality of opportunity in all the spheres of life; equality before law; and no one should be detained unless he is a threat to peace, order or tranquility or to the integrity and solidarity of the State.

Correspondingly the citizen is bound to obey the orders of those who are in powers, cooperate with the Government, be loyal to the State, and be ready to sacrifice his life and property for the defence, solidarity and integrity of the country.

The Non-Muslims are free to follow their own religion. They may perform their religious rites freely. No one should interfere with their places of worship. The moral principles embodied in the Holy Quran deal with all the aspects of life. By following these principles the people lead a clean and contented life. It is the duty of the State to arrange for the moral education of the people, and to enact and enforce laws for ensuring the due practice of morality.

19.4. POLITICAL STRUCTURE OF AN ISLAMIC STATE.

For maintaining the political stability of the Muslims, it is absolutely necessary that the Muslims should be united as one unit. The individual must lose himself in the community. They must have unity of emotions, heart and outlook, unity of purpose, and should endeavour with a single criterion of good and evil. Their hearts must throb in unison. They should act collectively as the torch-bearers of Islam; 'Verily the Muslims are brothers unto each other'. (Sura Al-Hujurat, verse 10).

The Quran declares that it is an Ummat-e-Wahida, and is a single brother-hood. The Holy Prophet has said, "Muslims are like a body; if one part of it ails, other parts feel the pain". They have been directed to abstain from doing anything which might create disunity amongst the Muslim Community (Sura 3:103). They have further been directed not to be divided by creating religious sects (Sura 30, verses 31,32). They have been ordered not to dispute with one another, (Sura 8, verse 46). On the contrary they have been enjoined to strengthen one another, (Sura 3,verse 200) and to hold fast the rope of Allah, (Sura 3, verse 103), and to strive in His Cause with devotion and sincerity (Sura 22, verse 78 and Sura 61, verses 10 to 13). We have also been directed to obey Allah, His Apostle, and those who hold authority from amongst the Muslims (Sura Al-Nisaa, verse 59).

As Khalifa or Amir is the central figure in the Islamic form of Government, it is incumbent upon the Muslims to obey him implicitly, so long as he acts within the limits prescribed by the Holy Quran and Sunnah. It must be a unitary form of government. At present the Muslims are scattered about throughout the world, and they have their own governments in about 45 countries. Each Muslim country should, therefore, elect its own Amir, who should be a man of piety, knowledge and learning, and they in turn should elect one of them as Khalifa, who would be the spiritual and religious head of the entire Muslim world. The Muslim countries should merge into one Confederation, or they should at least form a commonwealth of Muslim Countries. It is only thus that the Muslims can really become Millat-e-Islamia or Ummat-e-Wahida, irrespective of race, colour or geographical disunity.

Political parties cannot exist in the Islamic State, because their manifestos cannot be other than the Manifesto proclaimed by God. The Muslim States should be partyless states and should function accordingly. The Khalifa or the Amir should appoint the functionaries of the State only on basis of merits, i.e. Taqwa and Ilm, and they should be really capable and deserving persons. The State may carry out its work through the following three organs: (1) The Executive, (2) The Legislature and (3) The Judiciary.

19.4.1. THE EXECUTIVE.

The functions of the Executive are being enumerated in this paragraph. The Executive must enforce the directives of God, and try to create a society ready to accept and adopt these directives for practical application in its life. It is the main responsibility of the Khalifa or Amir to establish the Kingdom of God through the functionaries of the State, who should be men of piety, skilled and experienced, sagacious and farsighted. The Government functionaries should be provided all the facilities, medical, house accommodation etc, necessary for the discharge of their duties. The service rules should be so framed as to encourage honest, diligent and pious functionaries, and to punish the inefficient, dishonest and shirkers of work. With the exception of the few key-posts, all other Government services shall be open to non-Muslims as well.

19.4.2. THE LEGISLATURE.

The Khalifa or the Amir can legislate only on subsidiary matters, in respect of which there is no clear injunction in the Holy Quran and we do not find anything about it in the Sunnah. This can be done on the advice of the Majlis-e-Shura, which may be described as the Parliament, members of which should be elected by qualified persons. The Legislature cannot legislate in contravention of the directions of God and His Prophet, but they can certainly frame rules for carrying out the purpose of the injunctions of the Holy Quran and Sunnah. If the injunctions of the Holy Quran and Sunnah are capable of more than one interpretation, then the Legislature can decide which interpretation to prefer. If there is no provision in the Quran and Sunnah, and there is no precedent, then alone the Legislature is free to enact laws and regulations, subject to the approval of the Khalifa or the Amir. The Amir may also consult non-Muslims for the purpose of safeguarding their interests. All existing laws shall be brought in conformity with Shariah as soon as possible. Justice (Adl) is the main pillar of the Islamic system.

19.4.3. THE JUDICIARY.

Muhammad the Prophet (peace be upon him) was the Supreme Judge in the first Islamic State, and he acted strictly in accordance with the Laws of God, so much so that he could not have forgiven his dearest daughter if she had contravened any of the Laws Allah has ordained. "So judge between them by that which Allah hath

revealed, and follow not their desires, diverging from the Truth that hath come to thee". (Sura 5, Verse 48). The Courts shall enforce this Divine Code. There is a Hadith, related by Abu Daud, Tirmazi and Ahmad which says: "When two persons bring a dispute to you for decision, do not deliver judgement unless you have given an equal hearing to both of them". Our judges should be imbued with the spirit of Islam, should be fully conversant with the Islamic Laws, Jurisprudence and Fiqah. They should be men of high moral stature, of unimpeachable integrity and strength of character, who, while deciding a case have their eyes fixed on God, and are not at all swayed by greed, fear, pressure or personal interest.

Dispensation of justice requires the highest degree of piety and full responsibility. The executive should have no say in their appointments. The Khalifa or the Amir should appoint the Chief Justice of the Supreme Court, and he in turn should appoint his colleagues and the Chief Justices and other Judges of the High Courts. The Chief Justices of the High courts should appoint all subordinate Judges, including Magistrates. The Judges are bound to do justice. The Holy Quran says: "Deal justly, that is nearer to Taqwa".

Court fee should be abolished completely. It requires consideration whether the legal profession fits in with the Islamic way of administration of justice. It is noteworthy that before the introduction of the Western type of judicial system, we do not find any trace of the legal profession as such through the centuries of Islamic rule. There were Muftis to help the Qazis in the administration of justice. The supremacy of the Law is the governing principle of the administration of justice (Sura 4, verse 135 and Sura, 5 Verse 9).

Be he a Khalifa, Amir or any other functionary of the State; all are equal before the Law. Hazrat Umar and Hazrat Ali did appear before the Qazis, during the tenure of their offices to defend themselves against the claims brought by ordinary citizens. Justice is to be administered with truth, (Sura 38, Verse 26), without discrimination and without fear or favour. (Sura 4, Verse 135). All personal matters of the non-Muslims shall be decided in accordance with their personal law. But in other matters, they will be governed by the General Penal and Civil Laws.

19.5. THEOCRACY, DEMOCRACY & ISLAMIC POLITY.

In the Concise Oxford Dictionary we find the following remarks under the work 'Theo-':

"Theo-', combination form of Greek Theos god, as: 'Theocracy', government or State governed by God directly or through a sacerdotal class etc. 'The Theocracy', Jewish commonwealth from Moses to the monarchy; 'Theocrat', ruler in, subject under theocracy, so theocratic (is an) adjective; 'Theocratist' (is a) believer in direct intervention and authority of God through revelation in government of society".

In this last specific sense that Islamic polity is based on laws revealed by Allah, the only Solitary God; Islamic polity is theocratic. But since the origin of words and the subsequent changes in their meanings with passage of time make them respectable or contemptible, theocracy of Islamic polity needs some clarification.

The word 'Theocracy' is of Greek origin. No doubt, Greece has produced great thinkers in some respects, but they were great only in their specific narrow fields. None of all-round wisdom and good commonsense was amongst them. Those so called great thinkers could neither imagine nor tolerate the equality of all individual human beings regardless of their birth. Their 'Theocracy' divided human beings into plutocrats and paupers. The plutocrats were those whose wealth and landed property gave them power over the poor and penniless serfs and slaves, which were treated as beasts of burden.

Why these great thinkers could not get rid of such silly notions? It was because their theology would not let them think otherwise. Even their gods were worse than rustic villagers, and often behaved like wild beasts. How could the 'theology' these gods 'revealed' to the Greek people be better than their own code of conduct? It could only be a replica of their own behaviour.

Use of the words 'Theology', 'revelation' and 'Theocracy' with the mental frame of the Greek polytheists can only be a debasement of these respectable words, and a stigma on monotheistic meanings thereof. The inflow of these respectful words into the English language from the profane gutter of the Grecian pagan thought polluted even the Monotheistic revelations of the Hebrew prophet Moses; and it was due to this ill-borrowed terminology that the English dictionary while referring to the 'Jewish commonwealth from Moses to the monarchy' as "The Theocracy" could not realize its mistake, but a real Monotheist clearly smells the rot in it.

In the definition of theocracy copied above from the concise Oxford Dictionary we find mention of a 'Sacerdotal class'. Under the word 'sacerdotal' the same dictionary remarks: "Of priests or priesthood, priestly; (of doctrine etc.) ascribing sacrificial functions and supernatural powers to ordained priests, claiming excessive authority for the priesthood". These excessive authorities are claimed and practiced only and only by polytheistic theocracy. No monotheistic theocrat can ever dream of it, because he believes the Solitary God alone to be the source of all powers, with no power for the created human beings except for the propagation of the Law revealed by God, and its implementation in daily life by peaceful persuasive methods and not by use of force, or abuse of self-acquired power.

History reveals that the self-assumed sacerdotal powers were exercised only by the followers of the polytheistic creeds of Greece, Rome, Egypt and India. Of them all, the Hindu polytheism still survives. It believes in a number of gods, each having its own role to play in the Universe. These gods have souls of their own and

they occasionally transmigrate into human bodies; like some gods having appeared as Rama and Krishna, who are consequently worshipped as deities with the help of their clay, wooden or stone statues.

Hindu polytheism divides the human race into four classes: the Brahman being the master class, and the Shudra being the detestable and untouchable meanest class. According to the recent trend initiated by the late Indira Gandhi, non-Hindu minorities like the Sikhs and the Muslims must realize that being Indian nationals they must embrace Hindu culture and creed in the interest of Indian unity. With this foolish idea in her head she incited bigoted Hindu political and cultural parties and factions to rise in revolt against these two minorities. She desecrated the Sikh Golden Temple at Amritsar, and used army to kill Sikhs by thousands. Naturally such a mad act against a community resulted in her murder. But the hatred she flared up against the Muslim and the Sikh minorities took the whole Bharat by communal riots, arson and killing. And if this madness is not controlled by her succeeding son, it could spell disaster for the unity of Bharat.

In Islam there is no sacerdotal class claiming any spiritual or temporal power over the Muslim masses. According to the Revealed Law of Allah Islamic form of government is not theocracy as understood by the East or the West. It is the establishment on earth of a peaceful and prosperous society, worshipping Allah and strengthening the Brotherhood of Islam, regardless of race, colour and country.

Now let us consider the oft-trumpeted democracy. *Demos* is a Greek word like *Theos*, the meaning of which is given in the dictionary as 'personification of the populace or democracy; the people'. Under 'Democracy' the dictionary states: " (State practicing) government by the people, direct or representative; the politically unprivileged class". The word 'Democracy' like 'Theocracy', being of Greek origin is reminiscent of the politically unprivileged class in the old Greek society. How this class fought during long centuries to assert its right is recorded in the annals of history. It is a lengthy story of class conflicts with monarchs, dictators, kings, feudal lords and industrial magnates to snatch back from them their own basic human rights as well as the right to participate in public elections through adult franchise.

Democracy is said to become government of the people by the people for the people only through competitive free and fair public elections between different parties which formulate their respective manifestos, and use their vote-catching slogans to get the maximum number of votes; and thereby grasp the political power for their party to rule over the country according to their own chalked out programmes.

Superficially it appears an emblem of basic human freedoms of speech, assembly, faith and action, and that is why it attracts both the educated as well as the uneducated classes of the

population of any and every country; but if one studies its implications minutely, he will find a lot of good and bad in it. Democracy expresses itself through the vocal demands and exhibitory banners and slogans of different groups of like-minded clusters of the people. As all are free to express their views and form parties for asserting them, a large number of parties crop up. Their leaders occasionally meet to thrash out minor differences and to amalgamate and unite into bigger units for reducing the number of parties and for increasing the numbers of adherents of each. Thus bigger parties, fewer in numbers, but with country-wide following emerge. Naturally their manifestos get revised.

Having become nation-wide institutions, they need large funds to propagate their programmes, and to increase their membership. Wherefrom do these funds come is a crucial question, since the nominal membership fees cannot suffice for this purpose. Bigger donations, therefore, flow in from persons and institutions behind the scenes. As nobody donates for nothing, invisible strings remain always attached to these donations. This is how democratic political parties come into existence in capitalist countries, big or small.

Now let us see how these parties operate. The objective being catching more votes for the nominees of one's own party for each and every representative seat in the country, countless wealth is spent by each party on propaganda to convince the voting public that their nominee, if elected, would enhance the welfare of the locality from which he is elected. This propaganda is carried out through radio, T.V, newspapers, posters and banners. But when the election is over and two or more parties get the parliamentary seats divided amongst themselves, the next stage comes for an equally enjoyable contest for the key posts of the President, the Prime Minister, the Senate and the ministers of the state. Here again the objective is to grab power at the expense of wealth, and nothing more.

Obviously only one party can win the race by marginal or overwhelming majority. This party rules the country and the runner-up party sits on the opposition benches to criticize every good or bad proposal and plan of the ruling party regardless of their merits and demerits so as to lead or mislead the public towards themselves.

Although a lot is said in books on politics about checks and balances between the powers of the President and those of the Prime Minister, but when factually considered, all that stuff is reduced to theoretical quibble. Capitalist countries the world over can easily be divided into two types: one which has inherited the monarchical tradition, and is ruled by a member of the Royal House, with howsoever curtailed powers due to modern trends. In such countries there is no President because that function belongs to the King or the Queen, as in Britain and some other European, Asian and North African countries. There exists only the Prime Minister without any elected President, who looks after the daily

affairs of the State with the help of his ministers. All legislative actions need the approval of the King or the Queen. In the second case, where the country has no Royal House or has got rid of one, like the U.S.A, there is only the President, without any Prime Minister.

Even in countries like those of the Middle East, which had their Royal houses either created by the former overruling European powers, or existing prior to their onslaught, the Royal House still rules supreme by appointing and training its own family members to discharge the duties of various ministers.

Only the case of British India can be quoted as different, which on independence was split up into two sovereign states of Bharat and Pakistan. Both of them tried to practice democracy with checks and balances between the powers of the President and those of the Prime Minister. But there again no check and balance has proved its effectiveness even in the bigger state of Bharat, where the House of Nehrus ruled and still rules supreme, with nominal and powerless Presidents as showpieces. The case of Pakistan remains still in experimental stage.

While talking of democracy, one is justified to quote the case of South Africa, ruled by the white minority, segregating and subjugating the black majority by coining a word 'Apartheid' and reducing all blacks to slavery, which is not only tolerated but connived at by all the wealthy democratic capitalist countries of Europe and America. With such instances to witness, one is left with no alternative but to say that 'Democracy' is a farce, a fraud, and hypocrisy, a sacrificial goat offered for slaughter at the altar of self-interest and national interests.

Yet the story of democracy will remain incomplete without the mention of 'Democratic Socialism', a drama being played in Socialist countries of Russia and her satellites. Here the Communist Party of a handful of dictators nominate each and every solitary representative of the numberless units into which a Socialist Republic is divided; and the people are called upon to cast their votes in his favour. The people have no choice but to carry out this exercise, because everybody knows the consequences if they do not.

Honest democracy needs honest principles to work upon, and honest people to enforce it on earth. Honest principles cannot be formulated by selfish and dishonest people, howsoever learned and wise they might be. They can be formulated by God and God alone; and revealed to the public through His Prophets; like Muhammad, the Holy Prophet of Islam, (peace be upon him) who not only pronounced these principles in the Holy Quran and Sunnah, but also trained his disciples how to act upon them. It is, therefore, the principles and practice of Islamic polity alone which can come to the rescue of the human race in general, and of the Muslim State in particular. Therefore, let us consider it in broader outlines.

19.6. THEORY & PRACTICE OF ISLAMIC POLITY.

We have reviewed the alluring democracy enough to locate its pitfalls. As it is founded on self-interest, it fails to appreciate properly the interests of others. To assume that the clash of self-interests of various persons and parties produces a self-balancing harmonious system, is an indiscreet and fallacious assumption, which begets a misleading device. Clashes cannot and do not produce harmony and concord; they only and always result in the destruction of one system to give place to another.

This infallible truth was used by Karl Marx to base his ideology upon. Since it was difficult to destroy capitalism by logical arguments, he formed a Communist Party to arouse class conflicts between the working class and the capital owning class. This conflict was flared up by inciting hatred between the two under the slogan of the 'dictatorship of the proletariat' to be raised on the corpses of the capitalists. The death of each and every capitalist, instead of the capital itself, was made the inevitable goal. In Russia Socialism succeeded to establish itself as a state policy at the close of the First World War due to tactful and timely use of the opportunity offered by the war situation, while the prime motive force remained the clash of interests of the two different sections of society.

These historical facts pinpoint that self and community interests are human tendencies, existence of which cannot be denied. They may be tamed and controlled by discipline but they cannot be eradicated. The Holy Quran emphatically confirms their existence and consequential results of their display in an unambiguous, prophetic and explicitly warning tone in Sura Al-Takasur, which reads as under:

"The mutual rivalry for piling up power and pelf engrosses and ties your attention throughout your life till you visit your graves. But nay, soon you shall know the reality. Again you will know soon. Really if you were to know with sure and certain knowledge, you would be able to observe the hell-fire. And then you will see it as an actually happening fact, then you will be pressed to account for all the enjoyments you lustfully have been indulging in". (Sura Al-Takasur, Verses 1 to 8).

Doesn't this prophetic picture depict the prosecution of the capitalist at the bloody hands of the Socialist prosecutors in Russia and elsewhere, wherever the Communists captured power? While surveying any era of history, including the early Islamic era, the fact that being led by self and community interests is a human tendency, should always be kept in mind.

When the Holy Prophet Muhammad (peace be upon him) founded an Islamic State, his word was law, as it was Divinely inspired and therefore none of his followers could doubt its rationale. But when he breathed his last, the Muslim community lost its most honoured leader, and found itself in a predicamental

situation as to who would lead them in the Prophet's footsteps. Quite a number of his befitting companions like Abu Bakr, Ali-ibne-Abu Talib, Umar bin Khattab, and Abdullah-ibne-Abbas etc: were there, each of them being equally capable to lead, but there had to be only one Khalifa-tur-Rasool or Amir-ul-Momineen, which had to be chosen, if not by all, atleast by the important and learned companions. Yet this elective job could wait till the burial rites of the Holy Prophet were over and all the above-mentioned persons were busy in their performance.

While many Muhajirs and some Ansars were busy in the function of preparing for burial, a person came to report that the Ansars were discussing the succession question in Suqaifa Bani Saedah and insisting on selection of Saad-bin-Ebada, Chief of the Khizraj tribe as the Khalifa of the Muslims in view of the great sacrifices of the Ansars for the cause of Islam. Hearing this report Hazrat Umar apprehended split in the Muslim ranks at this critical juncture and asked everybody to rush to Suqaifa to nip it in the bud before it became too late. Hazrat Ali and all other near relatives of the deceased Holy Prophet could not leave the job in hand for evident reasons, but Umar prevailed upon Abu Bakr and Abu Obeidah to visit Suqaifa for telling the Ansars not to hurry with this tender issue before the burial of the remains of the Holy Prophet, as it needed everybody's attention and opinion.

Hazrat Umar wanted to start the dialogue with the Ansars, but Hazrat Abu Bakr did not allow him, and took the initiative in his own hand. The Ansars pointed out that the Muhajirs were driven out of their hearths and homes by the Qureish of Makkah a, and the Ansars welcomed them at Yasrab, which rose to become Madina-tun-Nabi, due mostly to the sacrifices offered by the Ansars; therefore the Ansars had a prior right to succeed the Holy Prophet rather than the Muhajirs. And they added that their chosen leader, Saad-bin-Ebada of the Khizraj tribe would spare no pains to preserve this well deserved right of the Ansars.

In reply Hazrat Abu Bakr acknowledged the Ansars services to the cause of Islam and their hospitality towards the Muhajirs, and pointed out that at that critical juncture the unity of the entire Muslim brotherhood was at stake and said that this unity would not be preserved even if the Muhajirs yielded to the demands of the Ansars., for the obvious reason that this internal division was yet unknown to the various tribes and clans of Arabia, who respected the Qureish of Mecca as their spiritual leaders even before the advent of Islam. To keep them united under the banner of Islam and to avoid division, anarchy and collapse of the Islamic movement that moment demanded that their leader, Amir or Khalifa should be from the Qureish, and from no other tribe.

Many Ansars were impressed with the logic of this speech, but an Ansar, Habab bin Manzar Khizraji stood up to suggest that let there be two Amirs, one from the Muhajirs and one from the Ansars; but Hazrat Abu Bakr politely replied that in that case the

elders on both sides would be breaking the Muslim unity themselves instead of preserving it. He pushed his two companions Umar and Abu Obeidah to the fore and asked the Ansars to choose any one of them to be the Amir, as both were from Qureish. But both of them immediately suggested that Abu Bakr himself had a priority, being the first Muslim amongst the adult males, and being the companion of the Apostle in the cave, and for having given all his wealth for the cause of Islam. Saying this both Umar and Abu Obeidah submitted their hands placing them on the right hand of Hazrat Abu Bakr in acknowledgement of his leadership, and some Ansars did the same.

At this stage many other Ansars from within the Suqaifa and from those standing outside accepted the leadership of Hazrat Abu Bakr, except Saad bin Ebadah, who was overwhelmed with grief; but as Hazrat Abu Bakr had heard from the Holy Prophet to deal leniently with Ansars, he said nothing to Saad.

The next day after the burial of the Holy Prophet, Muslims gathered in the Prophet's Mosque, and Hazrat Umar got up to report what had happened the day before at Suqaifah Bani Saad, and how they had accepted the Khilafat of Hazrat Abu Bakr. There upon all those present in Madina acknowledged the leadership of Abu Bakr, except Hazrat Fatima and Hazrat Ali, because due to their close blood relationship with the Holy Prophet, they felt that his office belonged to Hazrat Ali.

Hazrat Fatima died six months after the demise of the Holy Prophet, and Hazrat Abu Bakr visited Ali's residence for condolence at the sad death of his dear wife. They talked and discussed various issues including the subject of Khilafat, and finally they reconciled. Hazrat Ali cooperated with Hazrat Abu Bakr, Hazrat Umar, and Hazrat Uthman whole-heartedly without any reservation during the periods of their Khilafat and advised them candidly, and his advices were gratefully accepted by the three. These are facts of history and there are no evidences to the contrary, although some people deny them, making it a controversial issue between the two major Shia and Sunni sects of Islam.

The purpose of this section of the book is to describe the Islamic mode of electing or selecting an Amir or Khalifa as disclosed by historical traditions. To examine and pass judgement on the Shia - Sunni controversy is beyond its scope; and therefore, we refrain from it.

We have narrated how Hazrat Abu Bakr became the first Khalifa-tul-Muslimeen. His rule was short. When he fell ill and felt that death was near, he consulted some companions of the Holy Prophet and appointed Hazrat Umar to be his successor, before he breathed his last. Hazrat Umar was stabbed by a non-Muslim slave Abu Looloo in 23rd Hijra and he died due to the mortal wounds after three days. Before dying he appointed a committee of six persons namely Hazrat Ali, Hazrat Uthman, Hazrat Abdullah bin Owf, Hazrat Talha, Hazrat Zubair and Hazrat Saad bin Abi Waqqas

saying that they were the cream of the Ummah and he requested them to choose one of themselves to become the Khalifa after his death.

How Hazrat Uthman was chosen by the committee is no secret. It is recorded in history and open to every body's comments. In 35th: Hijra Hazrat Uthman was killed by a revolting mob, and after three days Hazrat Ali agreed to shoulder the responsibilities of Khilafat on the insistence of Ansar and Muhajir elders. He was killed in 40th: Hijra by vicious conspirators.

In recording this brief chronicle the object is to pin-point two important facts; firstly that the mutual consultation in all public matters including the choice of an Amir or Khalifa was obligatory being ordained by Allah; but it did not evolve any specific form or methodology during the regimes of the four respectable Khalifas and continued to differ under changing circumstances. As such it is still open to us to evolve and adopt any method necessitated by our existing situation and demands, provided it infringed no Divine ordinance nor created any split in the Muslim unity. Secondly whatever the Holy Prophet and his companions did in good faith for preserving the unity of the Muslim community and for upholding the banner of Islam high, right upto the supreme sacrifice offered by Hazrat Imam Hussain (peace be upon him) becomes a piece of our golden history to adore and follow with full faith and sincerity. It does not behove us to sit in judgement on the faults and failings of anyone of them. As a devout Muslim to whom the unity of Muslims and upholding the banner of Islam is most dear, we must refrain from becoming self-appointed judges to discuss the origin of and dilate upon the Shia - Sunni theological differences or wearing the narrow geographically national or tribal garbs on to fan the Arab-non-Arab hatreds.

Reverting to the proper theme of the theory and practice of Islamic polity we might say that it has been reiterated at various places in the Holy Quran that to create and to order are the attributes of God and God alone.

"Your Guardian-Lord is Allah, Who created the heavens and the earth....Isn't the creation and the command for Him alone? Blessed be Allah, the Cherisher and Sustainer of the Worlds". (Sura Al-Aaraf, Verse 54).

As the creative power is the only proper judge to pronounce the object of creation, He has done so in clear cut words:

"I have created Jinns and Human beings for no other purpose but to obey Me, worship Me and comply with My Ordinances". (Sura Al-Zariyat, Verse 56).

Such being the case Allah has explained the mutual relations between various nationalities thus:

"O mankind! We created you from a single pair of a male and a female, and expanded you into tribes and nations so that you may know and identify each other, (instead of despising one another). Verily the most honoured of you in the sight of Allah is he who is

the most God-fearing amongst you. And Allah has full knowledge and is well acquainted (with all things)". (Sura Al-Hujurat, Verse 13).

Guidelines for conducting public affairs were also revealed to the Holy Prophet, who though Divinely guided through and through, was also advised to consult his companions. *"(O Apostle) consult them in affairs of the moment. Then when you have taken a decision, put your trust in Allah, for Allah loves those who put their trust in Him"*. (Sura Al-i-Imran, Verse 159). And for the Muslim community in general, it is ordained: *"(The believers) harken to their Lord, and establish regular prayers; and conduct their affairs by mutual consultation and spend out of what We bestow on them for sustenance"*. (Sura Al-Shura, Verse 38).

In the light of the above Divine instructions Islamic polity is bridled substantially, and is not permitted the freedom enjoyed by the free secular society. Muslim society is an ideological society and has its own curbs and restrictions, like the Communist society which harness its public under its specific yoke. There is nothing to be apologetic or feeling shy about it. As all Muslims are tethered to their specific ideology and have to conduct their social, economic and political affairs according to it, there cannot be any political party under Islamic polity, since the Islamic manifesto alone can be operative. Consultations can take the shape of adult franchise to choose the most God-fearing and technically the most apt persons to form an assembly or parliament for governing the people in the most appropriate way,³ and also to elect one of them as the Amir or Khalifa. But nobody can aspire to be elected, nor permitted to canvass for being elected, since such aspirations and efforts betray his selfish desire for power, which disqualifies him under the Quran and Sunnah. Let others elect him if they deem him worthy and useful for the Muslim society; but he himself should have no say in it.

Party politics is the child of secular democracy, it cannot be a legitimate offspring of Islamic ideology. As no forced adherence to Islam is imposed by Islam, all Muslim countries are free to choose secular democracy as their political creed, but they have no right to label it as Islamic polity. In fact such Muslim thinkers should consider whether their option is not likely to spill them out of the pail of Islam.

We have so far considered the theory of the Islamic polity. Since the theory demands a specific type of discipline and permits no undue freedom, the probe into the practice of Islamic polity requires careful handling. If a predominantly Muslim country intends to declare Islam as its state religion with a view to mould the lives of its Muslim inhabitants according to the teachings of Islam, such of its intelligentsia which is well versed in those teachings, must step forward with honest devotion to give the lead. Majority of the Muslim population of the world today is ignorant of the spirit of Islam and they need the guidance of such Ulema who are fully

conversant with the legitimate demands of modernity and are capable of satisfying them. They must come to their succour and enlighten them with spiritual and temporal bliss.

It is a tender field to tread upon, and one is likely to make mistakes while offering solutions. With this qualification and seeking forgiveness from Allah we offer our humble suggestions below.

To begin with let us assume that almost all the individuals and groups of an overwhelmingly Muslim country merely brag their wishes for Islamization, but take no practical step towards it. However, we find among them a few who genuinely wish a change for the better but they neither possess any means nor have any influence over others. Let us carefully ponder over the Quranic verse: "Allah does not change the condition of a people unless they themselves change the condition wherein their own individual selves lie". (Sura Al-Raad, verse 11). It teaches us that collective changes in any society for better or for worse start from changes which the individuals of that society bring about in their own persons. Here we can make use of the sprinklings of our society with genuine wishes for improvements and preach them to start improving their own outlook and behaviour by trying to cast themselves into the Islamic mould. We, as one of them can take the initiative and become their guide by contacting such people and forming little self-improvement groups or cells and supervising the progress they make. With a humble beginning from one place this movement can be spread throughout a town, a district, a province and infact throughout the country, provided the leadership remains with the self-effacing God-fearing persons, and the movement remains non-political and non-economic.

Articles in the newspapers and in the form of pamphlets for free distribution, as well as speeches on the radio and television can be availed of, if possible. This sets the ball rolling. The next step can be the setting up of an Institute for Islamic Revival. It may look a grand idea needing plenty of financial resources, but it need not necessarily be so. It is the spirit of selfless workers that is primarily needed and not the finances. We have before us the example of Tablighi Jamaat, an organization which is prompting the Muslim folk to be regular in saying their prayers in the mosques, and to discharge their other duties towards Allah. This organization has a world wide following and operates exclusively on self-help basis, without asking for any financial contribution to meet its expenses. Their modus operandi is to hold conferences occasionally at different places. Arrangements to accommodate those who attend the conference coming from other places is to be made by the local members of the Jamaat by mutual self-help, hiring tents and canopies for this purpose and charging nothing for this service. Delegates from other places incur their own travel and boarding expenses. When the Tablighi Jamaat can perform its mission without any financial problem, why can't we initiate and

run our Institution for Islamic Revival similarly?

We need no permanent building for the Institute nor any paid employees to conduct its affairs. The movement can easily be run on self-help basis like the Tablighi Jamaat. Delivering lectures and writing articles for elucidating the objectives of the movement will have to be done gratis by those who are well-versed in the Islamic theology and are conscious of their duty towards their Muslim brothers. We know that by imposing the condition of free contribution of talent and effort we would be deprived of many talented and helpful scholars; but if such talented scholars are God-fearing as well, they would extend their cooperation gratis; and if they do not, we do not need them to join our venture. We can do without them.

The object of this institution is to train the Muslim population for observance of Islamic teachings in general and of comprehending the essential attributes of Islamic polity in particular as explained in previous pages. This preaching, teaching and training has to continue long enough to ensure that the people have learnt to discriminate properly between the Islamic polity and the so-called democracy; and have imbibed true spirit of Islamic polity so much so as to abhor Western democracy, regarding it a snare.

To reiterate we give below some moot points about Islamic polity. A welfare state is a state wherein all individuals find with normal efforts jobs available to them to earn their livelihood with healthy genuine exertions. Such jobs must pay enough not only to make both ends meet without difficulty, but also to save enough for constructing a modest house with necessary furnishings; for educating one's children to become productive members of society; for helping one's poor neighbours; and for paying state taxes. To establish and maintain such a state is the goal Islamic polity strives to reach.

(1) Self-interest and interests of society are two different goals, poles apart. And the roads leading towards each run in opposite directions. Self-interest is embedded in human nature and it cannot be effaced. But its effacement is not necessary. What should be done is to provide it with a harness and to train it for bearing the yoke of social interests of the community, with a willing participation.

(2) Politics or conduct of state affairs is a service and not a hunt for power. Those who believe it to be a hunting ground for power belong to the camp of Western democracy. As their aim is selfish, they lack real spirit for social service. Their approach is unhealthy and needs our attention. No doubt they behave like spoiled children, still they are our own children, and it becomes our responsibility to put them on the right path with tactful education and proper grooming.

(3) All compilations of the sayings of the Holy Prophet reveal that the Holy Prophet refused to appoint such of his companions on state services who expressed desire to be so appointed, for the

evident reason that such desire sprouted from selfishness which choked genuine spirit for selfless public service. Adoption of this practice as one of the principles of Islamic polity will fetch us a helpful team of state officers.

(4) A welfare state needs properly enlightened, trained cadre for its operation. In fact the entire population of a state aspiring to become a welfare state need such training and guidance. To impart such training an institute for coaching and enlightening the general public is an unavoidable necessity. The state must hasten to set up such an institute, and if those at the helm of affairs are blind towards it, the intelligentsia may take this responsibility upon themselves and start educating the people, with whatever limited resources they possess. Where there is a will, there is a way.

(5) The Holy Prophet ordered that whenever two or more Muslims proceed to conduct any operation or go on any expedition, they must first choose one of themselves as their Amir, conduct their affairs with mutual consultation but follow the verdict of the Amir as an imperative obligation. If we comply with this order of our Holy Prophet in our daily routines, we will become a disciplined community in a short period.

Let these few moot points be our guides for the conduct of Islamic polity. Our learned Ulema may kindly suggest more of them. All well-considered guidelines are bound to be helpful.

19.7. FUNDAMENTALS OF A SOUND ECONOMY.

Economy of each and every country comprises four activities of Production, Exchange, Distribution and Taxation. A sound economy demands an efficient management of all these four fields. So let us survey them briefly one by one.

(I) PRODUCTION: means converting all available natural resources into products of utility by the country's manpower with technical know-how and skill. Efficiency in production thus entails survey and prospecting all the existing, visible and hidden resources of the country, and learning the needed know-how to extract and convert them into products of utility. This aspect of the national activity is a vast field of technology, apart from what books on economics deal with. The social science of economics deals with efficient management of productive manpower and machines.

There is a serious misconception throughout the secular world about the act of production. They claim to have produced a lot of commodities essential for our sustenance and our welfare; but they forget that their role in the production of those commodities is merely that of a supervising technician, a convertor, who having learnt the know-how of the processes of nature tries to avail of them to his advantage. He does not produce cereals, vegetables, eggs, milk and water. There is someone else behind the scenes who does it. We as supervising technicians have learnt what circumstances accelerate or retard the natural processes, and due to

that acquired knowledge we try to provide helpful circumstances and avoid the harmful ones. We only manipulate, convert, but do not produce. This limited role does not entitle us to claim the title of producer in its real sense. Then why not restore the credit of creation, production and sustenance to its proper authority?

On this suggestion our secular friends protest that it was a non-economic issue which had nothing to do with economy. Surely such reply avoids to see things in their true perspective. To remember that the creator is the Provider and Producer and that we are merely attendants on the assembly line, makes a world of difference between our approaches to the economic issues. Seeing things in their true perspective helps us to appreciate the relative positions of the Creator and the created ones; and can act as a reminder that we, the created ones, who are being constantly sustained might be held accountable for our behaviour towards our fellow human beings. Surely this would provoke us to act more judiciously. It is a fact that all our economic ills stem from. Making ourselves the sole judges to decide which are economic issues and which are not. In all economic fields judicious mutual human relationship counts most.

(II) EXCHANGE: As the so-called producers do not themselves consume the production, they push it into the exchange market so that the consumers may buy the products for personal use with money. Thus the exchange part of economics deals with the process of exchange, the medium of exchange, the commodity markets, and the marketing activities indulged in by the mercantile community, both for indigenous and foreign, trades. Thus this heading deals with a vast variety of subjects: the monetary system, the trade practices, both real and fictitious, the role of banking network in soliciting deposits and lending money on interest, as well as conducting the foreign trade and controlling the country's position in international balance of payments. Islamic guidelines exist on all these topics, but their discussion in detail needs separate sections and chapters, which follow. Here a bare mention is enough.

(III) DISTRIBUTION: is that part of economic theory which deals with the sharing of wealth produced by joint human effort, by the various factors of production. Capitalist economy acknowledges four factors of production namely Land, Labour, Capital and Entrepreneur. Quite a number of pertinent questions arise in this field as well; most important among them being who apportions the sharing and what principles guide him to distribute equitably? Is capital justified in exacting its share as a pre-imposed tax regardless of the success or failure of the venture? And is land similarly entitled to recover rent or indulge in crop-sharing?

When both capital and land impose their own terms, how do the remaining two factors fix their shares? How far can a contract entered into between a hungry labourer and a belly-filled entrepreneur be called equitable? In the joint venture of the four,

the labour seems to have been shabbily treated in spite of being as much human as the landlord, the capitalist and the entrepreneur. These are some moot issues of distribution, and as Islam claims to uphold equity, it becomes the responsibility of Islam to answer these questions to the entire satisfaction of all fair-minded persons. The problems of distribution are many and varied, like the problems of exchange, and demand comprehensive discussion, which will be conducted in the following chapters.

(IV) TAXATION: No state can run its administration without revenues to finance its expenditure. Taxation is the only method for pooling state revenues. What the Socialist and the Capitalist economies do in this regard is known to the students of Political Economy. What the Islamic Taxation system is, and how it differs from the other two, is explained in one of the chapters that follow.

With these brief remarks we close this chapter to discuss Islamic Economic Ideology and practice in detail.



ISLAMIC MONETARY SYSTEM

20.1. ESSENTIAL ATTRIBUTES OF MONEY.

In any economic system money plays an important role. It becomes the medium of exchange, measures the quantum of value of all commodities and services and forms treasure of wealth. To perform these three functions efficiently money must remain stable as a measuring scale. If the value of money fluctuates, its stability as a measure vanishes, and all calculations based on such a faulty measure become falsified. With dubious data of production, exchange, distribution, and taxation one fails to comprehend whether the country's economy is improving or deteriorating. Stability of measure is a must for all types of measures, but as in economics the overall calculations are made in terms of money, monetary stability is of supreme importance. Islam stresses upon the accuracy of measures of all kinds including money and commands to perform the measuring operation honestly and correctly. The Holy Quran ordains:

"Do not give short measure and weight.... Give just measure and weigh honestly and do not withhold from the people the things that are their due". (Sura Hood, Verse 84,85).

"Give full measure when you measure and weigh with a balance that is straight and correct. This is most befitting and advantageous in the final determination". (Sura Bani-Israel, Verse 35).

"Give just measure and cause no loss (to anybody fraudulently). Weigh with scales which are true and upright, and do not withhold anything that is justly due to other persons". (Sura Al-Shuara, Verses 181 to 183).

"Woe to those who deal fraudulently: those who when they receive from others by measure, exact full measure, but when they have to give by measure or weight to other people, give less than due. Do they not think that they will be called to account on a Mighty day a day when all mankind will stand before the Lord of the Worlds". (Sura Al-Muteffiffeen, Verses 1 to 6).

As accuracy of all exchange operations depends upon the accuracy of the measuring scales, stability of the monetary unit of

any country acquires a pivotal position. That is why we initiate the study of Islamic economics with the discussion of Islamic monetary system. The first important condition of a stable economy is to admit that to mint money and issue it to the public for use is the monopoly of the state, which no other institution can violate. So to restore to the state its rightful responsibility becomes the first requirement of the Islamic monetary system. If others are allowed to manufacture bogus money the economy of the country is bound to flounder. Most of us may not know it, but it is a fact that in all countries operating on capitalistic lines, multiple money creating institutions exist and thrive with the blessings of the state authorities. Such duplicity is forbidden in Islam. All Muslim states aspiring to Islamize the country's economy should be aware of it, and get ready for a big change. God does help, but He helps only those who try to help themselves.

20.2. LET STATE ALONE MINT MONEY.

If you read tenth chapter of this book again, it will refresh your memory with reasons why the state alone should have the monopoly of minting and circulating money. Money can act as a universally acceptable medium of exchange if, and only if, the public feels sure that the monetary unit is made of a metal having its own intrinsic worth, like gold and silver. Anybody and everybody will accept in exchange for his goods monetary coins which command public confidence due to their intrinsic worth. Only in that case, in spite of the collapse of the monetary system for any unforeseen reason, the people can melt the coins to regain the value of their exchanged goods. Confidence in state authorities of any country for its monetary unit is not based on any verbal or written assurance of the state; it is based on the intrinsic worth of the metal which forms the coin. Both Quranic stress on the true worth of measure as quoted above and the practice of the Muslim states in early Hijra centuries confirm that a true and acceptable monetary unit is that which stabilizes its worth due to the intrinsic value of the metal it is made of.

If every gold and silversmith is allowed to mint coins freely, he is likely to commit forgery by violating the standard of purity of the gold and silver used. Hence the state alone should mint money and nobody else be allowed to do so, to avoid such a happening. Private minting must be declared a crime punishable under the law. If the state complies with these judicious and fair suggestions the monetary unit of the country concerned will continue to command stable value, and it will remain a stable measure for valuing other commodities. History confirms that for so long as the gold standard was honestly observed and retained by the various countries of the world, the word 'inflation' remained unknown. It was coined only after the debasement of money by nibbling at the gold reserves lying in store in the currency chests in early twentieth century.

To explain why money-making monopoly should rest with the

state alone, it will be helpful to analyze the institutions which create quasi-money. An exposure of their exploitory tactics will bring to light the anti-social, anti-moral and anti-religious elements concealed therein, and thus generate demands for remedial measures. As commercial banks top the list of such institutions, we will attend to them first.

20.3. THE BANE OF THE COMMERCIAL BANKS.

The general public does not even know that the bank money is quite different from the real money. We will explain how it differs and what mischief it plays. Depositors go to Bank and deposit their savings primarily for safe custody. As the depositors do not withdraw bulk of their deposits generally, withdrawing only a fraction of it in case of need, the commercial banks have learnt by experience that if they retain only eight percent of the deposits in cash to meet emergency withdrawals, they can safely lend the remaining ninety two percent on credit to others, and they do lend it on interest. The novelty however arises in the way lending operation is performed. It does not happen in cash form, but takes the form of credit creation. It involves no transfer of currency from the Bank to the borrower. The borrower does not usually want currency; it is much more probable that he will prefer to make most of his payments by cheques, and what he wants from the Bank is the right to draw cheques. The right to draw cheques derives from possession of an account at the bank; and when a bank lends money to a client it does so by 'creating a deposit' in his favour. This deposit has no physical existence at all, except as strokes of ink in the Bank's ledger. Yet it is just as useful to the borrower, and just as effective a money as a deposit arising from the payment of cash into the Bank. The Bank has in fact created money simply by saying that Mr. X has the right to draw cheques upto a certain value, and giving him a cheque book. Thus loans create deposits and deposits create loans.

In countries with fully developed banking network the bankers do create bank money to the extent of twelve and a half times the deposits they gather from the public in cash. Everybody becomes bank minded in such countries since manufacturers and traders avail of the bank credit facilities, and all their purchase and sale documents flow through the banks, and the workers are also paid by cheques, which they collect through their bank accounts. One can therefore safely assume that the biggest chunk of the real money circulated by the state flows into the banks.

However a considerable amount of real money remains outside the banking circuit, and its estimation is a mere guesswork. Some money always remains with the public for meeting day to day cash requirements of the consumers and the suppliers. Some money remains with the illegal traders engaged in smuggling and drug traffic etc; and even some other traders who are inclined to evade duties and taxes keep some funds away from the banking network

for conducting underground business. If we assume that one half of the total money put into circulation by the state, thus remains outside the banking circuit, and the other half flows through the banks, the banks would be creating six and a quarter times as much bank money as the total currency issued by the state. Thus the economy gets flooded with seven and quarter times as much money as the real one. Such a large scale monetary expansion is bound to reduce the purchasing power of money drastically, spreading inflation by pushing the prices upwards in direct proportion.

We have learnt what credit money is and how it is created out of nothing. In spite of the damage it does to the monetary values, the bankers continue creating it because it is a highly profitable occupation. A cash deposit of Rs. 100/- enables the bankers to create a credit of Rs. 1,250/- on which they earn an interest of Rs. 125/- every year by lending it out at ten percent per annum. The overall cost of maintaining a banking establishment for handling every cash deposit of Rs. 100/- and ensuing credit of Rs. 1,250/- should not exceed Rs. 15/- at a reasonable estimate, but let it liberally be Rs. 25/-, thus saving a net income of Rs. 100/- for the banker's profit. This means that the banking earns every year as much as the total cash deposits it receives. If half the paper currency circulated by the state flows through the banking network, as assumed earlier, the net work will be earning in just two years money equivalent to the total monetary wealth of the state.

By creating bank money the banking system indulges in two evils. It reduces the purchasing power of the real money to a fraction, and it concentrates wealth into the hands of the banking community at a very high speed. Both these evils are enough to condemn the very existence of the commercial banks and sound their death knell. Can any Muslim country, claiming to uphold the banner of Islam dare to co-exist with such an anti-Islamic institutions? Alas, none but the hypocrites can!

20.4. OTHER QUASI-MONEY CREATORS.

A document recording a particular person's right to ownership of some property is neither money, nor quasi-money; but if that document is made negotiable by endorsement and allowed to be freely traded in the money market, it becomes quasi-money. Large scale trading in Government Securities, Stocks and Shares has made them quasi-money, producing monetary expansion with some contribution to inflation. Such trading being fraudulent and economically non-productive is un-Islamic and therefore must be banned in a Muslim State.

Behaving as quasi-money government securities contribute to monetary expansion a great deal. The British currency reserve consisted of government securities to the extent of 99.57 per cent in 1970—a quantity almost equal to the total paper currency issued by the Bank of England. An equal quantity can reasonably be

assumed to be in possession of the money market, the commercial banks, and the general public. When most of these securities are freely traded, in the money market, the extent of monetary expansion they will produce can be well imagined. To avoid inflation such trading should be disallowed by the state. This can effectively be done by declaring government securities non-negotiable at the time of their issue.

Government securities or Public Debts are floated for a stipulated period of five or ten years, and they are made negotiable to facilitate their premature encashment by the needy holders. But this facility has been abused by regular and speculative trading in these documents. The facility should, therefore, be withdrawn. Those who cannot afford to lockup their savings for the stipulated periods of these loans should abstain from purchasing them. They can easily find other avenues of profitable investment. As negotiation of government securities has spread inflation and promoted speculative trading, it must henceforth be legally banned, and all future state loans must be issued non-negotiable.

Joint stock companies issue their shares in small monetary units to promote saving and investment, and with the capital so collected they put up big industrial concerns which produce wealth and promote national development. These objectives induce state authorities to promote capital formation by launching Investment Trusts and Investment Corporations as Joint Stock Companies. The role of these institutions demand our comments; but as they carry out their business at the Stock-exchanges, a few words about these stock-exchanges should precede.

Trading in stocks and shares is carried out in stock exchanges whose members are called stock brokers. They buy and sell government securities as well as stocks and shares of Joint stock companies and Investment Corporations for themselves and for others. People know the stock exchange as a place where they can buy investments of their choice and dispose them off when desired through these stock brokers. For small investors bent on deriving a reasonable yield from their investment, this is the only utility of the stock exchange. But for the speculators it is a fertile field which can yield bumper crops. The stock brokers as well as other individuals and institutions including investment corporations indulge in speculative trading in stock and shares here and reap the harvest. Such speculative trading, no doubt, increases the wealth of some at the expense of others, but as it cannot increase the national wealth by a single penny, it is both non-productive and anti-social. Such trading should therefore be banned. Islam definitely prohibits all speculative deals. Stock Exchanges are brothels of money, deserving to be demolished. Those who call themselves Muslims and still indulge in and permit stock exchange operations are hypocrites. They should take good care of their faith and revive it with Islamic deeds.

An investment corporation comes into existence as a joint

stock company inviting public to subscribe to its shares. As the object of such corporations is not to put up any industry for actual production of utility goods, nor to trade therein, the purpose of floating such corporations is stated in vague terms like providing a sound investment outlet, or broadening the base of investment, or diversification of investment to minimize investment risks, or development of capital market in the country etc. etc. In actual fact these corporations are created exclusively for speculative trading in stocks and shares at the stock exchange. They earn profit from the market fluctuations the speculators themselves manage to create, rather than from any productive activity. They serve no national purpose at all. Such futile institutions divert people from genuine Islamic pursuits and deserve to be banned in Islamic countries.

20.5. ONLY GOLD AND SILVER COINAGE CAN STABILIZE THE MONETARY SYSTEM.

Stability of all kinds of measures including money has been explicitly imposed by Islam on Muslim society, as already quoted above from the Holy Quran. How to do it is left to the Muslim community to deliberate upon and devise. Experience of the world through millenniums teach us that monetary stability stems from the stability of the ingredient which composes the monetary units, that so long as the coins consisted of standard gold and/or silver, the monetary systems remained stable in every country of the world, and that stability stretched over long centuries without any impairment. When the Western countries violated this eternal rule, for whatsoever reason they did, they faced the consequences of their violation in the form of fluctuations in their monetary system. As their violation took the form of debasement of their coins, they reaped the consequences in the shape of dwindling worth of their coinage. If we want to restabilize our monetary unit, the only way is to retract our steps. There is no other alternative left. The West could think of none during the last eighty years, since there is none except to retract back to the Gold Standard. but their selfishness forbade them to do that.

If one wants to know the real reason why the industrially advanced countries do not want to go back to the Gold Standard, one should look into the history of how they ousted gold out of the monetary system willfully and deliberately. Industrialized countries are at the giving end of the world economy, while the backward countries are at its receiving end. If gold standard is retained, stable monetary systems prevail all over the world. The foreign exchange parities will also stabilize and the industrialized countries will receive the bare contracted values for the goods they supply to the backward countries; and so would be the case in import of their raw materials from backward countries. Thus prices having been stabilized trading would become an open and fair deal, with no way left for concealed exploitation. This the industrialized

countries do not want. What they want is a Devil-sent hoard, with a mechanism to receive it. And that mechanism was to destabilize the monetary systems of all the countries and to invite inflation to help them. They retained gold with them to make their currencies strong enough to creep into the currency chests of all backward countries. The I.M.F. and the World Bank were set up to achieve that end. Inflation increases the value of goods, services and loans supplied by the industrialized countries to the backward countries while all countries remain deprived of gold standard; and thus inflation helps the industrialized countries to fleece the backward countries as much as they like. That is why the industrialized countries, whether of the West or of the East abhor gold standard as they would abhor a pestilence or plague.

But Islam which is message of peace and prosperity for all human beings regardless of their colour and creed, wants to spread prosperity all over the world. Therefore stability of the monetary units of the world is imperative in Islam, and this stability lies in the gold coinage.

Retraction to the gold standard is not such an uphill task as it is made to appear. Our proposal is to stop importing all non-essential and luxurious goods, importing gold in their stead with your export earnings. You should tell all exporters of goods to do it with part of their foreign earnings. Ban the export of gold and free its import by all who can. People should be allowed to use gold freely, without imposing any tax on them till they get accustomed to use gold freely in a couple of years or so. Now order that all state taxes and duties would be collected partly in gold. A convenient percentage, say between twenty to forty percent, can be fixed for easy compliance. Collect the decided percentage of tax only in gold form all, and the balance in local currency. Deposit all gold thus received in currency reserve chests, withdrawing in return the debased reserves of equal value. Continue this practice long enough to ensure that all your issued paper currency is fully backed by gold. You are now on full-fledged gold standard. Now mint and put into circulation gold coins in sufficient quantity to establish your prestige in international money markets of the world. Revalue your currency upwards for purposes of foreign exchange to the extent justified by free float. Withdraw paper currency now considered surplus due to fresh valuation, and destroy it. Stability of your money value now rests on firm foundations. Publish weekly Reserve Bank statements of assets and liabilities of the currency department to let the people and the economists of the world know the firmness of your money. This will boost up their confidence in the honesty of the governors of the State Bank and financial bureaucrats of your country.

20.6. PAPER CURRENCY & ITS RESERVE.

Necessity goaded us to adopt money as a helpful medium of exchange, and handling convenience lured us to accept paper

currency as its substitute. To bridge the yawning gap of mistrust between real money and its paper substitute, hoards of gold and silver had to be set aside as paper currency reserve. This guaranty secured fulfillment of the promise to pay real money on demand; but in doing so it raised the sanctity of the reserve sky-high and made it a crucial pivot of the monetary system. Societies using paper currencies must, therefore, not forget that their currency reserves are the foundation stones on which they raise the super-structure of their monetary system, and that the stability of the whole structure depends entirely on the firmness of this foundation.

The intrinsic worth of the constituents of a currency reserve determines exclusively the degree of its soundness at home as well as abroad. It is quite significant to note that inflation could secure no breeding soil for so long as the world retained the gold standard. Currency under the gold standard is allowed to expand only after depositing an equivalent amount of additional gold in the currency reserve, leaving thereby no chance for inflation to creep in; but now gold forms only a small fraction of the currency reserve, the rest contains foreign currencies, state securities and loans assets of fluctuating values, which provide fertile soil for inflation to flourish. A statement of the Bank of England, Currency Department, for the years 1937 and 1970 is reproduced in table 1 from page 49 of Mr. J.L. Hanson's book on 'Monetary theory and practice' to demonstrate our point of view.

TABLE: 1 BANK OF ENGLAND, CURRENCY ISSUE DEPT.

	1937 £. m	1970 £. m
LIABILITIES		
NOTES ISSUED		
In Circulation.	498	3230.5
In Banking Department.	28	20
	526	3250.5
ASSETS		
GOVERNMENT DEBT.	11	11
GOVERNMENT SECURITIES.	185	3236
OTHER SECURITIES.	4	1
COIN (Other than Gold)	-	2
FIDUCIARY ISSUE.	200	3250
GOLD, COIN AND BULLION.	326	0.5
	526	3250.5

This informative statement tells us that gold, the sole component of the British Currency Reserve till the outbreak of the First World War was reduced to 62% by 1937 and to 0.01% by 1970, under a pre-determined policy of the Capitalist countries to oust gold out of the international monetary systems. The statement

further tells us that the government securities which constituted 35% of the reserve in 1937 rose to 99.57% by 1970; and the British currency reserve held the following at the end of 1970.

Government Securities	99.57%
Government Debt.	0.33%
Coins.	0.06%
Other Securities.	0.03%
Gold.	0.01%
Total.	100.00%

The third significant fact which this statement reveals is that whereas a quantum of only 526 millions worth of pound sterling paper currency sufficed to serve all the monetary requirements of the global British Empire upto 1937; long after its break-up it needed in 1970 six times as much i.e. 325% million worth of pound sterling paper currency to conduct its dwindled business. The reason is not far to seek. If we study the persistent co-relation between rising market value of gold in sterlings and the falling monetary value of pound sterling, we are forced to conclude that it was the ouster of gold from the British currency reserve which caused the downfall of the monetary value of the pound sterling.

The fact that in the absence of gold, government securities constituted 99.57% of the British currency reserve also deserves consideration. Government securities are public debts. To make-up the deficiency between public revenue and public expenditure, state authorities are obliged to borrow from the public. They float loans pledging nothing except the public confidence which the people are driven by circumstances to repose in the state authorities. Due to the evident nature of security behind these loans, they are called government securities.

Debt, as everyone knows is a liability, not an asset. To pledge one liability as a security for fulfillment of another liability is an amusing freak of economic witchcraft. Some consider it a downright betrayal of public confidence, and others dub it a swindle perpetrated on a nationwide scale. The Holy Quran calls it a Satanic touch which causes the loss of the sense of proportions.

20.7. QUANTITY OF MONEY AND ITS CONTROL.

How much wealth a country must possess in monetary form is a question which arose only after the world gave up the gold standard. Nobody asked that question before simply because money and gold remained synonymous and mutually convertible with ease during the gold standard regime. But thereafter indiscreet issue of paper currency without adequate currency reserves brought up for discussion the quantity of money as well.

Since money acts as a medium of exchange for marketing goods and services, the quantum of marketable goods and services determines the quantum of money needed for their exchange. The

current total value of all marketable goods and services needed by a country at present can be determined by the statisticians after collecting necessary data. The figure so obtained will represent the purchasing power required by that country at present.

The national purchasing power is evidently a product of two factors — the market value of the country's monetary unit multiplied with the quantity of those units required to meet all the exchange needs of the country. This fact can be expressed mathematically in the form of an equation — $P=M \times Q$ — where P denotes the total purchasing power of the country, M denotes the market value of the monetary unit of that country, and Q denotes the quantity of these units required for all exchange purposes. With constant P any change in M or Q is bound to produce a proportionate inverse change in the other. If the market value of your monetary unit is reduced to half, you will need twice as many units as before, and if the market value of your monetary unit is doubled, only half the existing units will suffice to meet the country's exchange requirements. The equation implies that for any genuine increase in P , proportionate genuine increase either in M or Q or both is necessary.

This equation also explains the spread of inflation due to deficit financing after giving up the gold standard. Increase in the quantity of money by printing currency notes without adequate increase in the currency reserve always reduced the market value of the monetary unit proportionately.

Since national purchasing power is a genuine form of wealth, like all other forms of real wealth it can be increased only by creating additional wealth through the application of genuine productive efforts. All other make-believe gadgets are futile.

Deliberations over the quantity of money reveal some basic truths of grave importance about the monetary system. Since they deserve everybody's attention, they are recorded below.

- (i) The universally accepted practice of using paper currency as substitute for real money demands a cautious approach as it has already proved to be treacherous. To forestall its treacherous behaviour is the first economic responsibility of any state.
- (ii) As money is a genuine and not a mere make-believe form of wealth, any increase in it can be made only by first producing real wealth from natural resources and then converting it or some already existing real wealth into the monetary form, i.e. by increasing the currency reserve with real wealth first, and then printing currency notes of an equivalent worth. Without a proportionate increase in the currency reserve, printing and circulating paper currency is fraudulent and an act of treason.
- (iii) To restore public confidence in the national paper currency the state must publish weekly statements of the currency department of the Reserve Bank or money issuing

institution of the state. These statements must disclose full details of the constituents of the currency reserve.

- (iv) Fall in the market value of one's currency is a signal of something going wrong somewhere. The state authorities should respond to such signals promptly and take appropriate remedial measures.

To determine the quantum of money a country needs and to supply it is obviously the responsibility of the state, and the state would have discharged it easily only if it were allowed to remain the sole supplier of money, and the money minted by the state retained its monopoly as the only genuine money that could be used. But if many independent institutions start forging money and flooding the so-called money markets with their peculiar brands, as it happens under the capitalist economy, monetary control becomes impossible and inflation spreads. Therefore, it becomes essential to restore back to the state its money-making monopoly.

20.8. DEFICIT FINANCING IS DECEITFUL.

The worst any state authority can itself do to cripple its own monetary system is to resort to deficit financing. As we have comprehensively explained earlier, money is money only because of its intrinsic worth. Without any intrinsic value of the material it is composed of, the make-believe money is no money at all. It is a sheer deceit and a swindling device.

The deficit-financing practice consists of printing paper money without any currency reserve to back it; and then to put this sheer paper money into circulation for meeting the expenses of the state. This practice has been made so popular by the beaurocrats of different countries operating under capitalistic economy, that all such countries both industrially advanced as well as backward, now resort to this practice to meet the deficit of their annual budgets. So much so that they claim its universal acceptance as a rationale for its continuation. An economic practice creates its own justification and dictates its own sanctity, they argue and assert that popular acceptance is after all the best criterion for justification. Hence a *fait-accomplis* as such, is no longer worth arguing against, they say. According to them deficit-financing has been accepted universally as it helps to boost up industrial productivity and maintains the survival of the backward countries; hence to raise any hue and cry against it is of no avail.

However, they overlook the dormant truth lying in hibernation beneath the apparent calm, and they ignore the demon of inflation raising its head as a consequence. Deficit financing begets inflation and breeds it to become strong enough to catch us all in its deadly grip. If that were not true, we, too, would have accepted that *fait-accomplis*; but inflation stares us in the face, paralyses our mental operations, deprives us of clear thinking, and hypnotizing us, like a spider hypnotizing a fly to devour it. We surrender and

admit the overlordship of inflation, and agree to live with it. But Islam permits no such devilish suzerainty to any economic device, howsoever cunningly contrived. Deficit financing is fraud and deceit, prohibited by Islam.

20.9. CAPITAL FORMATION : A FUTILE SLOGAN.

Economic development demands production of goods for national prosperity; and the factor of production which provides funds to procure land, construct buildings, install machinery, engage labour and provide raw material for production is called the capital. As no enterprise can run without capital, capital formation is considered a pre-requisite for productive activities.

Every economist will tell you that there is one and only one way of capital formation, and that is to produce more, consume less, and save the rest in liquid form for further investment. The method is correct, no doubt, but whether it applies uniformly to every class of society needs a probe. Our society is already split up into three different classes of the have-nots, the haves and the affluents. Their comparative production potential, their consumption needs and scopes for saving differ so widely that there can be no uniform method of capital formation for all. It differs for each class and adopts separate class patterns.

The have-nots are obliged to spend almost all their incomes on consumption, and if they manage to save a little, they use it to improve their standard of living. They can save nothing to set aside, and so their contribution to capital formation is almost nil.

The haves get equipped with technical know-how before entering the struggle of life. Therefore they earn more, spend more, and still save something to invest in productive lines. Their contribution to capital formation, though moderate, is appreciable still.

The class of affluents is the real capitalist class. Their contribution to capital formation is enormous. They earn a lot as traders and industrialists and plough back all their surplus income for earning more. Under free economy eighty to ninety percent of the country's capital belongs to this class, the class of haves contributing the rest. In developing countries the affluents hardly constitute five percent of the total population, while the class of haves constitute from ten to twenty percent. The remaining more than seventy-five percent are all have-nots, living from hand to mouth.

Earning of the three classes bear different hall marks. Whereas the have-nots earn exclusively with the sweat of their brow, the haves earn mostly by dint of their technical knowledge, but the affluents earn by fleecing the consumers, exploiting the labour and by speculation. They control production, withhold supplies, dictate prices and profiteer, but the ill-gotten wealth that concentrates thus in their hands is justified under the apology of capital formation; although only a part of it is newly created wealth, the remaining bulk being expropriation of what belonged to others. Such being the process of capital formation under free market

economy, it aims at concentration of wealth in fewer hands instead of genuine production of fresh wealth. The propaganda about capital formation is nothing but a futile slogan, much ado about nothing.

Economists claim that interest promotes capital formation. Let us examine how far this is true. Capital is a marketable commodity under free economy, but this commodity is not sold. It is always lent in the money market to fetch interest. So interest is connected with the capital but not at its formation stage. It appears later on, after the capital is formed.

Interest plays a significant role in allocation of funds to various sectors of economic activities, but this allocation is decided exclusively by the profit motive without any regard for national development priorities. As a result state authorities step in with credit control regulations for harmonious distribution of credit.

State credit controls operate by occasional changes in the rate of interest. Contribution of interest in the formation of capital is nominal, if at all. People deposit their savings and surplus funds with the banks not because of interest, but on account of safety against theft the banks provide; the motive being security rather than income. The bank interest rate is so unattractive that the depositors usually invest their funds in stocks and shares on becoming income-minded, rather than remaining satisfied with the paltry interest the banks offer. The claim that interest promotes capital formation is not justified. In fact the truth lies the other way round. Capital breeds interest and promotes usurious economy. Interest thrives on capital instead of promoting its formation. To conceal this fact the slogan of capital formation is used, which in fact is a mere hoax.

20.10. CONCLUDING REMARKS.

A sound monetary system cannot be installed by theorizing alone. Theory only helps to comprehend the truth. Its implementation requires the services of wise, honest, devoted and God-fearing bureaucrats, inspired with the spirit of Islam. If a Muslim country lacks such bureaucracy, the Ulema and the intellectuals should join hands to train the public and produce a befitting team to replace the inefficient bureaucrats with the blessing of Allah, the Almighty Lord.

The issue of interest is closely connected with money and capital, but the spread of the spectrum of Riba, Usury and Interest demands it to be dealt with comprehensively and separately. We therefore close the chapter on Islamic Monetary System here, to take up Riba, Usury and Interest in the next chapter.



RIBA, USURY AND INTEREST

21.1. MISGUIDED ZEAL.

There is an all-round awakening in almost all the Muslim countries for revival of Islamic economic ideology, and efforts are being made everywhere to pave the way for its early implementation. The phenomenon is encouraging to observe; and inspires one to study it closely for assessing the accuracy of direction and goal, their zeal has chosen for its operation. We will be able to judge thereby how far their zeal is well-guided or misled.

Operating under usurious economy inherited from their former European masters, it has become quite difficult for our Muslim brethren to detach themselves from the historically imposed influences to ponder over these problems in a free atmosphere with an unbiased mind. Circumstances press them to think in a different way, and so they argue about interest that every enterprise needs funds to operate, but very few people own such funds; therefore most of them have to borrow these funds on interest since none would lend money gratis. Interest thus imposes its inevitability on them and goads them to persuade their colleagues for accepting the situation and for pleading its rationale to others. So they explain that due to its very low rate, the bank interest is only a charge for services rendered by the capital, and that it cannot be classed as Riba, which is prohibited due to its heinous enormity. No doubt Shylockian pound of flesh and usury at a very high rate are Riba, they argue, but not the low-rate charge for promoting productivity, they insist.

They further try to win our sympathy by saying that due to their ignorance of the secular affairs, if the Ulema are reluctant to appreciate the situation; the nomenclature of the charge could be conveniently changed with a more befitting name of 'service charge'. This will appease and satisfy the Ulema, they plead. The awe of formidable stature of the edifice of capitalism thus creates rationalization for interest which forbids them to consider facts

impartially.

A universal hurdle faced by the capitalist economy is that of inflation. An amount of capital borrowed a few years ago and returned now to the same extent would put the lender to loss due to its reduced purchasing power caused by inflation. To counteract the effect of inflation, the loan should be marked up with the anticipated rate of inflation. The practice of marking up of loans for compensating the inflationary effect is logical, equitable and fair, our Muslim economists argue; and insist that to regard such marking up as a kind of Riba is both irrational and unfair. We mention this as another instance of misguided zeal.

Yet another one is this. Apart from lending money on interest the network of commercial banks renders a good many other necessary and helpful services, our zealous Muslim economists commence, and add that it would not be advisable to scrap the entire network of commercial banks in an emotional hurry. They should be allowed to remain in operation, since they can be made Islamic by gradually removing all the un-Islamic practices they indulge in at present; our friends plead, adding that Islamization of the banking in this way would suit us better than outright scrapping them, which is bound to create an economic upheaval throughout the country; they argue. An "Islamic Banking System" as proposed by them and evolved according to their suggestions would meet both the requirements of satisfying the needs of modernity as well as of following the injunctions of Islam; they plead. In most of our Muslim countries the introduction of 'Islamic Banking' is being carried out with such pleas to Islamize Muslim economy.

How for this approach to tackle the pivotal issue of Riba is wise and sound, or is only an expression of misguided zeal, needs a thorough probe.

21.2. PRECARIOUS APPROACH.

To say that the modern low-rate interest charged by the Bank is a service charge and not usury or Riba is only an innovation in presentation. In fact it is the same old wine in new bottles. The loaned capital dictated a charge, whatever label it carried, irrespective of whether the borrower consumed the loan in a non-productive channel, or used it for production without producing anything. This irrational operation is being carried out since the dawn of civilization; and the Old Testament called it 'Usury' and prohibited it. But the Jews disobeyed the Divine commandments and continued levying usury. When the public smelt an offensive odour in the word 'usury' they changed the name and called it interest; and when the word 'interest' got a bad reputation they called it profit on capital. What difference does it make if our Muslim economists now start calling it a service charge. It will ever remain an unwarranted tax. It is as much Riba as usury or Shylockian pound of flesh.

About the rate of interest one might ask who is entitled to decide what it should be? Under free economy it is the demand-and-supply which fixes the rate of interest. But the banker meddles with it and pays the depositors at a much lower rate than the rate he charges from the borrowers. Which morality, equity or social justice gives him such a dictatorial authority? None except his naked selfishness. How can Islam, a champion of justice and fairplay for all, permit it? Islam prohibits it as much as it prohibits murder and adultery.

Furthermore a point worth noting is that the people who deposit their savings with the commercial banks do not give any authority to the bank to lend their deposits to others either for the banker's benefit or their own. While banks keep valuables including cash for safe custody in their safe deposit lockers, which they do not abuse; why do they abuse the saving deposits for selfish exploitation? Can any banker produce a single authority from any solitary depositor given under his own free will, authorizing the banker to use his deposit howsoever the banker pleased? No banker can produce any such authority at all. To resort to the Banking Act and Practice is of no avail, because we are looking at the issue from the viewpoint of equal justice and fair-play for all, a viewpoint which alone holds the key to peace and goodwill for all. The plea of assuming dictatorial powers by any person or institution is quite irrelevant.

About the justification of marking up the loan to counteract the inflationary effect, one might say that it looks like robbing Peter to pay Paul. If inflation is a demon, why not kill it? Why let it loose to play mischief, conniving at it when it suits you, and trying to muzzle it when it does not suit you. As explained earlier in detail, inflation is a monetary phenomenon, which appears only when you dastardly debase money of your own volition. Stop debasing money, stick to the gold standard, and you nip inflation in its bud. It is an evil practice to let inflation flourish, and then to use it for marking up loans just to help the institution of usury to survive and flourish. Such favouritism to inflation deprives you of the claim of being honest in your deals. With honest intentions one can easily see inflation pointing towards money as its raped mother in her shredded apron crying for succour. A look at money in such a sorry plight should convince you that the luring Riba is the fountainhead of all the mischief. Riba which Islam prohibits with a challenging threat and warning.

The plea to let the existing usurious banking network remain for eventual Islamization deserves our sympathetic but cautious handling. Muslim countries can easily be divided into two groups depending on their affluence and poverty. Rich Muslim countries want to retain the existing usurious banking network to channelize their imports from abroad for expediting their industrial development. Simultaneously they have started setting up 'Islamic Banking' with their surplus funds to operate independently and

exclusively on Interest-free basis. The poorer Muslim countries concur with the rich theoretically, but due to lack of resources they cannot take part in the exclusive interest-free banking ventures. Their efforts take the form of opening Profit-and-Loss-Sharing (PLS) deposit accounts to pool resources for PLS ventures, in the existing banking network. They distribute bulk of their income accrued from these PLS ventures among the account holders at a percentage rate more or less consistent with the rate of dividends paid by commercial and industrial enterprises.

These poor Muslim countries need the existing banking network to remain operating, particularly because of the loans they borrow from the industrially advanced countries through this channel, to develop and run their own economy. Thus inspite of all good intentions on the part of both the rich and the poor Muslim countries the usurious banking network survives and prospers throughout the Muslim world, tantalizing in the meantime the wishful Muslim thinkers with the alluring slogan of Islamizing their economy.

Of all the social sciences that Devil did dare to invent, theory and practice of capitalist economy seems to be a masterpiece. Our greatest misfortune is that all our economic teachers, professors, advisers and experts were taught in and remained apprenticed to this very Devil's workshop. And in that process they got so bewitched of what they learnt as to surrender all freedom of their thought at its altar. When they see a crowd of young Muslim dreamers of Islamizing their economy around them, they start playing the role of guides, holding seminars and reading papers containing a mixture of wisdom and trash. I read one such paper the other day spread over eighteen printed pages and dealing with the topic of 'Central Banking and Monetary Policy in an Islamic Economy'. It dealt with creation of money and the role of Central Bank. But the writer did not dare to say that creation of money was the monopoly of the Central Bank, nor could he focus on the point that without full backing of gold and silver in reserves, paper currency was a mere trash. With such advisers to guide us on Islamizing our economy, God alone knows where we would be led to.

But besides God, there are present in every society people with eyes to see and wisdom to judge the fate of reckless usurious borrowing. They did foresee and warned. They waved red signals and tolled danger bells, but none took heed. As time and tide wait for nobody, the inevitable happened. Economic dependence led to political slavery, and now the third world finds itself tightly pressed on either side by the American and the Russian power-builders.

Usurious borrowing have not enabled a single backward country to stand on its own legs. Instead the channels of loans have made themselves the highways for inroads into the backward countries by the lending ogres. First they get the economy into their control through lending and then they encroach upon the political

powers of the enslaved backward countries. They bribe and buy native power and pelf hunters and help them to scale the ladder, and then use them as faithful agents by placing them in key posts of national polity. The results are there to be seen by everybody instead of describing them with crocodile tears in our eyes.

21.3. CORRECT APPROACH TO RIBA.

We find ourselves probing in pitch darkness to discover any source of light, and we run after every will-O-the-wisp that flaps its wings hoping to be guided by it. In this search for knowledge we have learnt the truth that to charge interest on loans becomes a cause of many economic ills. And the fact that none would lend us gratis brings home to us that we had better live without borrowing at all. Thus prohibition of interest discourages borrowing, indirectly encouraging living within one's means, which is the only way to stand on one's own legs individually as well as collectively. This is a very slow process of progress, no doubt, but it is the only sure one.

As against this we observe those wielding power, intoxicated with thirst for power and pelf, anxious to grab both regardless of the fairness of means they use to acquire. To achieve their nefarious ends they mislead the public to divert them from the right path and right goal. Hence for those who are honest in their search for truth, let heaven's light be their guide.

Allah alone sheds the heavenly light and communicates it to the people through His Prophets. Therefore to know what Riba is and what it is not, the only source to look into is the Holy Quran and the Sunnah of the Holy Prophet Muhammad (peace be upon him). Only that way can lead us to learn the truth about Riba, Usury and Interest; all else is misleading. There are two reasons to revert to that source. For a mere inquisitive person anxious to learn the truth about something, the proper way is to revert to its author and originator; and for a devout Muslim it is imperative to obey the commandments of Allah which can be better obeyed after having learnt its underlying philosophy from Allah's Apostle himself.

Had we stuck to this true approach, we would have been spared a good deal of misguidance. However it is never too late to be wise for retracting our steps. We should be thankful to our ancestors who had faithfully preserved the complete record both of the text as well as of the interpretations and commentary thereof, during the last fourteen centuries. We must first study the text meticulously ourselves in the light of its context and as interpreted by the Companions of the Holy Prophet and their immediate successors, to have a first-hand impression of the Divine commandments. After having done that the interpretations given by the Ulema of the third and subsequent Hijra centuries may be availed of, but with caution.

Action in the suggested order is necessary for sifting the grain

from the straw to formulate the criteria for segregating the principles from minor details. It is a critical stage of your study since a good many researchers are seen faltering here. Only principles and not the casual incidents can be used for constructing an Islamic economic system. This is how our previous religious leaders worked, and you have to follow them to re-establish the principles to help you in framing a model to suit your modern needs, consistent with the demands of Shariah.

With these broad guidelines let us approach the issue of Riba in right earnest.

21.4. WHAT IS RIBA.

In the Arabic language the word 'riba' means an increase; to say 'rabal mala' means the wealth has increased; and to say, 'raban fulan arrabiyah' means that person gained in status or prosperity. To say, 'arbeetush shai' means I gave him the thing in an increased quantity. The Holy Quran which was revealed in the Arabic language uses the word 'riba' and its derivatives in the same sense.

Allah says, 'Fa iza unzalna alaihal ma-aa ahtazat wa rabat' (Sura Al-Hajj, verse 5) meaning 'When we pour down rain on thirsty earth, it stirs up and swells with lush green vegetation in plenty'. Again Allah says, 'Un tak-oona ummatin' hiya arba min ummatin (Sura Al-Nahl, Verse 92) meaning 'Lest one party be better than another or greater in numbers and in wealth'. Again Allah says about Mary and Jesus, 'Wa aawalna huma ila rabwatin zate qaratin wa maeen' (Sura Momineen, Verse 50) meaning, 'We gave both of them shelter on an elevated ground, which was secure and had springs'.

The word 'riba' is also used in the sayings of the Holy Prophet to convey the sense of an increase. Imam Muslim in his compilation of the sayings of the Holy Prophet records that on an occasion when there was a small quantity of food and too many people gathered to satisfy their hunger, the Holy Prophet prayed for an increase in that food and then all started eating. While eating the Holy Prophet said, 'Fa la wallah ma akhazna min luqmatin illa raba ma tahtuha'. This means, 'By God we did not take a single morsel without seeing the food increasing beneath it'.

Looking into various Arabic dictionaries we find the words, 'Riba, zada wa numa' in Qamoos of Ferozabadi, i.e. riba means increasing and swelling. We find in Mukhtar-us-Sihah of Imam Razi the words, 'Rabaitu ai akhaztu aksara ma aataitu' meaning that 'I took riba meant that I took more than I had given'. In Zamakhshari's Assasul Balagha we find, 'Rabal mal' and 'yarbu' to mean increase; and 'urbi alal khamseen' meant increased over fifty. This should suffice to make quite clear the sense and meaning of the word 'riba' in the Arabic language.

Before the advent of Islam the practice of charging interest on loans prevailed throughout Arabia and two major money-markets developed and flourished at Makkah and Taif. Arabia had been a

barren country mostly, without any agricultural produce worth its name. Food, clothings and other necessities as well as luxuries of life had to be imported from the adjoining fertile lands of Syria and Yemen. Commerce and trade were thus imposed by nature on the Arabian people, to be adopted as their major occupation.

But trade needed sufficient capital, which most of the people did not possess. Therefore there was no alternative left but to borrow capital for trading as interest bearing loans.

For importing commodities, particularly victuals and other foodstuffs, the Arabs had to depend on the seasons of their produce, and accordingly they went in caravans to the adjoining fertile lands. They travelled north to Syria and south to Yemen twice a year both in summer and in winter. The sale and distribution of the imports was done on public gatherings either at the Hajj ceremony or at commodity distribution bazaars held at various places like the bazaar of Akkaz. The capital used on imports had thus to remain locked up till its realization through sale proceeds. This natural monetary cycle necessitated borrowing from such affluents who were more interested in lending than in commerce.

The money markets of Makkah and Taif were under the control of the Qureish, but besides them there was also Jewish money market at Yasrab. The Jews of Yasrab owned fertile lands at Khyber, which produced bumper crops of victuals, dates, olives and grapes, like the vineyards of Taif. The Jews economically dominated over the Arab tribes living in Yasrab, and they had developed a money market of their own to lend money on interest, which they called riba.

Thus promoted both by the Qureish of Makkah and the Jews of Yasrab, the practice of usury flourished throughout the Arabian Peninsula, and the money lending communities became so corrupt, immoral and unprincipled as to indulge in heinous acts. We give below an extract from the book 'Almasalil Kamil' written by Muhammad Jah Maula in Arabic.

"There was plenty of wealth in Makkah and Taif which was owned by a group of people flourishing on usury. So much so that they gave up all other occupations to devote themselves to the practice of usury alone, and this occupation became the source both of their wealth as well as of their high social status. The rate of interest rose from 40% to 100% per annum. They became so wicked as to force citizens, who failed to pay interest in time, to offer their wives and daughters to them for adultery. In fact usury drove many citizens towards deserts and wilderness to join the groups of dacoits and robbers, to be thus enslaved eventually. No doubt this state of affairs was worse than the behaviour of the Jewish moneylender, Shylock, as reported by Shakespeare in his drama, the Merchant of Venice".

That the Qureish indulged in both lending on interest as well as in the trade and commerce, and that they regarded both these operations as equally productive, is evident from the fact that when Islam prohibited usury and permitted trade, it surprised them

since they could see no discriminating feature between the two, and asserted that trade and usury were alike.

The pre-Islamic society of Arabia carried out usurious operations in two forms:

(1) On Cash Loans. They would lend money on interest for a stipulated period, counting loan inclusive of interest for the period as the amount lent. The borrower would pay the interest either in instalments or as a lump sum on the expiry of the stipulated period. If he failed to do so the lender would extend the period and enhance the rate of interest two-fold or would receive double the instalments thereof.

(2) On Credit Sales. The merchandise was sold on credit. If the sale price, as marked up with interest for the stipulated period, was not paid by the purchaser in time, the seller would mark-up the sale price further to include interest for the extended period. There were two reasons for credit sales. One was the purchaser's inability to make a cash purchase, while he wanted to indulge in trading as a means of livelihood. The second was that the importers or wholesale purchasers had invested borrowed funds intending to refund them at the expiry of the promised period. As that period approached nearer, all the stocks had to be disposed off by clearance sale. So the unsold stock was sold on credit to avoid shouldering additional burden of interest. As the market values depended on demand-and-supply as well as on the purchasing power of the consumers, the above stated method was adopted to balance the two operative forces.

It is essential to quote the source of our above-mentioned information about the usurious practices of the Arabian society prevailing during the era prior to the arrival of Islam. We therefore, refer our readers to the sixth chapter (Fasl) of an Arabic book bearing the title of "Al-Iqtisadul Islami, Mazhaban Wa Nizaman", (Islamic Economics, as a creed and a system) written by an Egyptian research scholar of Cairo, Dr. Ibrahim Al-Tahavi. Our above statements are an exact English translation of what is stated there in the Arabic language. I read that book in the library of King Abdul Aziz University at Jeddah and obtained photostat copies of five of its chapters (Fasl 16 to 20), with the courtesy of the authorities there.

So far we have recorded the meanings of the word 'Riba' as found in the Arabic dictionaries and the Holy Quran and Sunnah, and also as confirmed by practices in vogue in Arabia during the period prior to the arrival of Islam. How far the spectrum of the prohibited riba is wide and which practices it enfolds, will be dealt with in detail after this.

21.5. THE HOLY QURAN ON RIBA.

Without trying to beat about the bush, let us straightaway read and scrutinize to comprehend all the Quranic verses about 'riba'. The word 'riba' as an economic practice, occurs at four places only

in the Holy Quran. One of such place is a casual mention of this practice indulged in by the Jews. Due to its casual nature we will record it first. Out of the remaining three places, the one which is in Sura Rum will be taken up next due to the fact that Sura Rum was revealed at Makkah, some six or seven years before the Muslims were forced to migrate to Madina in 615 or 616 A.D. It was a period when the Qureish were molesting and torturing the believers for having accepted Muhammad as a true Prophet of Allah. The economic philosophy revealed at such an early stage deserves a prior mention. The remaining two occasions will be considered after that:

(1) "For the inequity of the Jews for taking riba (usury), which they had been forbidden to do, and for devouring other peoples' wealth wrongfully, We have prepared for such of them who reject Faith, a grievous punishment". (Sura Nisa, Verse 161).

(2) "Do they not see that Allah enlarges the provision and restricts it to whomsoever He pleases? Surely in that are signs for those who believe. So give what is due to kindred, the needy, and the wayfarer. That is best for those who seek the countenance of Allah, and it is they who will prosper. And What you give by way of riba (interest) for bringing about an increase in the wealth of people, the increase does not take place according to Divine reckoning; and what you give by way of Zakat (charity), seeking the countenance of Allah, will increase. It is these who will get a recompense multiplied". (Makkahi Sura Rum, Verses 37 to 39).

In this English translation of the Holy Quran, Allama Abdullah Yusuf Ali explains the 'Countenance of Allah' as 'our pure love for *didar*-i-Ilahi, the true vision of God's own self'. And he gives a note on riba which we reproduce below.

"Riba is any increase sought through illegal means such as usury, bribery, profiteering, fraudulent trading, etc. All unlawful grasping of wealth at other peoples expense is condemned. Economic selfishness and many kinds of sharp practices, individual, national and international come under this ban. the principle is that any profit which we seek should be through our own exertions and at our own expense, not through exploiting other people or at their expense, however we may wrap up the process in the spacious phrasology of high finance or City jargon. But we are asked to go beyond this negative precept of avoiding what is wrong. We should show our active love for our neighbour by spending of our own substance or resources or the utilization of our own talents and opportunities in the service of those who need them. Then our reward or recompense will not be merely what we deserve. It will be multiplied to many times more than our strict account".

(NOTE NO. 3552 ON PAGE 1062 OF THE ENGLISH TRANSLATION OF THE HOLY QURAN WITH COMMENTS BY ABDULLAH YUSUF ALI. PRINTED AND PUBLISHED BY SH: MUHAMMAD ASHRAF, LAHORE).

(3) "O you who believe, do not devour usury doubled and multiplied and fear Allah so that you may prosper". (Sura Al-i-Imran, Verse 130).

(4) "Those who spend their wealth in charity, by day and by night, in secret and in public, have their reward with their Lord: on them shall be no fear, nor shall they grieve. Those who devour riba (usury) do not stand but like one whom the Evil One has driven to madness by his touch. That is why they say that 'trade is like riba (usury)'. But Allah has permitted trade and forbidden riba (usury). After receiving direction from their Rabb, those who desist shall be pardoned for the past, and their case is to be judged by Allah. But those who repeat the offence are companions of the fire; they will abide in it for ever".

"Allah exterminates riba (usury) and promotes charitable practices; and Allah does not love ungrateful and wicked people. Those who believe and do deeds of righteousness, and establish regular prayers and regular charity will have their reward with their Rabb: on them shall be no fear, nor shall they grieve. O you who believe, fear Allah and give up what remains of your demand for riba (interest), if you are really believers. If you do not do it, take notice of war from Allah and His Apostle. If you turn back and desist, you will have your capital sums. Thus neither you will be unjust to others, nor others will be unjust to you. If the debtor is in difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity it will be best for you, if you only knew". (Sura Al-Baqrah, Verses 274 to 280).

For thorough comprehension, the above quoted verses need an elaborate explanation. But luckily various sections of the Holy Quran provide guidelines to trace the Divine Economic Theory thereby; and then to frame in its light a model economic system for establishing a prosperous human society on earth. To pick up these guidelines let us read the Holy Quran from the commencement.

As we open the Holy Quran to commence reading, the very first verse of the first Sura confronts us with, "All praise be for Allah, Who is the Rabb of all the universes". (Sura Al-Fatiha, Verse-1). Rabb is an adjective derived from the same root word from which riba is also derived. You may call it a coincidence, but no, it is Heavenly designed. The Arabic word 'rabb' used as an adjective for any person means the provider of sustenance to his protegee, ward, servant, slave or a subordinate. But when it is used for Allah, as mentioned above, it also means the Creator of all things and promoter of their progress from lower stages of existence towards higher evolutionary stages, while simultaneously providing sustenance to all living beings.

The Holy Quran revealed for the guidance of mankind clearly mentions the creation of human beings from nothingness, informing them simultaneously about the purpose of their creation, as in Sura Al-Dahr.

"Has there not passed long periods of time when man did not exist to be mentioned. We created man from a mixed droplet of reproductive fluids (of his parents), in order to test and try his behaviour. So we gave him the gifts of hearing and seeing. We also showed him the way whether to be grateful or to be ungrateful". as the option lay with the man."

(Sura Al-Dahr, Verses 1 to 3).

Evidently when Allah, who is also Rabb addresses human beings directly in first person, use of the words Allah and Rabb becomes unnecessary, but when He is appealed to by man in second person or He is mentioned in third person, both or either of these two words are used to identify Him, who creates, cherishes, nourishes and evolves from lower to higher stages of existence.

"O mankind, fear your Rabb, Who created You from a single person". (Sura Al-Nisa, Verse 1). "Say, Shall I seek some one other than Allah as my Rabb (Cherisher), when He is the Cherisher (Rabb) of all things that exist? (Sura Al-Anam, Verse 16).

The meaning of Rabb is beautifully explained in a simile at one place in the Holy Quran where man is taught how he should treat his parents and pray for them.

"And your Rabb has decreed that you worship none but Him, and that you should be kind to parents. Whether one or both of them reach old age in your life, do not say a word of contempt to them, nor repel them; but address them in terms of honour. And lower for them your wings of humility out of kindness for them and say, "O my Rabb bestow mercy on them as they cherished me in childhood".

(Sura Bani Israel, Verses 23 and 24).

A dialogue between the prophet Zakariya and his Rabb is recorded thus:

"This is a recital of the mercy of your Rabb on His servant Zakariya, when he prayed to his Rabb secretly saying, 'O my Rabb, my bones have become infirm with age and the hair of my head have turned grey, but I have never been unblest in my calls to you, my Rabb. I fear my relatives after my death; and although my wife is barren, I request you to give me an heir as a gift from you, who will represent me and represent the posterity of Jacob, and O Rabb make him one with whom you are well pleased.

(Allah responded)

"O Zakariya! We give you good news of a son to be called Yahya, a name unheard of before." Zakariya said, "How shall I have a son when my wife is barren and I have grown quite decrepit from old age". His Lord replied that it would be so, (adding) it is easy for Me-your Rabb-I created you before this from nothingness".

(Sura Maryam, Verses 2 to 9).

Yahya was thus born.

Another quote to elucidate the meanings of 'Rabb' from Sura Al-Kahf of the Holy Quran says,

"Set forth to them the parable of two men: For one of them We provided two gardens of grape vines, and surrounded them with date — palms and in between the two We placed corn fields. Each of those gardens brought forth its produce without failure. And in the midst of them We caused a canal to flow. For this man there was abundance of produce; so he argued with his companion saying that he had much more wealth and followers than his companion. Then he entered his garden proudly and defiantly saying, 'I do not deem that this will ever perish nor that any day

of reckoning will ever come. However, if I returned to my Rabb at all, I will get there something better in exchange'. His companion asked him in return, 'Do you deny Him Who created you out of dust, then out of a drop of sperm, fashioning you into a complete man? But I believe that He is my Rabb and I associate none with Him. While entering your garden why did you not say, 'there is no power but with Allah and His Will be done', when you saw me less than yourself in wealth and sons? It may be that my Rabb will give me something better than your garden and that He sends thunderbolts on your garden from high, so that you find it one morning slippery sands, or that its water runs off underground and you are deprived of it'. Thus all his wealth and produce was ruined and he stood rubbing his hands in sorrow over what he had spent, which now lay tumbled to pieces to its very foundation. And he could only say, 'Woe is mine! Would I had never ascribed partners with my Rabb, the Cherisher'. He had no gangs to help him against Allah and he remained helpless. It happens thus because all help and protection comes from Allah, the True One. He is the Best to reward and to recompense".

(Sura Al-Kahf, Verses 32 to 44).

These quotes from the Holy Quran should suffice to elucidate the meanings of Rabb and to explain His attributes.

To properly reckon the spread of the spectrum of 'riba', we must first try to comprehend the real nature of wealth which gave birth to riba. According to the Holy Quran there are two varieties of wealth and both of them have been discriminably distinguished by Allah:

"O you who believe give out of the good things you have earned for yourselves, and out of what We have produced for you from the earth".

(Sura Al-Baqr, Verse 267).

Thus the two varieties are: (1) What Allah Has created in the universe and produce from earth untouched by human hand, i.e. without any human labour being involved in it: and (2) What human effort has contributed to improve upon the produce of the first variety with his acquired knowledge, experience and skill. The distinction between the two different varieties deserves to be spot-lighted all the more for the obvious reason that the modern man ignores the blessings of Allah by using the elusive phrase 'natural resources' while attributing all production and products to his own wisdom, skill and effort.

Man is foolish enough to take all the so called 'natural resources' for granted without bothering to consider where they came from and why they are in an extremely helpful position to serve all the needs of living beings. His affront to his Creator is shameful. Today he knows how the Universe came into being and how all living creatures came into existence out of water; but when he is told that all this was revealed more than fourteen centuries ago in the Holy Quran, he turns a deaf ear to it:

"Don't the Unbelievers see that the heavens and the earth were joined together (as a single unit of creation) before We clove them

as-under? We made every living being out of water. Then why do they not acknowledge the Creator?"

(Sura Al-Anbiyaa, Verse 30).

In spite of all the bragging about his self-sufficiency, the man knows full well how much dependent he is on the Divine wisdom and Will. The food he eats can grow only when the rain falls at appropriate period for sowing and he can harvest and thrash the produce only when the rain ceases and permits him to perform these essential tasks. Has he any control on these phenomena? Untimely droughts, excessive rains and floods can play havoc with him. Has man ever condescended to consider Who originated the earth, the sun, the water and rain and Who controls them? No, never. Sober deliberation is beyond the ken of common man. But for the scientific man, so proud of his 'struggle for existence' and 'survival of the fittest' there are yet countless unsolved problems to consider, which he knowingly skips over. For instance: for whom do the water-melon, the mangoes, the grapes, the dates and all other juicy, delicious and nourishing fruits contain such enormous stores of food, which is needed neither for their individual survival, nor for the survival of their species? Who created these foods over and above the hard core of seeds which alone were needed for the preservation of their own species? Has not the All-knowing and All-Planning Rabb done it to feed the birds, the animals and the human race? Why are such facts ignored by the secular evolutionary theory?

The two varieties of wealth, the God-made, and the man-made are thus clearly apparent. In the necessities of life the relative proportion of man-made wealth is insignificantly small whereas the God-made wealth abounds and dominates. However in the non-essential luxuries of life the man-made wealth dominates only to conceal by camouflage the God-made ones; thus deceiving and depriving human mind from seeing things in their true perspective. To help people escape from this mirage it is essential to pin-point the relative significance of the two types of wealth.

In his tendency to get easily misled, man has learnt to develop devices of misleading his fellow beings in social and economic fields. In economics one of his artifices is to mix up genuine increase in wealth with a fictitious increase, and exploit people thereby. This artifice is called 'riba'. For clarification the Holy Quran throws a flood-light on the issue to discriminate between the two increases in wealth. In Sura Rum the Holy Quran says:

"And what you give by way of riba (interest) for bringing about an increase in the wealth of people therewith, the increase does not take place at all according to Divine reckoning; and what you give by way of Zakat (charity) seeking Allah's pleasure therewith, that multiplies doubtlessly".

(Sura Rum, Verse 39).

This makes it clear that interest paid by the borrower and received by the lender is supposed by both of them to bring about

an increase in wealth; whereas in actual fact it brings about no increase at all. It is so because no overall increase in national or community's wealth takes place by this usurious transaction. And since Divine reckoning is factual, it records the bare truth.

Actually the act of charging interest by one and of paying it by the other is a definitely non-productive operation. It merely transfers a part of one's wealth to another person without producing any additional wealth at all. It is similar to stealing or picking some body's pocket.

The Divine accounting relies on an overall consideration taking a community as a whole for true reckoning of genuine increases in communal wealth. Thus it is a real increase in the G.N.P. which counts, and not the individual's deceptive increases at the expense of other individuals. Allah thus makes it clear that 'riba' is a fictitious increase and not a genuine one. For a genuine increase Allah quotes the example of charity, because charity does bring about a real increase in G.N.P., although it is less known to laymen. We explain how it happens.

Charity shifts some wealth from the rich to the poor. On national scale such shifts increase the purchasing power of the poor and their increasing demand for commodities sets the production cycle into motion. Old established production units expand their production capacity and some new production units are also installed. Thus increased production increases national wealth by giving an impetus to further growth, which results in a boom in economic activity. That is why Allah attributes to charity the potential power for genuine wealth increase.

Old commentators of the Holy Quran and such new ones who are not conversant with the economic forces in operation, shift the rewards of charity and of prohibition of interest to life after death. Posthumous rewards and punishments are there no doubt, and nobody denies them. But they are not the only and sole results of the Divine Commands. There are temporal and secular consequences as well which do appear in this earthly life itself. It is necessary to seek and reveal them for increasing the knowledge of the believers and thereby strengthen their faith in Allah, the Eternal Master of time, space and what lies beyond the grave.

Reverting to the verses on riba mentioned in Sura Al-Baqrah and copied earlier, we observe the Divine ordinance assuming a stiff attitude and warning those who refused to relinquish riba, of a war to be waged against them by Allah and His Apostle. Verse 274 insists on regular spending in charity and we have already elaborated how such action promotes economic growth.

Verse 275 tells us of a peculiar craze for wealth increase having been born as if out of the touch of Satan. This craze ventures to create confusion between trade and riba. The verse ends by hinting why Allah permitted trade and forbade riba. Our comments on this verse will be given under a sub head, 'Wealth increase Craze and Cure'.

In verse 276 the extermination of riba and promotion of charitable practices are stressed upon as the two cardinal aspects of a Welfare State. Under the sub head 'Cardinals of Islamic Economy' we will discuss the topic.

According to verse 277 the establishment of peace and prosperity on earth is indicated as possible as well as feasible. As its success or failure depends upon the faith and efforts of the Muslim believers as well-knit community, it needs no comments.

In verses 278 to 280 the establishment of a Riba-less Economy has been made a bounden duty of all the Believers, failing which the Muslim community is warned to face a war with Allah and His Apostle. This serious topic is dealt with under the sub head, 'Do or Die'.

21.5.1. WEALTH - INCREASE CRAZE AND CURE.

Man is an abode of desires, aspirations and ambitions. So long as he indulges in them within sane and sober limits, nothing untoward happens. But when he transgresses these limits while indulging in any one of his desires, Satan steps in to mislead him by developing his desire into a craze. This is an observed and still observable fact which none should deny. And that is what the verse 275 means when it states,

"Those who devour riba do not stand but like one whom the Devil has driven to madness by his touch. That is evident from their assertion that trade is like riba".

Craze chokes sanity and extinguishes sobriety to the extent of driving its prey to madness. Craze for wealth increase subjects its prey to hallucinations due to which he feels himself to be the only wise man left on earth. And so he stubbornly insists that trade and usury (riba) are alike.

There is a lot of difference between a desire and a craze. Desires are normal human wishes being indulged in by everybody to a normal extent, whereas crazes are indulgences in such desires beyond the norms and their excessive development as an abnormal obsession. Everybody indulges in normal desires but only some promote them to the extent of a craze. Desire for wealth-increase is possessed by all to a certain extent but all are not crazy about it. Before trying to discover any cure for the craze of wealth-increase, it is necessary to know who gets crazy about it and why. To solve this problem we will have to study the three different sections of our society one by one, i.e. the have-nots, the haves and the affluents. We have done this exercise before and we can take advantage of it again.

Try to interview each and every have-not in your country if you can. You will not find a single of them crazy about wealth increase. All of them are wishful, no doubt, and they also try to increase their wealth, but to make both ends meet. To save and set aside even a small quantity of wealth is beyond their means and so they forget about savings and their benefits.

Now observe the haves. They can and do set aside some wealth, but they consume a good part of it to increase their standard of living, and save only a fraction of it for investment in profitable pursuits. For wealth-increase they do not rely on the profits of their savings which accrue only about ten per cent of the savings and the savings usually form on the average about twenty per cent of their earnings by dint of their technical knowledge and skill. If their average earnings are X, ten per cent of the twenty per cent of X will be two per cent of their earnings. So they consider it better to concentrate on their earning potentials instead of investment yields. Thus all their efforts for wealth-increase get confined to their knowledge, skill, and effort. They increase their wealth, improve their standard of living and save to educate their children and lay by for emergencies. To develop a craze for wealth-increase does not bother them, and so they do not become a prey to this lure.

Now we come to the class of affluents. This class earns a lot by all fair and foul means and spends a lot for luxurious living and for display of their wealth, but still they are left with a lot more which worries them for profitable investment. This class has learnt a few lessons in economic field, which they make use of with full advantage. They know that wealth can be earned with the sweat of brow alone, but they also know that such wealth remains scanty in proportion to the sweat and hence this method of earning remains unattractive for them. They further know that the combination of the managerial skill and capital can earn much more than the sweat method, but they also know that the factor of risk and loss involved in it always haunts the entrepreneur like a wolf. So they use this method but sparingly. The third method which they themselves have invented as a painless, riskless and lossless one is to use capital alone for earning interest by merely lending it to others for use. In this method they charge interest as a predetermined tax to be paid invariably at any rate they deem fit to charge. As this method turned out to be more alluring and safe, they developed the lending practice into an international banking network with a maniac zeal. And now it has become a craze for the affluents to use this method for grab. Neither the havenots nor the haves indulge in this craze which remains a monopoly of the affluents. The haves take only a casual advantage of it.

Desire for wealth-increase is natural but craze for wealth increase is unnatural. It is artificially induced by the existing surplus wealth lying idle with its owner demanding an avenue for its employment. Since a crazy person addicted to wealth-increase craze is not a normal man, he is bound to adopt only such avenues for investment which would definitely produce further wealth for him without any risk or loss. Such an avenue is called *riba*.

Addiction to this craze is a mental perversion produced by the combined effect of greed and accommodating environments. Its cure needs a dual action, psychotherapy of the diseased individuals and an overall revolutionary change in the economic

atmosphere of the community. Change in the mental outlook of the patient is very essential. The addict should be made to realize that his ailment does not lie in the physical increase or decrease of his wealth. It lay in his own mental outlook towards the phenomenon of wealth increase. If he adopted a sane, gregarious, social outlook, it would help him much to perceive things in their true perspective. Make him realize that his ailment was curable provided he agreed to submit himself to the healing process. Assure him that the game he was playing could not produce a single penny of real wealth for his community or country. It could only provoke him to rob others to fill his own coffer. Make him see the difference between an individual's fictitious wealth increase and a genuine increase in the national or communal wealth. The day he saw that difference he would feel relieved of half his load.

On the country wide communal front the intended revolutionary change is equally essential, though equally difficult. But all know that to pull one's nation out of the quagmire of marshy filth and place it on firm rock of self-confidence to achieve economic independence is an uphill task demanding prolonged patient sacrifices and arduous exertions. Yet what has to be done, must be done. Allah permitted trade and forbade riba to usher in the needed change.

21.5.2. CARDINALS OF ISLAMIC ECONOMY.

Verse 276 of Sura Al-Baqrah states, "Allah exterminates riba and promotes charitable practices, and Allah does not like ungrateful and sinful people". It is evident from this verse that indulgence in riba is a heinous crime which Allah is bent upon eradicating from human economic practices. With that end in view Allah vehemently asserts His determination to obliterate it, without any let or hindrance from any quarter. And so in this part of the verse He ordains riba to be eradicated from all human social practices.

It must not be forgotten that charging riba or abstaining from it are actions indulged in by human beings under their own free will granted to them by Allah; and so the implementation of the prohibition lies not with God but with man. God only orders people to indulge in or abstain from this or that. Its compliance lies with the believers who stand to account for all their actions.

The determined Divine attitude towards a prevalent economic practice, the odious nature of which has already been explained in the preceding verse should impress upon all Muslims that it is their duty to carry out the Divine intent. Hence one of the foundation stones of their economic creed must be the extermination of riba. Thus it becomes a cardinal of Islamic economy to cleanse the Muslim society of all economic practices which are evidently based on riba, and which resemble them to become suspicious, and which smack of riba in any way.

Riba promotes selfishness and greed, and thereby cuts

asunder the human bonds of fraternal sympathy, love and benevolence, which Allah has commanded to be retained and strengthened by all Muslim individuals and groups. Riba demoralizes individuals and corrupts them by providing easy finance to live upon, which the debtors thankfully grab, unmindful of the consequences. The resources of the debtor nations are so ruthlessly exploited by the lending nations that the economy of the borrowers totters under the load of interest and inflation in a couple of decades and turns the borrowers into economic slaves of the lending nations.

Economic slavery is not the ultimate curse of riba. It begets a still worse scourge of political slavery which the two monsters of capitalism and socialism exploit under the pretext of their respective spheres of influence. Their rivalry creates a hotbed of intrigues and wars for the unfortunate third world. Such being the curses of the interest-bearing loans, Allah's verdict to eradicate riba has been the wisest step recommended to Muslim society.

What Allah eradicates, no sincere Muslim can cherish to preserve. Those enamoured of the lending ease provided by the commercial banks feel that they should retain the banking network for eventually Islamizing it. They should realize that they are thinking in contradictory terms. Riba and riba-less cannot coexist. One must vanish to give place to the other. To introduce an interest-free economy, the interest-bearing economy must pack up first. That two things cannot occupy the same space at the same time, is true not only for concrete physical entities, it is equally true for implementation of ideologies. Different ideologies, for so long as they are ethereal without material garbs can co-exist mentally. But when they are made to wear the material garb, their co-existence becomes impossible. No body can point out a single country on earth, howsoever small it may be, where capitalism and communism are practiced simultaneously. When that is not possible, how can the capitalistic economy and Islamic economy co-exist?

As eradication of riba has become a cardinal of Islamic economic system, the existing interest-bearing banking network becomes repugnant to the spirit of Islam. So the idea of Islamizing it is fallacious, misleading and hypocritical, which should be given up at once.

The second component of the cardinal of Islamic economy is stated by Allah to be the promotion of charitable practices. Allah commands Muslims to dispense justice and benevolence to all regardless of their colours and creeds. A just person is one who does not transgress upon others' right and properties, and to be benevolent is a still more accommodative step. It means helping others with kind words and gifts of wealth to be showered upon the needy and deprived persons in such polite manners which preserve the dignity and self-respect of the recipients.

Promotion of charitable practices helps to energize the

country's economy by indirectly boosting up the cycle of production. The poor people who fail to buy the necessities of life for lack of funds rush to the market to buy them with the charitable donations. This increases demand for commodities, and the producers who are ever watchful of the market trend increase their production to meet the increasing demand.

When charitable dispensation is carried out on a nationwide scale, as ordained by the Divine command, this boosting effect to productive activities magnifies to create a boom, inspiring the setting up of new units of production of necessities, and also enlarging to an extent the production of luxuries as well. Thus the poor people can not only have all the necessities of life, they can also taste some luxuries as well. But all this depends upon the degree of compliance of the Divine ordinance by the rich sections of the Muslim society.

21.5.3. DO OR DIE.

Verses 278 to 280 of Sura Al-Baqrah read,

"O you who believe, fear Allah and give up what remains of your demand for riba if you are really believers. If you do not do it, take notice of war from Allah and His Apostle. If you desist you will have your capital sums. Thus neither you will be unjust to others, nor others will be unjust to you. If the debtor is in difficulty, grant him time till it is easy for him to repay. But if you remit it by way of charity, it will be best for you, if you only knew".

Verse 279 of Sura Al-Baqrah which condemns the believers to be at war with Allah and His Apostle is a unique verse in the entire Holy Quran because there are numerous social crimes in which the human race, (including the Muslims) indulges and punishments for each and every one of these crimes are specified in clear-cut terms in the Holy Book, but it is only the persistent indulgence in the socially evil practice of riba which attracts the highest possible punishment from Allah even in this earthly life itself.

Challenge of war with Allah and His Apostle is nothing short of condemning the offending party to a shamefully wretched and humiliating existence here on earth forever. If this is the outcome of indulgence in the ribal economy, how much despicable that economy is, can well be imagined. In the light of this situation this verse should be an eye-opener for every Muslim on various counts like:-

(i) Ribal economy is the only economy known to man since the dawn of civilization, and the only one practiced by the human race for millenniums. It surprises one to note that inspite of practicing this economy a good many past societies and civilizations reached the zenith of their glory and continued to enjoy that position for centuries, without finding much fault with the economic system. History does not appear to confirm the harsh tone adopted by the Holy Quran in condemning it. Is the harsh tone of verse 279 a mere exaggeration of the rhetoric?

No, only ignorant laymen can draw such a misleading conclusion. Scholars of social evils in ancient societies and preachers of social justice and fairplay for all, protested against the exploitation of the labouring classes by the idle rich, and also raised their fingers towards the forcibly subdued simmering in the bosoms of the down-trodden. But their voice was weak and their protests remained subdued like a cry in wilderness. The condemnation by the Holy Quran stands vindicated by the history of twentieth-century A.D.

(II) This verse was revealed in an Arab society flourishing on *riba*, a society which could only scoff at the threat it contained. No worldly-wise person could dare to utter such a pronouncement at that time, but if Muhammad (peace be upon him) did it even at the cost of humiliating derision, it meant that the Apostle was fully confident of his Divine backing. Surely by turning out to be a prophetic truth today, the threat pronounced in such a hostile atmosphere should be an eye-opener for those with eyes to see and minds to contemplate.

(III) Who could imagine fourteen centuries ago that indulgence in *riba*, then being practiced at individual's level only, could and would develop into a well-knit international exploiting banking network to trap and snare all individuals, communities and countries alike in its grab? If none could imagine it then, the challenge of war with Allah and His Apostle was certainly pregnant with the misery it foretold, and is hence a Divine command for certain.

Our existing economic system with its cobweb of business nexus, commercial conventions, stock markets, share markets, forms of corporate bodies and industrial organizations are complete duplication of the Western capitalistic economy. The Divine challenge of war leaves no option with us but to give it up altogether. No grafting of any kind with this *riba* framework is permissible. We are ordered to discard it and throw it away once and for ever. If we hesitate to comply, we are doomed for our disobedience. To remain honest believers in Islam we must submit, give up and discard the usurious economy altogether, whatever be the cost, and whatever be the consequences. Our future lies in 'Do or Die'.

We hesitate because we do not want to upset our on-going economy into topsy-turvy by creating an utter confusion in the country. But how long will we take to answer the challenge. We have wasted centuries already. Before entire destruction overtakes us let us think twice how to avoid the catastrophe and comply with the Divine command obediently.

Economics is a social science which deals with human behaviour under changing circumstances. Man is a stable entity but his behaviour is liable to change under mobile environments. Therefore the science of economics is obliged to discuss some eternal truths alongwith some transient and momentary facts of life. Eternal truths, like the pivot of a revolving body, remain

constant and unchanged; whereas the transient situations change like flying points on the circumference of that revolving body. The eternal truths form the principles of the social science of economics while the transient and momentary facts find their expression in details.

Due to its eternal validity the Holy Quran had to record only the principles of Islamic Economics leaving the details for the Prophet of Islam to delineate and expound. The Holy Prophet contributed his share both in explaining the principles as well as in working out the details to give his successors a pattern of exposition as guide to follow while handling the economic problems of their own time and clime; being careful to remain within the bounds fixed by the Holy Quran and Sunnah. Having elucidated the observations of the Holy Quran on riba, we close section 5 of this chapter to study and comprehend the authentic Sunnah on riba.

21.6. AUTHENTIC SUNNAH ON RIBA.

There is a basic difference between 'Sunnah' and 'Ahadis' which should never be lost sight of while studying the teachings of Islam. 'Sunnah' are the actual sayings and doings of the Holy Prophet Muhammad (peace be upon him) which were being observed, studied and followed by his companions during his lifetime and after. But 'Ahadis' are narrated records of the Apostle's sayings and doings as subsequently collected, thrashed and winnowed to segregate the reliable ones from those considered doubtful. The duty of collecting, sorting and compiling the Ahadis in book form was discharged by learned scholars of this faculty; they are known as 'Muhaddiseen'.

A time gap of more than a century exists between the death of the Holy Prophet and commencement of compilation in the form of written books by the Muhaddiseen Imams Maalik, Bukhari, Muslim, Abu Daud and others. To justify the authenticity of the existing compilations, it is essential to give satisfactory reasons for their delayed compilation.

Arabia of yore has been a vast desert land with little rain and no rivers except for the two in Iraq. Consequently the inhabitants of this land lived in scattered patches of tribes and clans at various spots where they found some springs of water and date-palms to feed themselves, their sheep and camels. But they were vigorous people with long histories of internecine wars and love for the fair sex. They gave vent to their passions of hate and love in poetic language which their bards sang and the people committed those songs to memory. They were also proud of their ancestors and they memorized the genealogical trees of their own as well as of their contemporary friends and rivals.

A people with ardent passion for love and war and fluent enough orally to give their feelings vent both in prose and poetry, yet deprived of literacy to transmit them quickly to others, had no

alternative but to develop their memory to such an extent as to make it a fit substitute for the vehicle of literacy. And this they did admirably well.

The illiteracy of the Arabs as a community was so proverbial that the Holy Quran also confirms it in second verse of the Sura Al-Jumma which reads:

"It is He (Allah) Who has sent to the illiterate people (Ummiyeen of Arabia) an Apostle from amongst themselves so that he should recite His Signs to them".

Thus for the Arabs the medium of memory remained the most coveted medium for centuries before the advent of Islam and for many decades thereafter till the Muslims started learning the art of reading and writing as an appropriate medium for preservation of all authentic records.

Before adopting the book form even the Holy Quran itself remained committed to memory; and the practice continues to this day. You will find thousands upon thousands Muslims in different parts of the world who can recite the entire Holy Quran from memory.

However, the Ahadis were not ignored during the period when the Muslims were becoming literate. The believers continued to learn the elucidation of the Holy Quran as expressed by the Holy Prophet in his own words and deeds. So after the demise of the Holy Prophet the believers travelled individually from place to place for collecting different pieces of the Prophet's traditions for personal and local use.

However, for the collective use of the Muslim brotherhood throughout the world, it was during the second century Hijrah and after that this job was taken up in earnest with all precautionary measures by a number of persons who travelled far and wide to collect the traditions, to check and cross-check the reliability of the reporters and the authenticity of their reports, before including them in their final compilations. Imam Ibn-e-Shahab Zuhri was the first to compile in book form the traditions of the Holy Prophet, on the instructions of Khalifa Umar Bin Abdul Aziz. Ibn-e-Shahab Zuhri died in 124 Hijri.

Thereafter Imam Maalik bin Ans (born in 93 H, died in 179 H.) compiled his famous book known as Mauta, which is the oldest compilation preserved till now.

Imam Muhammad bin Ismail Bukhari's (born in 194 H. died in 256 H.) compilation is regarded as the most correct one after the Holy Quran. Imam Muslim bin Hajjaj's (born in 202 H. died in 261 H) compilation of Ahadis is considered equally correct.

Imam Nasaee (born in 215 H. died in 302 H.) compiled his Sunnah and so did Imam Abu Daud (born in 202 H and died in 275 H.). The compilation of Imam Tirmizi (born in 209 H. and died in 279 H) is known as Jaamiah Tirmazi and Ibn-e-Majah's compilation (born in 209 H. and died in 273 H) is known as Sunnan. Both command equal respect.

All the above mentioned seven compilations are overwhelmingly considered as authentic compilations by the Sunni sects of Muslims. The Shia sect have their own record of traditions commencing with Hazrat Ali Ibne Abu Talib's writings followed by those of his descendant Imams. Hazrat Ali is the fourth Khalifa of the Holy Prophet according to Sunni reckoning. Since the achievements of the Muslim community as a whole during the Khilafat of all these four rightly guided Khalifas precede the achievements of the Shia Imams, we will follow the chronological order while discussing them.

As we all know, increase in wealth can be either genuine or fictitious, and they can be either relative or absolute. An absolute and genuine increase is one which, besides increasing the wealth of some persons simultaneously increases the wealth of the entire community as well, and is therefore permitted by Islam, provided none is deprived of a fair deal. But a relative increase in the wealth of some persons, without any increase in the wealth of the community, can only take place at the expense of a corresponding decrease in the wealth of some other persons. Hence it is Riba which is prohibited by Islam due to its failure to bring about an absolute increase in the wealth of the entire community, and due to its parasitical nature of enriching some at the cost of others.

Riba, which is a fictitious and antisocial increase in the wealth of some can adopt one of the two forms known as Riba-ul-Fazl and Riba-un-Nasiyah. Riba-ul-Fazl appears in the on-spot transactions of some exchanges without involving the factor of time, whereas in the Riba-un-Nasiyah lending for a time period is involved, and the claim for increase sprouts from lending the commodity on credit for a stipulated time. If, for instance, you exchange a gold cup, a gold tray or an ornament of lady's wear with gold coins and pay a greater or lesser weight of coins for the article bought, the transaction will fall under the category of Riba-ul-Fazl, but if you lend a measure of wheat or dates to receive back after the lapse of a time period wheat or dates in greater quantities than the quantity lent, it will be a Riba-un-Nasiyah deal.

The traditions of the Holy Prophet deal comprehensively with both the types of Riba transactions. We will consider the Riba-ul-Fazl varieties first.

21.6.1. RIBA-UL-FAZL.

Some traditions of the Holy Prophet in respect of Riba-ul-Fazl are reproduced below:-

(1) Abu Saeed Khuzri, Umar Ibnul Khattab, Abu Bakr and others reported having heard the Holy Prophet say, "Exchange of gold with gold is riba unless it is done on the spot in equal quantities; exchange of silver with silver is riba unless it is done on the spot in equal quantities; exchange of wheat with wheat is riba unless it is done on the spot in equal quantities; exchange of dates with dates is riba unless it is done on the spot in equal

quantities; exchange of salt with salt is riba unless it is done on the spot in equal quantities". This Hadis is reported in the compilations of Bukhari, Muslim, Tirmizi, Mauta of Imam Maalik and others. Another version of this Hadis is quoted by Allama Abdul Rahman Al-Jaziri in second volume of his book, "Kitab-ul-Fiqah alal Mazahib-ul-Arba" under the caption of Riba-ul-Fazl which reads, "Exchange of gold with gold, silver with silver, wheat with wheat, oats with oats, dates with dates and salt with salt must be on the spot and in equal quantities, but when the two species differ exchange them as you like, but the exchange must be completed on the spot". (without credit involvement). It is unanimously declared to be a very correctly reported saying of the Holy Prophet. (Peace be upon him). We will discuss it in detail soon.

(II) Abdul Rahman bin Abu Bakr reported that Abu Bakr said that the Holy Prophet ordered not to sell gold for gold except in equal quantities and not to sell silver against silver but in equal quantities; and allowed to sell gold against silver or silver against gold howsoever you liked". (Bukhari).

(III) Abu Saeed Khuzri reported that Bilal brought some superior quality dates from Burni for the Holy Prophet. The Holy Prophet asked Bilal how he got them. Bilal replied that he had some inferior quality dates with him of which he gave two measures for a measure of the better ones. The Holy Prophet expressed his disgust by saying, "Awwah, ainur-riya (God forbid, this is an actual ribai transaction). Do not do it. If you want to buy quality dates, sell your inferior dates first against some other commodity, and then with your newly acquired commodity buy superior quality dates". (This saying is reported by Bukhari and Muslim both).

(IV) Abdullah Ibn-e-Umar said that the Holy Prophet forbade the sale of foodgrains before taking physical possession of it from its previous owner. Ibn-e-Abbas also communicated the same command. When Ibn-e-Abbas was asked to explain the reason, he said that it amounted to sale of Dirhams for Dirhams, since foodgrain are collected after wards. Ibn-e-Abbas added that he regarded that order to be applicable to every specie and every article (Bukhari).

(V) Abu Umama (a companion) reported that he heard the Holy Prophet say, "If anybody legitimately recommended some one to others (for any rightfully gainful pursuit), and subsequently the recommended person sent some present to him who recommended, which the recommending person accepted, the recommending person entered thereby the premises of riba through a high gate". (Abu Daud's compilation).

(VI) Numan bin Bashir (a companion) heard the Holy Prophet say, "What is Halal (permitted) has been made clear, and what is Haram (forbidden) has also been made clear; but there are things in between the two which resemble either side thus becoming doubtful. And many people know nothing about them. So he who abstained himself from the doubtful preserved his faith and saved

himself; but he who became a prey of doubts and inclined towards them would eventually pursue the forbidden like one who grazes his flock on the borders of a royal preserve where his flock are likely to enter the preserve and graze therein. Remember every king has his preserves, and Allah's preserves are his forbidding ordinances. Know that there is a piece of flesh in the human body which maintains the health of the whole body by retaining its own health, but when it ails, the entire body suffers from the ailment. That piece of flesh is 'qalb' or heart". (Bukhari, Muslim and Tirmazi).

Amongst the Sunni sects of Muslims there are four schools of Fiqh or interpretation of the Islamic code of conduct. Stamped with the names of their respective leaders, they are called the Hanfees, the Maalikees, the Shaafiyees and the Hambalees. They all appreciated the great significance of the above-mentioned traditions and deliberated over the first one. They all agreed that six commodities mentioned therein for riba were not exclusive and that they were only illustrative examples to pinpoint the issue the Holy Prophet intended to stress upon; and that all other commodities displaying the attributes which infused riba in these six came under the category of ribai commodities. So the leaders of all the four schools of Fiqh searched for the causes which made these six commodities ribai. Naturally they arrived at different solutions.

Imam Abu Hanifa arrived at the conclusion that two factors combine to produce the phenomena of riba under this tradition. These two factors are the 'specie' and the 'quantum' of the items of exchange. By 'specie' he meant that the two items of exchange must belong to the same specie of gold, silver, wheat, oats, dates or salt, and not to different species. By 'quantum' he meant that the two items should be capable of measurement by weight or by volume, so as to enable one to say that they were equal or unequal in measurement. The Imam said that the specie of the two items of exchange must be the same and that it was the comparison of their weights or volumes which decided whether the exchange operation was a ribai one or a non-ribai one. If equal quantities were exchanged, the deal was a non-ribai one and permissible under the Islamic code provided the exchange was completed there and then; but if unequal quantities were exchanged, the deal became ribai and forbidden under Islam.

Imam Ahmed bin Humble reached the same conclusion.

Imam Shafiye concluded that the causes applicable in cases of gold and silver differed from the causes applicable to the remaining four species. He said that in case of gold and silver the cause giving rise to the ribai phenomenon was the market value or price of gold and silver which he termed as 'Samniyat' or monetary worth thereof; while in the cases of wheat, oats, dates and salt the cause giving rise to the ribai phenomenon was their 'nutrient value' which he designated as 'touam'. He pointed out that for the purpose of this tradition, belonging to the same specie was a priori condition which should exist, and therefore it could not become a factor of

cause. Imam Shafiyee asserted that Riba-ul-Fazl occurred when the cause of riba, whether monetary or of nutrition value, revealed itself on the exchange operation by taking place in unequal quantities. There was no Riba-ul-Fazl if objects of exchange belonged to the same specie, and the exchange took place there and then in exactly equal quantities.

Imam Maalik agreed with Imam Shafiyee in segregating gold and silver from the other four commodities due to their monetary attributes, but in respect of the remaining four commodities he deduced his own results, which differed from others in minor details.

All the four Imams, however, concurred with one another in declaring 'Riba-ul-Fazl prohibited and Haram.

In the six traditions of the Holy Prophet quoted above, the first concerns the exchanges of different articles made of the same specie declaring such exchanges as ribai unless they are performed on the spot and in equal quantities. The second tradition quoted above permits exchanges of articles of different species howsoever we liked. But in another version of this second tradition the words are: "When the species differ, then sell them as you like provided the exchanges take place on the spot". This means that the freedom of 'howsoever we liked' or 'as you like' is qualified and confined to the spot transactions and does not extend to credit sales. As credit sales include both interest-bearing as well as interest-free credits this clarification was necessary to exclude the interest-bearing credits, which are explicitly forbidden by the Holy Quran.

The objectives underlying these commands of the Holy Prophet were two. Firstly to eliminate the exploitation of people through riba, usury or interest which are unproductive operations merely displaying fictitious and fraudulent increases in wealth; and secondly to permit freedom for healthy competitive market to grow and thereby establish genuine market prices of commodities.

21.6.2. RIBA-UN-NASIAH.

Riba-un-Nasiah is that type of riba which is charged in either of the two following situations. In the first case some money is lent to a borrower for a specified period of time on condition that it would be returned on the expiry of the period alongwith interest, failing which the borrower was obliged to get the period extended by promising to pay further interest on the capital plus interest for the first period, due to extension allowed in time. If the loan could not be repaid as stipulated now, the time period was further extended by adding fresh interest in the previous amount and charging interest thereon for the second extension of time.

In the second case some commodity was sold on credit to a consumer or a retail merchant at a price higher than its cash sale price, to be paid to the creditor at the expiry of a stipulated period of time. The difference between the cash price and the credit price being the interest on the cash price for the stipulated period. In

case of the default the buyer got the period extended on promising to pay additional interest for the extended period as charged in the first case. Both these types of riba-un-Nasihah were in vogue in the Arab society before the advent of Islam, but the Holy Quran prohibited them due to their unfair and exploiting nature.

We quote below some traditions of the Holy Prophet as reported in the compilations of Bukhari, Muslim and Abu Daud for throwing light on the Riba-un-Nasihah deals.

1. People asked the two companions of the Holy Prophet, i.e. Al-Baraa bin Aazib and Zaid bin Urqam, about mutual exchanges of gold and silver. Both of them replied that they were dealers in such exchanges during the life time of the Holy Prophet and had asked for his guidance on the topic. They said, "The Holy Prophet replied that there was nothing wrong in such transactions if they were completed on the spot. But if they involved credit, they were not correct". (Bukhari).
2. Ibada bin Saamit reported that the Holy Prophet said, "Exchange gold with gold (whether in a lump form or as coins) in equal quantities, and silver with silver and unequal quantities, dates with dates in equal quantities and salt with salt in equal quantities. Whosoever gave or received more, he indulged in riba. Sale of gold with silver in different quantities is allowed provided the deal is a spot deal without involving any credit. Similarly exchange of wheat with oats is allowed in differing quantities provided the deal remains a spot deal without involving any credit". (Abu Daud).
3. Ibne-e-Umar said that he used to sell camels at a place known as Naqeeh. Sometimes he sold in Dinars but received payment in Dirhams and at other times he sold in Dirhams but received in Dinars. So he reported the matter to the Holy Prophet for advice. The Holy Prophet said, "There is no harm in it if you received in accordance with the rate of exchange of the two currencies prevailing in the market on the day of the deal and provided the entire deal was completed and cleared on the spot". (Abbu Daud).
4. Umro Abul Minhal stated that one of his partners in trade sold silver on credit for a time period upto the performance of the Hajj ceremony and he reported the matter to Umro. Umro told him that it was prohibited, but his partner insisted that he sold the silver open in the market and nobody objected to it. So Umro went to Hazrat Baraa bin Aazib and asked him about it. Baraa told him that when the Holy Prophet came to Madina, the people were all indulging in such deals. So the Holy Prophet said, "If the sale is a spot cash sale, no harm was involved in it; but if it was on credit, it was riba". Baraa further told Umro to go to Hazrat Zaid bin Urqum as well for advice since his

business was bigger than Baraa's. Umro went to Hazrat Zaid and asked for his advice. Zaid gave him the same reply" (Muslim).

5. Abul Minhal stated that he asked Hazrat Baraa bin Aazib about currency exchanges. Baraa told him to ask Hazrat Zaid bin Urqum who knew better. Abul Minhal asked Zaid who advised him to ask Baraa who knew better. Then both of them told Minhal, "The Holy Prophet has prohibited sale of silver for gold on credit". (Muslim).

These five traditions of the Holy Prophet are quoted from the compilations regarded as authentic Hence they deserve due consideration.

The first tradition tells us that the Holy Prophet declared mutual exchange of gold and silver involving credit as incorrect. The second tradition allows sale and exchange between commodities of any two differing species, but for so long as they do not involve a credit deal. Thus it implies prohibition of or refraining from a credit sale therein. The third tradition permits exchange of different currencies at the prevailing market rates of exchange, but as a cash deal only, implying refraining from any credit involvement. The fourth tradition explicitly insists that credit sale of silver is riba. The fifth tradition tells us that the Holy Prophet prohibited sale of Silver for gold or vice versa on credit explicitly.

The collective impression an attentive reader gets on reading these five traditions is that the Holy Prophet intended to promote only ready cash transactions, and to choke and throttle all credit transactions for the obvious reason that credit always gave an upper hand to the lender over the borrower whereby the lender became an exploiter of the borrower and the borrower got obliged to give in and yield to being exploited. This situation negates the equality of freedom so essential for the two sides entering into a fair and just economic deal between them. Islam stands for equity and fairplay in all economic transactions between the people as revealed in the Holy Quran.

"O you believers do not devour your wealth amongst yourselves by foul and unjust means. But let there be trade and commerce amongst you by free mutual consent and goodwill. Do not annihilate yourselves by offensive and destructive means, since Allah has been most Merciful to you". (Sura Al-Nisaa, Verse 29).

Prohibition to sell on credit is there as an explicit order of the Holy Prophet in unambiguous terms, witnessed by at least two of his companions. How far is its compliance feasible is a crucial question this command encounters with. But a hurried reply to this question will serve no purpose since Allah ordains:

"O you who believe obey Allah and obey the Apostle and those charged with authority among you. If you differ in anything among yourselves refer it to Allah and His Apostle, if you do believe in Allah and the Last Day: that is best and most suitable for final determination". (Sura Al-Nisaa, Verse. 59).

Hence to solve the problem in hand we must proceed accordingly.

Let us consider what insurmountable difficulties we would possibly encounter if we decide to obey the command and totally refrain from all credit sales of each and every commodity in future. We find people throughout the history of civilization continuously engaged in credit sales of commodities alongwith their cash sales. In fact they found credit sales to be promoters of greater economic activity and boosters of trade and commerce. Credit sales entailed an interest charge, no doubt, but charging of interest on loans and credits is universally accepted as a firmly established business practice. So if we cease to sell on credit we will dwindle our economic activities, reduce the quantum of our trade and commerce as well as violate a universally accepted commercial practice of charging interest on loans and credits. This is most likely to enrage the international business community and incite them to boycott our social and commercial relations. This can wreck our foreign trade and make us apartheid and lonely in this wide world. Besides within the country we will lose the sympathies of the biggest chunk of our population—the have not class—which cannot survive without credit supplies due to their extreme poverty. These seem to be all the possible consequences of abolishing credit sales.

To us the most significant of them all seems to be the effect of prohibition of credit sales on the practice of charging interest on loans and credits. Prohibition of credit sales cuts at the very roots of the usurious economy and therefore it deserves to be complied with. All difficulties in its enforcement are surmountable and transient. The Holy Quran by prohibiting usurious loans and the Holy Prophet by prohibiting credit sales aimed at the same target. A Muslim country aspiring to introduce Islamic economic system must comply with the Quran and Sunnah simultaneously. The feasibility is there, but to chalk out an effective modus operandi is our duty, which we must perform unhesitatingly. We will offer our proposals shortly after learning what the Sunni and Shia leaders of Fiqh say about Riba.

21.7. SUNNI FIQH ON RIBA.

In the Arabic language the word 'Fiqh' means to comprehend and grasp mentally. In Muslim religious phraseology 'Fiqh' stands for what has been comprehended and understood by Muslim scholars devoted to deliberate upon and deduce the pith and marrow of all the teachings of Islam and preservation of their findings in written records for the guidance of those Muslims who are not well-versed in it.

As mentioned earlier there are four schools of Fiqh in the Sunni fold. They are labelled after the names of their leaders or Imams: the Hanafees, the Maalikees, the Shafiyees and the Hambalees. All the four Imams were great scholars of the Ahadis from which they

deduced the principles and details of the religious problems they were called upon to solve. Naturally they differed with one another in some of their findings, but their differences were of subsidiary nature wherein no basic principle of Islamic code of conduct was infringed. Their fields of investigation and deliberation were wide covering all the aspects of human life and of Islamic commands about them. But as we are concerned here only with *riba*, we will confine ourselves to this narrow field.

Books on all the four schools of *Fiqh* are available in the market and their study is enlightening as well as spiritually nourishing. Al-Azhar University of Egypt has produced some really eminent scholars who devoted their time and energies to Islamic studies in depth. One such scholar who died some years ago was Allama Abdul Rahman Al-Jaziri who wrote in Arabic an outstanding book on *Fiqh* in five big volumes. He named the book '*Kitab ul-Fiqh ala Mazahibul Arbaa*' (A *Fiqh* book according to the four schools). It is a comprehensive study of the four schools of *Fiqh*. We will make full use of it in so far as our topic is concerned.

From the previous section—*Sunnah on Riba*—we learnt that according to the Islamic *Shariah* the incidence of *riba* occurs not only on the act of lending on interest, but can also occur on certain acts of '*Bai*' (sale or exchange) as well. In view of this it will be helpful to define the Arabic word '*Bai*' as understood by the Arabic dictionary as well as by the Islamic *Shariah*. To exchange one thing with another or with money is called '*Bai*' by the Arabic dictionary. In this exchange one of the two exchanged things will be called the sold article and the other its price. The act of selling or exchange is called '*Bai*' and the act of purchasing is called '*Sharaa*'. According to another definition '*Bai*' is an operation whereby a person is made the owner of a thing with all rights of ownership by receiving its value in exchange. Yet another definition calls '*Bai*' an operation whereby the owner of a property terminates his ownership on it by transferring it to another person on receiving from him its price in exchange. All definitions of '*Bai*' exclude lending things for use on rent or interest. Thus lending does not come under sale or exchange.

Each of the four Imams of *Fiqh* has defined '*Bai*' in his own way according to his aptitude for analytical treatment of the subject consistent with his devotion to *Shariah*. As their lengthy discourses on definition do not help us in finding the views of *Fiqh* on *riba*, we bypass them for sake of brevity. On the topic of *riba* itself the *Kitab-ul-Fiqh* first defines the term '*riba*' as given in the Arabic dictionary and then records its prohibition as ordained in the Holy *Quran*. Then it describes its two varieties of *Nasiah* and *Fazl*. *Riba-un-Nasiah* being explicitly prohibited in the Holy *Quran*, *Kitab-ul-Fiqh* deals with it briefly, but elaborates upon the *Riba-ul-Fazl* in minute details.

All the four Imams of *Fiqh* unanimously affirm that *Riba-ul-Fazl* which is exchange of an article of any specie with another

articles of the same specie in different quantities though without any loss of time is prohibited and Haram. The book bases the prohibition of Riba-ul-Fazl on the following tradition of the Holy Prophet: "Exchange gold with gold, silver with silver, wheat with wheat, oats with oats, dates with dates and salt with salt in equal quantities and at the spot simultaneously. But if the species of the two articles differ, then exchange them as you like provided the exchange is completed on the spot there and then". About the exchange of gold and silver the following tradition is also quoted, "Do not exchange gold with gold but in equal quantities without increasing one article's quantity over the quantity of another. And do not exchange silver with silver unless both the articles are in equal quantities without any increase of one over the other. Nor should you exchange a present article with an article which is absent".

All the four Imams concurred that the six commodities mentioned in the tradition were not exclusive, but were only examples according to which all other commodities displaying similar causative attributes which made them ribai would become ribai commodities. Hence they all set out in earnest to discover the causative element whereon to construct their Fiqhi structure about Riba-ul-Fazl.

Each Imam worked on the project independently, and deduced his own conclusions regardless of how the other Imams progressed. In fact there was sufficient time-lag between some of them to debar the elder ones to know what their younger ones deduced. However the posterity, like Allama Abdul Rahman Al-Jaziri have made available to them almost complete record of their findings to compare and choose from, according to the dictates of their times. To depict the time lag between the life-spans of the four Imams of Fiqh we give their dates of births and deaths below:-

Names	Born in	Died in
1. Imam Abu Hanifa.	80 H.	150 H.
2. Imam Maalik bin Ans.	93 H.	179 H.
3. Imam Abu Abdullah Shafiye.	150 H.	204 H.
4. Imam Ahmed bin Hambal.	164 H.	241 H.

Thus Imam Abu Hanifa and Imam Maalik were contemporaries, while Imam Shafiye and Imam Ahmed bin Hambal were contemporaries. But Imam Shafiye was born in the year in which Imam Abu Hanifa died and so they could not see each other. However the Fiqahi deductions of all the four survive for our consideration and contemplation.

The Hambalees say that the cause of incidence of riba is the measure of the commodities either by weight or by volume. According to them what is measurable by weight or by volume, be it an edible thing like wheat, dates, etc. or non-edible thing like cottonseed, iron or brass, they become ribai commodities. But those commodities which are not measured by weight or volume and are only counted like eggs or knives etc. are non-ribai commodities

because each individual item thereof is different from another one. No two eggs are alike identically nor two goats or camels are so. Being different from one another item by item they become different commodities individually and thereby become non-ribaî commodities. As such they can be exchanged in different quantities without incidence of riba. Thus according to Hambali Fiqh as quoted by Abdul Rahman Al-Jaziri, one can exchange an egg with two eggs, a goat with two goats like exchanging dates with steel without incidence of any riba. However the Hambalies say that such non-ribaî exchanges are offensive and detestable. They should therefore be avoided.

The Hanafees also say that the cause of one sided increase is the measure of weight or volume. Such increases are prohibited, no doubt, but things which are counted by numbers like eggs and watermelons, or which are measured by yardsticks do not involve riba in their exchanges. It is permissible to exchange one egg with two and one melon with two or one yard of cloth with more than one yard, without committing any act of riba. Hanafees have inferred this by assuming the measuring scales confined to two modes only, i.e. weight and volume as mentioned in the tradition. Since counting by numbers or measuring by yardsticks are not mentioned in the tradition, they are presumed to be exempt. But arguments of this type are logically fallacious and practically unfeasible. In actual life nobody exchanges two eggs for one nor gives two yards of cloth for a single yard of it. Such imaginary deals deserve to be ignored.

The Shafiyye school of Fiqh argues that the six commodities mentioned in the tradition can be easily split into two distinct categories: (i) Money or 'Naqd' as they call it which consisted of gold and silver, and (ii) the Nutrients or commodities meant to provide nourishment to human beings like wheat, oats, dates and salt. Imam Shafiyye designated the attributes of the nutrients as 'Tuam' or nutrition value. Thus after due deliberations on the six commodities mentioned in the tradition Imam Shafiyye concluded that only the money value commodities and the nutrition value commodities are ribaî commodities, transactions in which within the specie must take place in equal quantities and be completed on the spot to avoid riba. All items of other species like lime, iron, earth etc., which do not constitute money nor do they have any nutrient value, can be exchanged with other items of their own specie in different quantities without any fear of involvement in riba.

The Maaliki school of Fiqh says that in case of gold and silver the cause prohibiting riba is their ability to be used as monetary medium of exchange, but in case of nutrition-value commodities the causes are different. To lend on credit any nutrient commodity to be used as food is prohibited. Such commodities include cereals, vegetables, fresh and dry fruits. The act of lending on credit places them under the category of Riba-un-Nasihah and excludes them

from the Riba-ul-Fazl category. Hence they can be exchanged with items of their own specie as well as items of other species in varying quantities provided the exchange takes place and is completed on the spot without involving any credit.

The occurrence of Riba-ul-Fazl in such commodities is subject to two conditions. First that they are such commodities on which the human beings can continue to live upon and survive while living on them exclusively; and secondly that such commodities are not quickly perishable and can be stored for a reasonably long time without deterioration. So all such food commodities which satisfy these two conditions can become liable to Riba-ul-Fazl which must be avoided. To avoid Riba-un-Nasihah in them is, of course, primarily essential.

The four Imams have also explained what they understood by 'belonging to the same specie'. The Hanafees say that the difference in species is recognized by three criteria. First that they differ in their composition, like vinegar which is made from fermented dates as well as from saw-dust. Both are called vinegar but their constitutions differ. Similarly beef, meat and mutton are all flesh but originate from different sources. Secondly that the commodities being exchanged are used for different purposes. Wheat is used for making cakes and biscuits whereas oats cannot be so used. Uses of sheep's wool and goat's hair are different whereas the use of beef, meat and mutton is the same i.e. to be eaten. Thirdly that one out of the two things being considered should involve more work than the other like wheat and bread made out of wheat flour. Bread involves more work in preparation.

The Hambalees say that two or more things which have common origin and are called by the same name belong to the same specie in spite of the fact whether their purposes are identical or different. Wheat from Australia, United States, India or England is wheat although their varieties differ, some being better and superior than others. Similarly salt whether obtained from Pakistani salt mines or from any European salt mine or obtained by evaporating sea-water, is salt. The object of using wheat and salt are common as nutrients but their species differ.

The Maaliki school of Fiqh recognizes the fact of common specie from the common purpose of use or utility of the two things being considered. Wheats of different countries belong to the same specie of wheat on account of their nutrition purpose and vinegars of different origins belong to their common specie due to their common acidity. Similarly sugar obtained from sugar-cane or from beet-root is of common specie.

The Shafiyees say that two nutrient things belong to the same specie if they have a specific name common to both of them like different varieties of wheat. But a more common name of wider application like 'cereal' which covers a good many species of nutrients, is excluded. Wheat, barley, oats, dates etc; are covered under the common word 'cereals' but in spite of it each of them have

their own exclusive specie. The specie of wheat is separate from the specie of oats, and the specie of barley is separate from the specie of dates and none of the two can merge under any single specie nomenclature. The word 'cereal' groups a number of nutrient species under itself but cannot become a specie by itself. Just like the word 'fruit' which is general name covering different species of grapes, dates, apples, mangoes, strawberries, bananas etc: the word 'cereal' covers different species of food grains.

The four Imams have given their view on fresh fruits and vegetables as well. Maalikees assert that all fresh fruits are like vegetables which cannot be stored. Therefore they can be exchanged with their own species or with others in equal or varying quantities but only on the spot without involving any credit. The reason being prohibition of the sale of food commodities on credit. But dry fruits are regarded different since they can be stored. Hence they are liable to both Riba-un-Naslah and Riba-ul-Fazl.

The Hanafees say that like dates all types of fruits and vegetable which are sold by weight or volume are liable to riba. Hence they can only be sold or exchanged in equal quantities while belonging to the same specie, but in varying quantities if they belonged to different species, but always in cash on the spot. Credit sales are not allowed and completion of sale on the spot is essential.

Hambalees say that for within the specie exchanges in equal quantities and cash sale on the spot is essential, while in case of exchanges with other species quantities may differ.

Shafiyees say riba is involved in all fruits and vegetables since its cause of being nutrient commodities exists in them all. Hence the rule of cash sales with no credits alone applies.

The general conclusion we had drawn earlier to the effect that credit sales are prohibited to throttle riba transactions, is almost confirmed by the deliberations of all the four Imams of Sunni Fiqh. It gets further support from the permission accorded to 'Bai' Salam as an exception to the rule. Bai Salam is a directly opposite or inverse operation of credit sales, because in it price is paid in advance and goods are delivered after an appreciable time lag, say of some months. After defining Bai Salam in his book, Allama Al-Jaziri says:

"Bai Salam is a valid operation. In it the seller is permitted, as an exception, to sell such goods which he did not then possess".

There are two prohibited transactions disallowed by the Holy Prophet: not to sell what one does not possess, and not to sell on credit. As permission is given by the Holy Prophet in case of Bai Salam, as an exception to sell what one does not possess, the allowed exception only proves the existence of the law. But in case of prohibition of credit sales no exception is reported to have been allowed by the Holy Prophet. On the contrary all credit sales are repeatedly prohibited with further threat that they were liable to involve one into riba.

The exceptional permission to validate Bai Salam is quoted by

Al-Jaziri in his book as a tradition of the Holy Prophet which reads, "He who purchases something by advancing payment of price to receive goods in future, must specify clearly before hand the quantity of goods by weight or volume and also the date by which the delivery of goods is to be completed".

Both sale on credit and Bai Salam were economic practices in force in Arab society before the advent of Islam. Islam tolerated Bai Salam as an exception, although it was a potential though a weaker promoter of riba, but Islam prohibited credit sales which were fountain-heads of usury and riba, and potential danger therein was enormous, especially during a period chosen by Allah and His Apostle for revolutionary changes in economic practices. By aspiring to revise Islamic economy in Muslim countries now, we, living under the capitalist economy are subjected to similar stresses and strains. The circumstances demand the same precautionary measures which were adopted by the Holy Prophet in his own period. Hence prohibition of credit sales is an essential measure for adoption to remedy our economic ills and to usher in Islamic economic system.

Sale on credit and lending money or commodities for temporary use to others are allied practices. It is therefore advisable to consider loans here as well. The lending operation can be considered in turn from the creditor's view-point as well as the debtor's. Looking at it from creditor's point of view one can conceive that the lender can either be a producer or a money-lending banker. In case he is a producer, his primary object is to sell his product and realize his outlay with profit. So he sells it in cash, on credit and on hire-purchase basis. He demands more value for credit and hire-purchase sales than for cash sales, the excess being interest on his outlay for the time-period it remains locked-up unrealized. If the creditor is a banker, his primary object is to lend on interest which he does full well, for credit hungry persons are in plenty.

Looking at the operation from the borrower's point of view we observe the borrowers appearing in a widespread spectrum with have-not paupers at one end of it and well-to-do producers at its other end. Their motives differ widely. The have-nots borrow to procure means of subsistence for their survival. They would be glad to receive wealth in charity, or to borrow it as loan on interest-free basis; but charity is always in short supply, and none lends gratis. So if they do not accept usurious loans, they will perish. But that is their problem, the money-lending shylock must have his pound of flesh. The well-to-do producers are in league with the money-lending class. They support each other and prosper to keep the torch of capitalism aflame.

The Imams of Fiqh did contemplate on the riba-free loans, but it was more than a thousand years, ago. The situations continued to change during the long centuries that passed in their wake. Their successors copied their deductions parrot-like, and closed the door on fresh contemplations over current problems, behind them. So

the issue of riba-free loans remains haunting us still like a nightmare. How to solve the problem with prohibition of usury and credit sales bequeathed to us in perpetuity, leaves us in a quandary. But we must neither hesitate nor shirk. It is a God bestowed duty on us to be discharged.

We did our duty to the best of our ability and will present our findings in the next chapter.

21.8. SHIA FIQAH ON RIBA.

According to Shia community as a whole the rightful successor to the Holy Prophet on his demise was Hazrat Ali Ibne Abu Talib, cousin of the Holy Prophet as well as his son-in-law; the fourth rightly guided Khalifa according to Sunni reckoning. Shias believe that the leadership of the Muslims, spiritual as well as temporal, was the right of Hazrat Ali, and hence it commenced with his assuming power, to remain within his progeny for ever. But adverse circumstances and passage of time deprived his progeny from state authority. However the spiritual authority remained with the descendants of Hazrat Ali, who were called Imams by their followers.

The dominating Shia sect is known as 'Asna-Ushri' Shias, or the followers of the twelve Imams who held their spiritual sway over the believers in Islam. These Imams conveyed the teachings of Islam as received by them from the Holy Prophet after elaborating upon them for the guidance of their followers. These teachings form the foundation stones and fountain-heads of the Shia Fiqh. An authoritative and authentic book on Shia Fiqh was written by Sheikh Abul Qasim Hully in Arabic in two volumes under the title of 'Sharai-ul-Islam'. The original Arabic copies of this book are not available in the market, but its translation rendered in old style Urdu by Syed Abid Hussain was first published in British India in the year 1898 A.D. Reprints of this book bearing the title of 'Jame-ul-Jafri' is available in two volumes in Pakistan.

In modern times Ayatullah Syed Muhammad Baqir Al-Sadr, a Shia Mujtahid on his own scholarly merits, settled in Najaf-Al-Ashraf (Iraq), and author of more than two dozen books on various Islamic topics has written some books on Islamic economics as well. Two of his books namely 'Iqtasadona' (our economy) and 'Islam and Schools of Economics' are with us. We will make full use of them alongwith the 'Jame-ul-Jafri' by Sheikh Abul Qasim Hully.

It will be helpful to know how the knowledge and wisdom of Hadis and Fiqh reached the present generations of the Asna Ashri Shia community right from the epoch of the Holy Prophet. It is all the more necessary to know it because the Sunni and the Shia channels of transmission of teachings of Islam are totally different. Luckily the Shia transmission channel is described in the introductory part of the book 'Jame-ul-Jafri'.

The book Sharia-ul-Islam was composed by Sheikh Abul Qasim Hully on Fiqhi solutions of numerous religious issues

pertaining to the performance of spiritual functions and social behaviour as ordained by Allah and His Apostle. This composition reached a Kashmiri Scholar Abdul Ghani through a transmission line consisting of sixteen generations from the composer Abul Qasim Hully to the translator, Abdul Ghani, who rendered it from Arabic into Persian under the instructions of the Mughal rulers of Kashmir, for the guidance of the Shia subjects of Mughal India.

This means that the Arab method of memorizing by heart and reciting it to others was followed by the Shias like the Sunnies for transmitting religious teachings from ancestry to posterity. And Hully's book on Shia Fiqh travelled the same route. Before digging out ribal problems from this book, let us hurriedly glance at its introduction.

In the introduction the author tells us that Fiqh, according to the dictionary, means to understand, and in Shariah terminology it means the comprehension of the religious ordinances logically on the basis of reasons given for their soundness and validity. He who obeys the orders without grasping the underlying reasons is an obedient follower, a Muqallid, but not a Faqieh. What is discussed under Fiqh is the rationalization of the commands of Allah and His Prophet, to impress on the believers what they should do and what they should abstain from and why; so that they may achieve heavenly bliss with full knowledge.

Further the book introduces us to the sources of Divine ordinances. According to the followers of the twelve Imams, they are four in numbers. The first one is the Holy Quran revealed by Allah. In it there are two types of verses: those which are clear-cut in their meanings without any ambiguity; and those which lend themselves to more than one interpretations. The correct interpretation of the latter type can be grasped only through the knowledge of Fiqh. The second source of Divine ordinances is Sunnah. And Sunnah embraces not only the sayings and doings of the Holy Prophet, it includes the sayings and doings of the Imams as well, because the Holy Prophet had said, "I leave two heavy responsibilities on you: Allah's book and my progeny. If you follow them you will never be misled". This meant that there would always be concord between the two. Any discord between the Holy Quran and the Sunnah of Ahle-Bait, the progeny of Hazrat Fatima-tuz-Zahra was ruled out for ever.

It may be noted, the book tells us, that all Imams are 'Masooms' or innocent. Being innocent or faultless they are inherently incapable of saying or doing anything wrong. Hence they are infallible. Pointing out to this attribute of the Shia Imams, the book tells us that the words, the deeds and the statements of the Innocents are called Sunnah. Since they are infallible, it is obligatory on the believers to obey their commands and concede to their awards. But the book reminds us that in view of the antagonistic attitudes of the kings under whose regimes the Imams had to live, sometimes they had to resort to 'Taqiya' (to make such statements under

duress, which one would not vouch when free). The law of necessity permitted such behaviour. And such statements appear in the traditions of the Imams. It is not obligatory on the followers to comply with them, but it is for the Mujtahids to point them out clearly.

The third source of Divine ordinances is 'Ijmaa' or concurrence of the Ulema over a derived conclusion. According to the Shia school such concurrence is of two types: (i) concurrence of all the Ulema of all the sects of Muslims on some issue. Such concurrence is obligatory to be respected and followed by all Muslims. He who opposes it gets out of the Islamic fold (ii) concurrence of all the Ulema of the Imamiya sect. Such concurrence is obligatory on all the followers of the Imamiya fold, and much more so when amongst the concurring religious scholars an Imam is also there to concur.

The fourth source to confirm any Divine ordinance is the application of commonsense, wisdom and deductive logic for inference and deduction of applicability of the old standing orders on newer situations and fresh problems never met with before. A good many examples of such application of wisdom by the former scholars of Fiqh are given by the author in the book, which we omit to copy here for sake of brevity.

The book on trade and commerce commences with segregating the operations of trading into three categories: the permissible ones, the undesirable ones and the prohibited ones. The author basis this classification on religious ordinances and tries to explain their rationale logically quoting ample examples from commonly met commodities people come across, use or reject. Therefore, the author analyses the acts of purchase, sale and exchange, explaining how and when these operations get completed correctly or remain incomplete and unacceptable: This elaborate discussion covers about forty pages.

Thereafter discussion on riba begins in the book 'Jame-al-Jafri' which tells us that there are two types of riba: one in which interest is charged on loans. Something is lent subject to the condition that after the expiry of the loan period it would be returned in greater quantity than the quantity lent; the other type pertains to exchange of articles of the same specie in varying quantities. In this latter case riba takes place for two reasons: one due to the fact that items being sold or exchanged are measurable by weight or by volume; and the other due to the fact that two articles of the same specie were exchanged in different quantities. In both these cases of riba, the increase could be collected either in the same specie or in some different specie. For instance if one kilogram of wheat was exchanged with one and a half kilogram of wheat or with one kilogram of wheat plus two rupees; both cases involved riba. Under Shia Fiqh for exchanges between articles of the same specie it was not obligatory to take possession of the exchanged articles on the spot and a time-lag was permissible except in exchanges between monetary species of gold and silver, wherein spot possession was

essential.

While defining species it is stated that a specie included all the articles or items which are called by one and the same name. All different varieties of wheat belong to the wheat specie and all different varieties of dates belong to the specie of dates. Flesh of cows and buffaloes belonged to a single specie called 'Baqr' in Arabic and flesh of goats and sheep belonged to a single specie called 'Ghenam' in Arabic. All fishes belonged to a single specie. But among the cattle the wild and the domesticated varieties fell under different species. So you can exchange two kilos of wild cow's flesh with one kilo of domesticated cow's flesh without involving yourself into riba.

The Shia Fiqh permits exchange of one egg with two eggs and one yard of cloth with two yards of it like some Sunni Faqeehs on the ground that numerical counts and measures by yardsticks were not mentioned in the traditions reaching us from the Holy Prophet, (peace be upon him).

Strangely enough some ribai deals between father and son as well as between husband and his wife are considered permissible according to the book 'Jame-al-Jafri'. Any credit sale with riba or any loan with interest is considered allowed between father and son as well as between husband and wife. No source of permission or name of the permitting authority is recorded nor any reason is given to justify its validity. As such decisions clearly violate the basic ordinances of the Holy Quran and Sunnah, they cannot be entertained. One can only guess that such an award might have been given on presuming the wealth between father and son or between husband and wife to constitute common property between the two, in which case charging and paying riba amounted to taking money out of one pocket by the same person to put it into his other pocket, which act involved no real increase or decrease in his wealth.

But such a presumption is faulty and against facts of daily life. It is not essential for a father and his son to own property in common always. Often they hold it separately and do separate business independent of each other. So can be the case of husband and wife. It is true that the matrimonial alliance tends to common ownership of properties but that does not mean it always results in common ownership. On the contrary we find wives owning properties exclusively on their own account. And in case of a Muslim couple we always find wives owning their dowries received from their parents and Mehr received from their husbands kept exclusively with them, beyond the reach of their husbands. So the presumption of common ownership falls flat and stands rejected. Hence to say that riba does not exist in transactions between husband and wife or father and son becomes untenable and therefore, unacceptable.

Lending of wealth by wives to their husbands out of their exclusive ownership is a deal of common occurrence. If they start

charging interest on such loans, they alongwith the whole family will become targets of war with Allah and His Apostle, and doomed thereby.

Let us now look into the two books of the late Shia Scholar, Baqir-al-Sadr of Najaf-al-Ashraf. In his book bearing the title of 'Islam and Schools of Economics' he explains the difference between a School of Economics and the Science of Economics by telling us that a Schools of Economics aims at laying down a policy for the organization of economic life on a just basis, but the Science of Economics does not lay down any policy. It studies the effects of a policy which has already been implemented in society just as a physical scientist studies the laws of heat and their effects.

He discusses this topic at some length and then recapitulates as under:-

1. The School of Economics and the Science of Economic differ in their objectives; for the function of the Science is to discover the external phenomena of economic life and that of a School is to evolve a system based on social justice capable of organizing the economic life of mankind. The Science embodies external reality and the school brings social justice into being.

2. Both the Science of Economic and the School of Economics discuss the problems connected with production as well as distribution. It is wrong to differentiate between them on the basis of subject, for they vary in object and not in subject.

3. The economic laws pertaining to production are stable and applicable to all societies irrespective of the fact to which school of Thought they belong, but the laws pertaining to distribution are normally peculiar to certain societies belonging to a particular school of Thought. In the latter case the Economist visualizes a particular type of society, for example a Capitalist Society with its free economy and then discovers the laws and the trends of the economic life in it". (Page 126-127 of the Book).

The author ends this discussion on page 130 with the remarks:

"From the foregoing it is evident that as a School of Economics looks at the economic problems from the angle of justice, it has to adopt a system which is inspired by its own principles of justice and its outlook on life. It cannot employ any scientific means to select its system". (Page-130).

Further on he states:

"Islamic economy represents a just system of economic life, but it has nothing to do with the scientific discovery of the economic relationship as it actually exists. That is what we mean when we say that Islamic Economy is not a science.

In other words, if for example, Islam had discussed the causes of the rise in the price of interest bearing shares, its discussion would have been scientific, but it has on the other hand evaluated these shares and declared them forbidden. According to it only equal participation and profit sharing should form the basis of the relationship between a financier and an entrepreneur.

Now as we clearly know the nature of Islamic Economy, we can see what prevents the people from believing that there exists such

a thing as Islamic Economy". (Page-131-132)

"Owing to lack of space we do not propose to go into the details of Islamic economy, and to quote extensively from the Holy Quran and the hadith of the House of the Holy Prophet. Anyhow, we throw some light on the methods of the Holy Quran and the hadith in this respect and show how Economic Theory can be deduced from the general principles and concepts of Islam". (Page-132-133).

The book ends with these words:

"As a matter of fact, Islam has a doctrine which is quite different from the theories of Capitalism and Marxism, and as such should be regarded as a third School of Economics alongwith them".

(Page 142 of the Book: ISLAM & SCHOOLS OF ECONOMICS).

The second book of Ayatullah Muhammad Baqir-al-Sadr bears the title of 'IQTESADONA' in Arabic, which means our Economics. It is an excellent book dealing comprehensively with the topics handled by it. It provides a comparative study of Capitalism, Socialism and Islamic Economic order in general and dilates upon some aspects of Islamic Economy like the issue of land. But apart from casual mention of prohibition of riba, the book refrains from detailed discussion of riba. Therefore inspite of its value the book does not help us much.

21.9. CONCLUDING REMARKS.

The foregoing detailed discourse on Riba makes it abundantly clear that:

1. Being a pre-determined charge on borrowed finance imposed regardless of any productive operation performed by the loan, Riba becomes a persecuting, tyrannical and unjust charge, totally devoid of any sanction of equity and fairplay. Its disastrous consequences for the borrowing individuals, groups, communities and nations have been established as historical facts which none can deny. Therefore, riba stands condemned by commonsense, equity and fairplay regardless of any existing prohibitive order of any religion.
2. It is no longer a mystery that the ribai practices fetch in bumper crops of undeserved income to the lending persons, institutions and banking network, which concentrates wealth in fewer hands. With such power and pelf industrially advanced nations enslaved the backward nations of the world economically as well as politically. International history of the past three centuries bears witness to this enslaving process, which crushed humanity mercilessly under its yoke. Regardless of any religious guidance these historical facts by themselves should shake up those aspiring to preserve their personal and community self-respect.
3. When it became crystal clear to us without any shadow of

doubt that the above-mentioned phenomena were the products of usurious economy, that economy should have been regarded a deadly poison for the Muslim community. Commonsense demanded that the Muslims should have abhorred and abandoned it long ago. But now by the verdict of the Holy Quran we stand condemned to war with Allah and His Apostle. The promoters of the ribai economy have been let loose upon us by Allah in the garb of the State of Israel to bully and humiliate us, the entire Muslim World, till we repent and surrender to Allah and His Apostle by obliterating riba from our economy bravely, or else get ourselves obliterated to enter hell.

4. The conclusions drawn above are hard facts of life and not a display of over-wrought emotionalism. No doubt we find ourselves in a blind alley and we are unable to decide what steps to take. But being in a blind alley we have no alternative left except to retract our steps and to fight our way out bravely. When death surrounds on all sides, it is always better to fight unto death bravely instead of surrendering as dishonoured captives. Instead of inviting the wrath of Allah let us repent and so act as to invite his blessings and rewards.

How to proceed further demands a careful consideration. While chalking out an initial sketch for this chapter on Riba we had presumed that a section at its tail end on 'Capital as viewed by Islam' would serve our purpose. But now we realize that a complete chapter is required to do full justice to the theme of 'Capital and its Role in Islamic Economy'. Therefore we close this chapter here to commence that topic in the next, wherein suppression of credit sales will also be dealt with.



CHAPTER TWENTY TWO

CAPITAL AND ITS ROLE IN ISLAMIC ECONOMY

22.1. THE TWO GIANT ECONOMIES.

Different Schools of Economics hold different views about the nature of Capital and how it is formed. The cause of this difference lies in their different approaches to this issue. Since the secular approach believes in the eternal existence of matter and energy and regards the present form of the Universe as an evolved stage of inter-action between the two, they do not bother to trace its origin. Taking things for granted as they exist, they call the liquid form of wealth available for producing more wealth as capital, and so their deliberations start from the stage of capital formation, ignoring the earlier stages of the natural phenomena of economic growth and wealth. Both the Capitalist and the Communist Schools of Economics hold this view in common, and their differences start from this stage onwards when they express their views on capital formation. But as Islamic School of Economics is based on the belief in the creation of this Universe and in the Eternal existence of the Only God, Allah, its Creator, the approach of the Islamic School stemming from such a faith to the issues of economics including the capital turns out to be quite different, as we will soon observe.

According to the Capitalist concept capital formation starts from saving and investment of the saved surplus to produce more wealth: this is how the economists argue theoretically. But in actual practice we observe a different state of affairs. As already explained, out of the three classes of society the have-nots save nothing, the savings of the haves are quite small, and most of the surplus wealth that goes into capital formation belongs to the already affluent class, which concentrates in their hands by:

1. depriving labour of its just dues in productive participation;
2. fleecing the consumers with unduly inflated prices of the

- products, and by hoarding the products to create artificial scarcity;
3. indulging in non-productive speculations, future trading, stock exchange trade that misappropriates without any production, and in gambling devices of various sorts;
 4. dodging taxation through smuggling and black marketing activities and bribing the bureaucrats;
 5. promoting and maintaining the ribai banking network to preserve the practice of usurious loans and creation of fake credits alive and prospering.

As this affluent class forms only a very small percentage of the total population of every country yet owns the bulk of its wealth, the much drummed-about hoax of capital formation has proved itself to be an effective device for preservation of the usurious economy although its superficiality is obvious to all keen observers. Capitalist economy is called capitalist due to the dominance given in it to capital over other factors of production without any rhyme or reason.

The Communist concept about capital and its formation differs from the Capitalist one as taught by Karl Marx who gave a different interpretation of wealth and how it comes into existence. He argued that for so long as the natural resources remained untouched by human exertion they acquired no economic value, and that only human labour infused value in them by converting them into goods of utility. This value can be measured in terms of human labour-hours spent to infuse utility in natural resources. With this logic Marx concluded that wealth was nothing but congealed human labour.

He further argued that the entrepreneur of the capitalist economy engaged labour to create utilities in natural resources but he paid the labour only a small fraction of the product value which was completely their rightful due. The entrepreneur expropriated the remaining surplus value for himself. This expropriated surplus value piles up under capitalist economy for capital formation. This theory of labour exploitation, as then observed in the industrialized countries of England, Europe and North America, provided the foundation for eventual evolution of the Socialist economy. In the meantime forcible destruction of the capitalist economy by confiscation of all private property and all means of production to establish the dictatorship of the proletariat under the iron grip and control of the Communist Party, was the target fixed by Karl Marx. How the Socialist State of Russia came into being at the close of the First World War is an event already described in the third part of this book, which needs no repetition. Here we are concerned to pin-point the fundamental differences between the two giant economies of Capitalism and Socialism, apparently confronting each other with atomic weapons, but actually bent upon swallowing the remaining Third World.

Capitalist economy lays too much stress on the freedom of

individuals to think and act as they pleased. This freedom is claimed to be a basic human right of all individuals, but it is guaranteed by none. In a free and competitive world it becomes the responsibility of the individual himself to assert and achieve this birth right. Since everybody gets busy in seeking and preserving his own interests, this apparently charming ideology gets bogged in actual practice which has created wide gaps of wealth and opportunities between different members of society. Sanctity of unlimited ownership of private wealth has deprived the backward members of society from bare subsistence and drove them to indulge in antisocial and criminal activities on the one hand; and on the other ill-gotten wealth has helped the affluents to purchase political power for dominating over others to ridicule democracy. From this politico-economic picture of the capitalist economy one can only conclude that unfettered freedom for the individuals results in degeneration of the entire society.

To react against individuals freedom Socialist pendulum swung to the other extreme. The Socialists abolished private property. They snatched freedom of thought and action in politico-economic sphere from all, to vest it in the Communist, High Command alone. Everyone under Socialist regime was deprived of basic human freedoms of all kinds. Even to form a Labour Union of their own free choice is disallowed in Socialist countries, where everyone is a worker. This mania is carried to such extremes that whenever the question of basic human rights is brought up in the U.N.O, session, U.S.S.R. threatens to veto the issue. With such fetters on individual freedom to think and act, Socialist economy feeds her workers with bare subsistence to pool all the surplus value of their toil and sweat for the defences of U.S.S.R. and her tyrannical expansions. Afghanistan is her latest prey, with wounds still bleeding.

Of these two devouring monsters of Capitalism and Socialism, which one would the terror-stricken Third World like to come under? Neither is the expected reply. But that provides no shelter to the Third World, which has reached the brink of disaster. To be or not to be has become her immediate problem.

22.2. CAPITAL: ITS NATURE AND FUNCTIONS.

What is Capital, what is its real nature, and what functions it performs: these are pertinent elementary questions of economics demanding clear-cut answers. But surprisingly no universally agreed answers are available. The reason is that being a social science economics confines itself to human social relations alone in economic field even while dealing with the production and distribution of wealth. It leaves aside the production techniques for the technocrats to handle. As social relations are behaviour attitudes of human individuals, they are influenced by their varying outlooks on life, society and wealth. This brings home to us that economics is not a science of production and distribution of

wealth on its physically material side: it only views human outlook on conceptual level and discusses consequential behaviour attitude about wealth as exhibited in real life by the individuals, groups and societies, and then theorized by the economists of different schools of economic thought.

While trying to find out the views of different schools of economics regarding the nature and functions of capital, we learn that the Capitalist economy regards the liquid form of wealth available for earning more wealth as capital. The function of this capital is to convert natural resources into goods of utility for members of society. If this capital is owned by the converting industrialist, well and good; but if he does not own it, he can borrow it from the money-lending individuals and institutions who increase their own wealth by lending money on interest.

The Socialist economy regards wealth and capital as congealed human labour. This economy provides bare necessities of subsistence to labour and appropriates all surplus value for the defences and territorial expansion of the Socialist domains. As no private property is permitted under Socialism, the question of capital formation does not arise within Socialist countries; and for foreign trade indigenous production is used supplemented with hoards of gold, when needed.

In short, under both these systems capital is accumulated wealth and its function is to produce more wealth for eventual conversion into hoards of gold, which serve as accumulated and yet readily convertible form of wealth.

What views does the Islamic economy hold about the nature of Capital and its function, and how do they differ from the views of Capitalism and Socialism, if they differ at all?

While observing the natural phenomena of animate and inanimate worlds, Islamic ideology digs much deeper than the other two economies do. The subsistence of animals in wild life without any effort on their part to produce the materials of their subsistence and yet finding them readily available in wild growth more than enough to satisfy everyone's hunger and thirst, amazes the Muslim eye. He cannot believe such a coordination to be accidental and its perpetual repetition to be a mere chance occurrence. He clearly observes a providential hand hidden behind such phenomena, which the Capitalists and the Socialists do not bother to see. The differences between the Capitalist-cum-Socialist views and the Muslim view commence from this initial difference of approaches to the significance of natural resources in the eventual formation of capital. Their common road to economics bifurcates at this point which becomes the parting of their ways.

After observing a Providential Hand behind the Universal phenomena it was not difficult for the Muslim vision to suspect some objectivity in the creation of its masterpiece, the MAN, and equipping him with full powers to harness all forms of matter and energy for his own subservience. Equipped with such dominating

powers it was not difficult for man to become a despot. He was made a despot over all other species, but not a tyrant over his own specie. But he became a tyrant for his own fellow-beings, which was extremely tragic.

If there was any objectivity behind human creation, man with all his wisdom nipped that objectivity in the bud with his own cruel hands before even trying to conceive it and to appreciate it with his head. This is how the story of human wisdom-cum-folly began thousands of years ago, and it stands unaltered right upto this day. Why? Simply because man thinks there is no objectivity in the Universal phenomena nor in the so called evolution of the human specie. So his winnowed wisdom teaches him to believe that might is right, that power and pelf are sweet and that he should make hay while the sun shines!

We can observe the reader feeling vexed to ask us what all this tall talk has to do with the nature and function of capital? While appreciating his anxiety to reach the goal rabbit like, and admitting our snail-like slow progress to be taxing for his patience, we will still remind him that to be aimless or with aim matters a lot for this short and precious life of ours to be so aimlessly consumed over dead matter and deadlier energy. And so we will request him to be a little more patient with our search for objectivity in human life.

The Capitalists and the Socialists do not believe in any life after death. For them this life alone is the sole life they have to live and then they die to mingle in dust for ever. So they feel free to fix or not fix any purpose for their lives. As enjoyment of power and pelf is sweet and charming they indulge in it via the Capitalist way or the Socialist one. They stand answerable to none except their own self-erected social structure. But the case of believers in God and more particularly of the Muslim fold is quite different. Muslims believe the Holy Quran to be the Final Word of God, and what the Holy Quran teaches them about life and its purpose is as under:-

"Has there not been a long period of time when man was nothing to be mentioned about? Verily We created Man from a drop of mingled sperm in order to try him. So We gave him the gifts of hearing and sight. We showed him the way: whether to be grateful or ungrateful" (as he wished)

(Sura Al-Dahr, Verses 1 to 3).

"Blessed be He in Whose Hands is Dominion and he has Power over all things. He who created Death and Life so that He may try which of you is best in deeds: and He is the Exalted in Might, Oft-Forgiving".

(Sura Al-Mulk, Verses 1,2).

"Did you think that We created you aimlessly and that you will not return to us for rendering accounts? But Allah, the Just Owner is Exalted (not to be so aimless). There is no God but he, Provider of the Throne of Honour. If anyone invokes besides Allah any other god, he has no reason to do so. Therefore his reckoning will be only with his Provider. Verily the Unbelievers will not achieve the

blissful goal. So say - O my Lord grant forgiveness and mercy, for you are the Best of those who show mercy".

(Sura Al-Muminun, Verses 115 to 118).

"By the fig and the olive and the mount of Sinai and this City of Security, We have indeed created Man in the best of moulds. Then do We abase him to become the lowest of the low, except such as believe and do righteous deeds: for them an unfailing reward is reserved. After all this what prompts people to deny the Day of Judgement? Is not Allah the Wisest of Judges"?

(Sura Teen, Verses 1 to 8).

With such oft-repeated, sound and logical arguments Allah impresses upon the human mind that human life in this world is purposeful, and that he will have to explain and justify all his deeds on the Day of Judgement to receive Divine blessings.

We know already that all basic needs of human subsistence are provided free in wild environments by Allah, for which like all other animals no human being needs to exert himself for producing it. He has only to extend his hands for plucking and picking those Divinely created products. If by his acquired wisdom man has learnt to copy the natural process of growth and even to expedite and improve upon them, he stands to benefit by that knowledge. But if his greed to possess more and more and to excel over his fellow-beings in that mad rush makes him crazy, the fault is his own. For contented persons or groups striving to achieve enough with some to spare for a rainy day, the situation does not shove them to cut-throat competition; nor does it need any large quantity of capital beyond their reach to achieve what they need. Under Islam the concept of capital and its formation always remains within easily manageable limits. We will discuss this topic in detail subsequently, here we quote an instance from the Sunnah of the Holy Prophet (peace be upon him) to show how easily manageable capital formation is under Islam.

"Hazrat Ans bin Maalik reports that a person from the Ansars of Madina approached the Holy Prophet asking for alms. The Holy Prophet asked him if he had nothing in his house. He replied that he had a rough blanket, part of which he spread beneath him while covering himself with the rest of it. He added that he also had a bowl with which he drank water. The Holy Prophet ordered him to bring both these things. When they were brought the Holy Prophet took them in his own hands and addressing the audience he asked who would buy them. A man replied that he would buy them for a dirham. The Holy Prophet asked who would pay more and he repeated these words two or three times.

A man replied that he would pay two dirhams for them. The Holy Prophet gave him the two things and received two dirhams from him, which he gave to the Ansari with instructions to buy food materials with one dirham and deliver them to his family; with the other dirham he was ordered to buy an axe-blade and bring it to the Holy Prophet. When he came back with the axe, the Holy Prophet fixed a wooden handle to it with instructions to go to the jungle, cut wood and sell it in the market. He was advised not to

approach the Holy Prophet for the next fortnight. The Ansari busied himself in cutting and selling wood during that period. Then one day he appeared before the Holy Prophet while he had saved ten dirhams by then. He had bought some provisions and some clothes with his savings. The Holy Prophet impressed upon his mind that such a conduct was better for him than to present himself before Allah on the Judgement Day with scars of begging on his face". (Sunnan-e-Abu Daud).

From this tradition of the Holy Prophet we draw the following conclusions.

1) Capital is necessary for procuring equipment to increase and expedite the products of human labour.

2) Whatever be the financial status of a man, he himself must provide his initial capital out of his own resources without any outside help, howsoever meagre his resources might be.

3) Capital in the form of production implements joins hand with the human labour to increase and expedite production; but to save a part of the fruits of one's enterprise, howsoever humble it may be, is essential for further prosperity and economic development.

4) Neither human labour alone nor aided by capital implements can achieve anything unless they work upon the natural resources already existing in one's environments. The wood sold by the Ansari already existed in the jungle. We are justified to conclude thereby that the significance of the contribution of the natural resources outweighs that of the combined contribution of the capital and labour. Judgement of correct proportionate contribution of each factor is, therefore, essential in a fair analysis of economic facts. Errors and omissions in this basic evaluation often become the root-cause of many social disasters.

5) Observing the environments in their wild natural growth, when one finds that all the essential subsistence materials needed by animals and human beings are growing and multiplying as free gifts of Allah without any touch of human hand or use of capital equipment, one feels obliged to ponder a lot before hastening to any abrupt and wrong evaluation of comparative contributions of capital, labour and Divine agencies.

6) Thus a calm, dispassionate and judicious analysis of all the contributing factors and their proportionate evaluation become inevitable to discover the real nature of capital and its function in the World economy. In such an Islamic approach to the issue, the contributory value of the capital, as commonly known and defined, becomes almost insignificant, while the natural resources dominate in the entire economic set up to become real capital in strict literary meaning of the word.

The natural resources are many and varied. Commencing from the mineral wealth that lies hidden in the bowels of earth and depths of the oceans we can count them to include the surface wealth of both the vegetable and animal kingdoms. Still higher we find snow-clad mountain tops with surrounding clouds and

glaciers of ice which melt in summer to provide life-bestowing water to the parched earth.

Our own atmosphere contains a wealth of gases and higher still in the space beyond we see stars, planets, moon and sun which radiates rays of light, heat, and diverse forms of energy. All this natural wealth is open for our exploitation and utilization with adequate knowledge. But for men with good commonsense, basic knowledge and knack for research, the earth alone yields a treasure of unlimited wealth of materials, knowledge and wisdom. The deeper you dig into the reserves of land, the wiser you become. In fact you find earth to be the mother of all wealth and capital. To know how Islam handled this discovery should be very enlightening for us.

As man began to conceive the rudiments of civilization, he observed that it was land which produced all the necessities and comforts of a happy life. Private ownership of land was therefore felt to be necessary for a comfortable family life. Thus a race for land-grab started which produced a class of landlords. These landlords developed Feudalistic economy, which splitted the human race into masters and serfs. Though this game started millions of years ago, it continues to exist still even in industrially advanced countries of Europe and America. Capitalism provides full protection to the absentee landlord while shedding only crocodile tears for the shabby state of the farm labour.

How the Holy Prophet of Islam looked at such a sorry state of affairs fourteen centuries ago, and what his shrewd wisdom considered fit to advise as its remedy, is an unforgettable page of the teachings of Islam. On this vital issue we copy below all the relevant traditions of the Holy Prophet of Islam found recorded in the six reliable compilations of Ahadeeth, so as to thrash the issue thread-bare.

22.3. SUNNAH ON AGRICULTURAL LANDS.

An exhaustive study of all the six compilations of Ahadeeth provides the reader with about 57 reports, classified below, on the then prevailing practices of cultivating agricultural lands, alongwith the directives of the Holy Prophet in this regard.

1) Reports from Imam Bukhari.	7
2) Reports from Imam Muslim.	17
3) Reports from Imam Abu Daud.	11
4) Reports from Imam Tirmazi.	3
5) Reports from Imam Maalik.	5
6) Reports from Imam Ibne Majah.	14
<u>Total:</u>	<u>57</u>

We copy them all below one by one in the above-mentioned order to deduce from them what the Holy Prophet explicitly prohibited and what he proposed to eliminate social injustices in this field. Unfortunately dynastic monarchies took over control

soon after the short-lived genuine Khilafat. They retained the label of Khilafat to over-awe the subjects, but tried to purchase the allegiance of the tribal heads with gifts of fertile lands and wealth. Under such circumstances how far could the Muslim public adhere to the Apostle's directives or faltered, was left by the compilers of the Ahadeeth for the readers to judge by trying to read between the lines of their varying narratives, which they have impartially recorded for the guidance of Muslim posterity.

IMAM BUKHARI'S COMPILATION gives us the following seven reports.

(1) Hanzala bin Qais Ansari reported having heard Raafih bin Khadeej say, "We owned more agricultural fields in Madina than others, and we used to lease out our field on the condition that the yield of a pre-specified area therein would belong to the landlord. Sometimes it so happened that calamity fell on that specified portion while the remaining field produced good crop; and at other times that specified portion yielded good crop but the rest of the field suffered calamity. Due to this we were prohibited from this practice. Leasing on cash rent was not in vogue at that time".

(2) Umro stated that he advised Taoos to give up Mukhabira (leasing agricultural land for a gainful return) since people thought that the Holy Prophet had prohibited it. Taoos replied, "I lease out to benefit people and the one who knew most i.e. Ibne Abbas had said that the Holy Prophet had not prohibited it; he had said that if any of you gave cultivable land to his brother free of rent, it would be better than receiving a known tax from him".

(3) Abun Najjashi, slave of Raafih bin Khadeej, stated that he heard from Raafih bin Khadeej reporting from his uncle Zahir who said that Holy Prophet had prohibited them from a thing that was beneficial for them. Raafih replied that what the Holy Prophet had said was just. The uncle said the Holy Prophet had called him and asked him what we did with our agricultural fields. I replied that we lease them out on one-fourth of crop or a few measures of dates or oats. The Holy Prophet said, "Do not do it. Cultivate the land yourself or give it for cultivation free of any charge or else let it lie fallow". Raafih said "We listened and complied".

(4) Hazrat Jabir reported, "We used to lease agricultural land on a third, fourth or half of crop, when the Holy Prophet ordered that whosoever owned cultivable land should cultivate it himself or give it to others for cultivation free. If he does not do either of these he should let the land lie fallow". Hazrat Abu Hurairah also communicated similar orders of the Holy Prophet.

(5) Umro said that when he narrated this Hadeeth before Taoos, he said that one should cultivate his land himself, and added that Ibne Abbas had stated that the Holy Prophet had not prohibited it but had said that if one lent his land free of charge to his brother for cultivation, it would be better than charging any known rent

(6) Hazrat Abdullah bin Umar stated that he knew land used to be rented during the period of the Holy Prophet. But then

Abdullah feared lest the Holy Prophet might have issued some new directive, so he ceased renting out his agricultural land.

(7)Umro bin Khalid, Laís, Rabiab bin Abu Abdul Rahman and Hansla bin Qais reported from Raafih bin Khadeej who said that his uncle told him that during the period of the Holy Prophet people used to rent out agricultural lands on a quarter of the produce or for something specified by the landlord. Then the Holy Prophet prohibited this practice. Hanzala said, he asked Raafih what if land be rented for dinars and dirhams? Raafih said that there was no harm in it. But Laís said, 'If one capable of discriminating between the prohibited and the permitted pondered over this question, he would not allow it since there was definite risk involved in it'.

IMAM MUSLIM'S COMPILATION tells us that:

(8)Jabir bin Abdullah stated that the Holy Prophet forbade from Mukhabira, Muhaqila, Muzabina and from sale of fruits until they became ripe and advised not to sell them except in exchange for dinars and dirhams. Jabir explained these practices saying that Mukhabira was to lease one's land to another so that the other spent on it and produced, and the landowner took a part of the produce as land rent. He said Muhaqila was to sell the standing crop for a measured quantity of grains, and Muzabinah was the sale of wet dates still standing on the date palms against dried and measured dates. Allama Nuddee, the commentator of Muslim's compilation said that in the Muzariat deal, the seed is provided by the landlord, but in Mukhabira the cultivator provides it.

(9)Jabir bin Abdullah said that the Holy Prophet forbade charging of rent on land.

(10)Jabir bin Abdullah said the Holy Prophet had ordered that the owner of land should cultivate it himself, and if he does not do it, he should lend his land free of charge to his brother for cultivation.

(11)Jabir bin Abdullah said that some of the companions of the Holy Prophet had spare lands and the Holy Prophet ordered them to cultivate those spare lands or to lend them free of charge to their brothers for cultivation, but if the brothers refused, the land owners should hold back their lands and let them lie fallow.

(12)Jabir bin Abdullah said that the Holy Prophet prohibited charging of rent on land or obtaining any benefit on lending such lands to others.

(13)Jabir bin Abdulla said that the Holy Prophet ordained that whosoever possessed land should cultivate it himself and if he is unable to do it himself he should give it to his Muslim brother for cultivation and should not charge any rent for it at all.

(14)Jabir bin Abdullah said that during the period of the Holy Prophet they used to procure land along the water courses on crop-sharing for one-third or one-fourth. Then the Holy Prophet stood up and said whosoever had land he should cultivate it himself or else he should give it to his brother for cultivation free or otherwise let it lie fallow. (i.e. desist from crop-sharing or charging

rent in any form).

(15) Abu Huraira reported that the Holy Prophet said whosoever had land should either cultivate it himself or lend it to his brother free for cultivation. If the brother refused to take it, he may let his land lie fallow.

(16) Naafih reported that Abdullah bin Umar used to lease out his Agricultural fields on rent during the regimes of the Holy Prophet, Hazrat Abu Bakr, Hazrat Umar, Hazrat Uthman till early period of Moaaviyah. In Moaaviyah's later period he heard that Raafih bin Khadeej reports its prohibition from the Holy Prophet. So Abdullah went to Raafih and I (Naafih) went with him. We asked Raafih. Raafih said the Holy Prophet prohibited renting of agricultural lands. On hearing this Abdullah gave up this practice. Thereafter whosoever asked him (for ruling on this issue) he replied that the son of Khadeej had told that the Holy Prophet had forbidden it.

(17) Raafih bin Khadeej said, "We used to practice Muhaqilah during the days of the Holy Prophet and rented out our fields for one-third and one-fourth produce or a fixed amount of grains. One day one of my uncle came to us and said that the Holy Prophet had forbidden us from a practice which benefited us; but we find more benefit in the pleasure of Allah and His Apostle. We are prohibited from Muhaqilah or renting out land and have been ordered to cultivate the land ourselves or to give it to others for cultivation. The Holy Prophet disliked renting out agricultural land in any form whatsoever".

(18) Raafih said that his uncle Zaheer came to him saying that the Holy Prophet had prohibited them from a work which benefited them. Raafih asked what it was, adding whatever the Holy Prophet had said must be just and true. Zaheer said that the Holy Prophet had asked him what they did with their agricultural fields. Zaheer replied that they leased out their fields on rent and that the rent was the produce of the area along the water-courses or a few measures of dates or oats. The Holy Prophet said, "Do not do it. Either cultivate the land yourselves or give it to others for cultivation (without any rent) or let it lie fallow".

(19) Hanzala bin Qais asked Raafih bin Khadeej about leasing land for rental. Raafih said that the Holy Prophet prohibited land rental. Hanzala asked whether it was forbidden to lease for gold and silver as well. Raafih said that for gold and silver there was no harm.

(20) Hanzala Zurqi reported that Raafih bin Khadeej used to say, "Among the Ansars we practiced Muhaqila most. We used to rent out land saying that we would get the produce of this portion and they would get the produce of that portion of land. Then the crop grew here but not there. So the Holy Prophet prohibited us from this practice; but he did not prohibit us from receipt of rental in silver".

(21) Abdullah bin Saaib went to Abdullah bin Maaqal and asked

him about crop-sharing Muzariat. He replied that Sabit (a companion of the Holy Prophet) thought that the Holy Prophet had forbidden from Muzariat and had ordered to get land cultivated by wage labour, saying that there was no harm in it.

(22) Umar reported that Mujahid asked Taoos to accompany him for visiting the son of Raafih bin Khadeej to hear from him the Hadeeth he quoted from his father who heard it from the Holy Prophet. On this Taoos snubbed Mujahid and said, "By God if I knew that the Holy Prophet had forbidden from Muzariat I would not have indulged in it. But I heard from Ibne Abbas, the one who knew most amongst the companions of the Holy Prophet that the Holy Prophet had said, "If any of you gave land free to his brother for cultivation, it would be better for him than receiving a known levy for it".

(23) Umro and Taoos reported that Taoos practiced Mukhabirah and Umro advised him to give it up because people said that the Holy Prophet had forbidden from indulging in Mukhabirah Taoos retorted saying, "O Umro, the person who knew most amongst the companions of the Holy Prophet, i.e. Ibne Abbas had told him that the Holy Prophet had not prohibited from Mukhabirah; but he had said, "If any one of you gave his land to his brother free, it would be better for him than receiving a known levy from him".

(24) Ibne Abbas reported that the Holy Prophet had said, "If any one of you had agricultural land and he lent it free of charge to his brother for cultivation, it would be better for him".

(25) Ibne Umar stated that they did not consider Muzariat objectionable till they heard from Raafih bin Khadeej saying that the Holy Prophet had prohibited Muzariat. So he talked to Taoos about it, who said that Ibne Abbas used to say that the Holy Prophet did not prohibit Muzariat but had said, "If any of you lent your land to somebody gratis for cultivation, it would be better than levying any tax on him for it".

(26) Urwa bin Zubair reported Zaid bin Sabith having said, May God forgive Raafih bin Khadeej. By God I understand the Apostle's traditions better than him. The truth was that two Ansars went to the Holy Prophet fighting. The Holy Prophet told them to refrain from leasing out their lands if that was what it led to. Raafih bin Khadeej only heard to refrain from leasing".

(27) Hanzala bin Qais Ansari reported that he asked Raafih bin Khadeej about renting agricultural land against gold and silver; he replied that there was no harm in it. During the days of the Holy Prophet people used to rent out land along the water courses and other cultivable portions. (It happened that) sometimes this party suffered disaster while the other escaped, and sometimes that party suffered while the first escaped. Besides this practice there was no other method of renting out land during that period. Therefore the Holy Prophet prohibited this practice. But there is no harm in the method which is safe and secure.

(28) Hanzala bin Qais Ansari reported that he asked Raafih bin

Khadeej about renting of land. He said that the Holy Prophet forbade renting of land. So Hanzala asked him again about renting for gold and silver. Raafih replied that there was no harm in it.

(29) Saalam bin Abdullah reported that Abdullah bin Umar used to lease his land on crop-sharing till he heard that Raafih bin Khadeej stated that the Holy Prophet had prohibited land renting. So Abdullah bin Umar met Raafih bin Khadeej and asked him to narrate the Hadeeth which he reported from the Holy Prophet about renting of cultivable lands. Raafih said that he heard from both of his uncles, who took part in the Badr campaign and who used to relate in the household that the Holy Prophet had prohibited renting land. Thereupon Abdullah bin Umar said, "By God I know that land used to be rented during the days of the Holy Prophet". But then Abdullah feared lest the Holy Prophet might have issued some new directive which had not reached him. So he gave up renting land after that.

(30) Ibne Raafih reported from his father Raafih bin Khadeej say that Abu Raafih came to us from the Holy Prophet and said, "The Holy Prophet has prohibited us from an act which benefited us, but submission to Allah and His Apostle is better for us. He prohibited all of us from cultivating any land except that of which we are undisputed owners or that which somebody has lent us free for cultivation."

(31) Abu Jafar Hilmi's uncle sent him alongwith one of his slaves to Saeed bin Museeb for an enquiry. Saeed told them that Abdullah bin Umar saw no harm in Muzariat till he heard the Hadeeth reported by Raafih bin Khadeej on the subject. So he went to Raafih and asked him. Raafih said that the Holy Prophet went to Bani Haarisa, saw a cultivated field in Zaheer's land and said, "How fine that crop of Zaheer is!" People told him that the crop did not belong to Zaheer. He asked whether the land did not belong to Zaheer. People told him that the land belonged to Zaheer but the crop belonged to some one else. Thereupon the Holy Prophet ordered, "Take back your crop field and pay back his remunerations". Raafih said, "On hearing this we took back the field and remunerated him for tilling and sowing".

(32) Saeed bin Museeb reported from Raafih bin Khadeej that the Holy Prophet prohibited Muhaqilah and Muzabina and said that land cultivation took place in three ways: A man owns his land and he cultivates it himself, a man gets land free of charge from others for cultivation and cultivates it; and a man who gets land on rent for gold and silver.

Abu Daud, the compiler, said that he recited to Saeed bin Yaqoob Taliqani saying that he had reported from Abdullah bin Mubarik who had heard it from Saeed bin Ali Shujah who had said that Uthman bin Suhail bin Raafih bin Khadeej told that he (Uthman) was an orphan being nourished in the lap of Raafih bin Khadeej and that he performed Hajj alongwith him. His brother Imran bin Suhail met him and said, "I have rented my land to a

person for two hundred dirhams". Raafih said, "Give it up. The Holy Prophet has prohibited renting of land".

(33)Ibne Abi Naeem reported from Raafih bin Khadeej that he cultivated a piece of land and when he was watering it, the Holy Prophet arrived there and asked to whom did the crop belong and to whom the land belonged. Raafih replied that the crop belonged to him, the seed and labour were his own on the condition that he would get half the produce and the other half would go to Bani so-and -so who owned the land. On this the Holy Prophet said, "You have committed Riba. Return the land to its owner and recover from him what you have expended on it".

(34)Jabir bin Abdullah reported having heard from the Holy Prophet who said, "He who did not give-up Mukhabira is warned that he wages war against Allah and His Apostle".

(35)Zaid bin Sabith said that the Holy Prophet prohibited Mukhabira. He asked the Holy Prophet what Mukhabira was. The Holy Prophet replied, "That you hire land for half and one-third or one-fourth of the produce".

IMAM TIRMAZI'S COMPILATION known as JAME-UT-TIRMAZI conveys us the following reports.

(36)Ibne Umar reported that the Holy Prophet allowed the residents of Khyber to cultivate land on the condition that all fruits and grains produced therefrom would be shared equally by them and the Holy Prophet.

(37)Raafih bin Khadeej said, "The Holy Prophet prohibited us from a practice which benefitted us. If any of us owned land, he used to lease it to others on crop-sharing basis or for dirhams. But the Holy Prophet ordered us that we should cultivate our lands ourselves or should give them free for cultivation to our brothers".

(38)Ibne Abbas said that the Holy Prophet had not prohibited Muzariat, but had ordered people to be lenient to others.

IMAM MALIK'S COMPILATION known as MOUTAH reports the following traditions to us.

(39)Raafih bin Khadeej said that the Holy Prophet prohibited from renting of agricultural lands. Hanzala bin Qais asked Raafih whether against gold and silver as well; to which Raafih replied that there was no harm in it.

(40)Maalik quoted Ibne Shihab who had asked Saeed bin Museeb about renting of land for gold and silver. He replied that there was no harm in it.

(41)Ibne Shihab asked Salim bin Abdullah bin Umar about renting of agricultural land. He replied that there was no harm in renting for gold and silver. Ibne Shihab asked Salim again whether he did not remember Raafih's quoted tradition, to which he replied that Raafih was correct, and added that if he had owned agricultural land he, too, would have rented it (i.e. for gold and silver).

(42)Maalik heard that Abdul Rahman bin Ouf had taken land on rent which remained with him throughout his life time and one of his sons said that having possessed it for so long they considered

it their own. But on his death-bed the father ordered them to pay its rent in gold or silver.

(43)Husham bin Urwah bin Zubair reported that his father, Urwah bin Zubair used to rent out his cultivable land for gold and silver. Imam Maalik was asked to give his views about a person who rented his cultivable land for a hundred measures of dates, wheat or produce of that land or some non-produce therefor. Imam Maalik disapproved such acts.

SUNNAN-E-IBNE MAJA reports the following traditions on the topic under consideration.

(44)Raafih bin Khadeej said that Holy Prophet prohibited from Muhaqila and Muzabina and told us that three types of people cultivate agricultural fields: people who owned fields and cultivated them; people who get them free of any rent and cultivate them; and people who hire them, paying the rent in gold and silver.

(45)Ibne Umar said, "We used to practice Mukhabira and saw no harm in it till we heard the Hadeeth reported by Raafih bin Khadeej to the effect that the Holy Prophet had prohibited it. So we gave it up on his evidence".

(46)Jabir bin Abdullah said that many of them had surplus lands which they rented out on one-third and one-fourth. So the Holy Prophet ordered, "Whoever owned surplus land should either cultivate it himself or give it to his brother for cultivation. If the brother refused to cultivate it, the surplus land may be allowed to lie fallow".

(47)Abu Hurairah reported that the Holy Prophet said, "Who owned land should cultivate it himself or give it free to his brother for cultivation. If he refused to take it, the land may be held back.

(48)Ibne Umar said that he used to rent out his land for cultivation, and a man came to him and said that Raafih bin Khadeej reported from the Holy Prophet prohibition of renting cultivable lands. So Ibne Umar went to Raafih bin Khadeej and that man went alongwith him till they reached Balat (a Place in Madina near Masjid-i-Nabvi) and asked Raafih about the Hadeeth. Raafih said that the Holy Prophet prohibited leasing land on rent. Upon hearing this Ibne Umar ceased to rent out his lands.

(49)Jabir bin Abdullah said, "the Holy Prophet addressed us and ordered that who owned cultivable land should cultivate it himself or lend it to others for cultivation but should charge no rent.

(50)Abu Saeed Khuzri said, "The Holy Prophet prohibited us from Muhaqila; and Muhaqila is to lease cultivable land on rent".

(51)When Ibne Abbas heard people discussing a lot about renting of land, he said, God be praised, the Holy Prophet had said: Why does not anyone of you lend his land to his brother free for cultivation? But he did not prohibit from renting of land".

(52)Ibne Abbas said that the Holy Prophet had said, "If anyone of you lent his land free for cultivation to his brother, it would be better for him than receiving such and such a known charge for

it". Ibne Abbas added that it was called Haqqal and the Ansars called it Muhaqila.

(53) Hanzala bin Qais stated that he enquired from Raafih bin Khadeej who replied, "We used to rent out cultivable land on the condition that the produce of this portion would belong to us and of that portion would be of the cultivator. Then we were prohibited from renting on the produce basis, but we were not prohibited from renting for silver".

(54) Raafih bin Khadeej reported from his uncle Zaheer who said that they were prohibited from a practice which benefited them. Raafih said that what the Holy Prophet had ordered was right and just. Zaheer told him that the Holy Prophet had asked them what they did with their agricultural fields; to which he had replied that they used to rent them for one-third and one-fourth of produce, or for a few measures of wheat or oats. The Holy Prophet ordered, "Do not do it. Either cultivate your lands yourselves, or let others cultivate them".

(55) Raafih bin Khadeej said that if anyone of them became careless about his land, he would lease it for a third, a fourth or half the produce with stipulation that he would get the produce along three water drains including hay and straw of Rabi season. It was very difficult for the cultivators to pull on under these conditions. They worked hard with their ploughs to produce what God willed for their subsistence. Raafih bin Khadeej told them that the Holy Prophet had forbidden them a practice which benefited them. But the obedience of Allah and His Apostle was more beneficial. The Apostle of Allah had prohibited Haqqal and had ordered, "Whosoever became careless of his land should give it to his brother free for cultivation, or let it lie fallow".

(56) Urwah bin Zubair reported Zaid bin Sabith having said, "May God forgive Raafih bin Khadeej. By God I knew Hadeeth better than him. The fact was that two persons went before the Holy Prophet fighting. The Holy Prophet said to them, "If that is how you behave you should not let your fields on hire". Raafih only heard - you should not let your fields on hire - and no more.

(57) Umro bin Dinar reported that he suggested to Taoos to desist from Mukhabira since people said that the Holy Prophet had forbidden it. Taoos replied that he gave people and helped them; that Maaz bin Jabal indulged in that practice; and that the one who knew most, i.e. Ibne Abbas had told him that the Holy Prophet did not prohibit it; but had said thus, "If any of you gave his land to his brother free of rent, it would be better for him than charging a known rent".

This completes the list of 57 Ahadeeth collected on the topic of cultivating agricultural lands. It will not be amiss to mention here that out of the four Imams of Fiqh, two i.e. Imam Abu Hanifah and Imam Shafiyye believed charging of rent for cultivable lands to have been prohibited by the Holy Prophet, peace be upon him.

A perusal of these 57 traditions will show that many of them

are repetitions with slight changes in narratives as they reached the six compilers of the traditions. If we regroup them according to their contents and arrange the groups in an ascending order, beginning with those asserting no ban on crop-sharing and ending with its definite prohibition equal to that of riba, we will get a clear spectrum of views to help us examine them critically and to deduce accurate conclusions promptly.

Proceeding accordingly we observe one extremity of the spectrum declaring that:

(I) CROP-SHARING IS NOT PROHIBITED by the Holy Prophet. In fact he himself entered into such a deal with the Jews of Khyber in respect of Khyber lands as reported by Ibne Umar in report number (36). This contract remained in force till Hazrat Umar ousted the Jews in his regime for their anti-state activities. Noted Muslim dignitaries like Ibne Umar (report 25), Ibne Abbas (report 38), Abdul Rahman bin Ouf (report 42), Urwa bin Zubair (report 43), and Maaz bin Jabal (report 57) indulged in this practice; while Raafih bin Khadeej, the Champion of prohibition of crop-sharing has been condemned as a careless reporter in reports numbering (26) and (56). While a look at the other extremity of the spectrum confronts us with the grim warning that:

(II) CROP-SHARING IS RIBA as explicitly declared by the Holy Prophet in report number (33). And report number (34), by Jabir bin Abdullah, warns us that if we do not give up Mukhabira, we would be waging war against Allah and His Apostle.

With such opposing views at both ends we find the intervening portion of the spectrum strewn with reports of varying shades tending towards one side or the other, but overwhelmingly inclined towards the prohibition.

(III) LUKEWARM REPORTS. A cursory glance at all these reports produces despondency in the reader and provokes him to give up this contradicting jumble as useless. But a devout Muslim cannot dare it, as it goes against his grain. The issue is of top-most social significance and faith demands a deeper probe. So let us take up the cudgels for discovering the truth.

Counting separately the reports that prohibit Mukhabira and crop-sharing categorically, we find that reports bearing numbers 1, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 21, 29, 30, 31, 33, 34, 35, 37, 43, 45, 46, 47, 48, 49, 50, 54 and 55, an overwhelming majority of (33) reports belong to this category. Further reports bearing numbers 19, 20, 27, 28, 32, 39, 40, 41, 42, 43, 44 and 53, counting to (11) in all, also prohibit Mukhabira or crop-sharing, though they permit renting out agricultural land in exchange for gold and silver. Only the remaining thirteen reports bearing numbers 2, 5, 22, 23, 24, 25, 26, 36, 38, 51, 52, 56 and 57, permit Mukhabira or crop-sharing practices.

Bearing in mind the fact that all these traditions are found recorded in the unanimously acknowledged six true compilations of the Ahadeeth, we cannot brush aside anyone of them casually,

even if that solitary one appeared to be contradicting the overwhelming majority of the remaining reports. We must reconcile them all to grasp the spirit intended by the Holy Prophet to be imparted by those reports to his companions and followers. And failing to reconcile in any particular instance, we should look into all possible reasons to explain the rationale of the contradicting version.

Approaching these traditions with that positive attitude we find that definite and clear-cut prohibitive orders exist in respect of Mukhabira and crop-sharing to the effect that they must be given up altogether, and that one should cultivate his own lands himself. Those who cannot indulge in self-cultivation for valid reasons and those who have surplus lands besides what they could possibly themselves cultivate, must let their Muslim brothers cultivate such surplus lands free of any rent whatsoever. If the landless Muslim declined to avail of such offers, the land owners should let such lands lie fallow, but they should not be rented out in kind or for cash.

Vide report number (35) Zaid bin Sabith confirmed the prohibition of Mukhabira, which the Holy Prophet himself defined on Zaid's request to mean, "that you hire land for half or one-third or one-fourth of the produce". A comprehensive survey of the already picked up thirty-three reports leaves upon our conscience an indelible imprint to the effect that the Holy Prophet certainly forbade Mukhabira and crop-sharing, and that Raafih bin Khadeej was not the only one to have reported such prohibition. A good many other contemporary dignitaries confirmed the prohibiting orders.

Besides Raafih, his two uncles particularly Zaheer heard these orders himself from the lips of the Holy Prophet more than once while cultivating his own and hired lands as revealed by reports bearing numbers 3, 17, 18, 29, 31 and 54. Hazrat Abu Hurairah confirmed the prohibition vide reports bearing numbers 4, 15 and 47, while Jabir bin Abdullah also confirmed Mukhabira to be ribai deal, by reporting it to have been declared equal to waging war against Allah and His Apostle by the Holy Prophet, (peace be upon him). Vide report bearing number (50) Abu Saeed Khuzri confirmed prohibition of Muhaqila, which was leasing of cultivable land on rent. Further Umro bin Khalid, Lais, Rabiah bin Abu Abdul Rahman and Hanzala bin Qais also confirmed vide report number (7) that crop-sharing had been prohibited by the Holy Prophet.

In presence of such weighty evidences, to reject prohibition of Mukhabira, Muhaqila and crop-sharing would amount to violation of the Quranic order which commands us to obey Allah and His Apostle. We are, therefore, left with the only alternative of thrashing out each and every report of the remaining sets of eleven and thirteen reports segregated by us above.

Let us first consider the set of thirteen reports according to which Mukhabira and crop-sharing are permitted. They bear

numbers: 2,5,22,23,24,25,26,36,38,51,52,56 and 57. We take them up below one by one.

Reports bearing numbers 2 and 5 are almost identical wherein Umro requested Taoos to give up Mukhabira because people thought that the Holy Prophet had prohibited it. Taoos replied that Ibne Abbas, who knew traditions better than anybody else had said that the Holy Prophet had not prohibited it; but he had said that if any of us gave cultivable land to his brother free of rent, it would be better than receiving a known tax from him. This means that either the traditions categorically prohibiting Mukhabira did not reach Ibne Abbas, or if they did, he considered them to be governed by those qualified with 'ifs' and 'better'. Thus Ibne Abbas reduced the prohibition to mean a mere suggestion for a better deal, and hence an option but not an obligation. Since some more traditions reported by Ibne Abbas adopt the same approach, we will give our comments on them all later on.

Reports bearing numbers 22,23,24 and 25 are for all purposes similar to report number (2) in recording only such facts which helped to draw the desired conclusion. They adopt the same approach of Ibne Abbas to refute prohibition of Mukhabira and to reduce what the Holy Prophet had said to be a mere suggestion, entailing no obligations for the followers of the Holy Prophet, (peace be upon him).

Reports bearing numbers (26) and (56) demand our serious attention in spite of the fact that they throw no light on the matter under consideration. They are identical and both of them try to defame Raafih bin Khadeej, by narrating a simple story with serious implications, and attributing it to Zaid bin Sabith. It is impossible to believe that a person like Zaid bin Sabith would have said what is attributed to him. No dignitary of early Islamic era ever insulted any of his contemporary, and Zaid did not do it. Raafih bin Khadeej was a prominent land-owner of Madina who knew every detail of land cultivation practices then in vogue; and who also championed against the prohibited ones. To depict him as an ignorant gossip, as is done in these reports is height of folly and mischief. Surely some supporter of Mukhabira and crop-sharing must have fabricated this unbelievable tale, and attributed it to Zaid bin Sabith. Since these two reports throw no light, whatsoever, on the issue involved, they deserve to be discarded and dropped.

Report bearing number (36) deserves some elucidation and comments. That Islam created an ideological state is no secret. Naturally it could not shelter its bitter enemies to continue carrying on their nefarious activities against it. Hence the Jews who opposed the Islamic movement from the very start had to be dealt with caution and patience. They had to be either tamed or eliminated. The taming process preceded the elimination both at Madina as well as at Khyber. The Jews of Khyber waged war against the Holy Prophet and thwarted Islamic progress; so they were fought against and subdued. Instead of ousting them from their hearths and

homes straightaway, they were dealt with leniently, and according to existing pre-Islamic practices of land cultivation in vogue, they were allowed to continue cultivating the lands (now belonging to the Islamic state) on crop-sharing basis, receiving share of their labour in kind. Contracts with non-Muslim communities had to follow the practice in vogue to avoid harshness to them. Evidently it was a temporary arrangement which the Holy Prophet had made clear by announcing there and then that their stay was subject to his own discretion and that they could be ousted if and when he thought fit to do so. Since the Jews continued to indulge in anti-Islamic activities surreptitiously, Hazrat Umar ibnul Khattab, the second Khalifa ousted them during his regime from Khyber to seek shelter elsewhere, following the already declared policy of the Holy Prophet.

The crop-sharing deal with the Khyber Jews was political deal with a non-Muslim community which could not be made a model to be followed by the Muslims amongst themselves. For Islamic teachings regarding land cultivation we have to learn from what the Holy Prophet taught about it incessantly, and not to take shelter under transient historical events.

Report bearing number (38) states: "Ibne Abbas said that the Holy Prophet had not prohibited Muzariat but had ordered people to be lenient to others". Here again non-prohibition is insisted upon without any proof, or refutation of the counter-claim. Such reports help nobody.

Report number (51) says that when Ibne Abbas heard people discussing a lot about renting of land he said, "God be praised, the Holy Prophet had said: Why does not anyone of you lend his land to his brother free for cultivation? But he did not prohibit renting of land". This statement goes against the stand taken by Ibne Abbas. It reveals that people were discussing a lot about renting of land openly and publicly, which definitely proves that Ahadeeth in favour of rental prohibition and rental permission were being freely quoted by everybody in support of his respective stand. Such being the situation why Ibne Abbas did not take up the prohibiting traditions and proved their invalidity to save once for all his contemporaries as well as the Muslim posterity from an endless and fruitless debate? As he took no such constructive step it means that our earlier assumption that such prohibiting Ahadeeth might not have reached Ibne Abbas was not tenable. He did hear the prohibiting traditions but did not discuss them, because their clarity and abundance were irrefutable as our set of (33) traditions establishes.

Ibne Abbas and his disciples took a weak stand to support their views. Advocacy of free lending of cultivable land to be only suggestive and non-obligatory cannot help them. A catch in this report itself destroys their logic. The Holy Prophet is quoted here asking, "Why does not anyone of you lend his land to his brother free for cultivation?". The interrogative tone cannot be suggestive;

it is assertive and doubly so with a touch of despair. Report (51) thus becomes a crucial one holding the key to unlock all previous and following reports pertaining to Ibne Abbas on this issue. Our dilation here on it should be considered to cover them all.

Report bearing number (52) is this : Ibne Abbas said that the Holy Prophet had said, "If anyone of you lent his land free for cultivation to his brother, it would be better for him than receiving such and such a known charge for it". Application of our comments on the previous reports will make this one more meaningful.

Report bearing number (56) is a replica of report number (26) and by reading it with our comments on that report you will comprehend the true situation. Finally read the report (57) in the light of our remarks on report number (51) to appreciate the situation.

Perusal of this comprehensive survey of each and every item of the set of thirteen reports alleging no restriction on Muzariat, Mukhabirat, Muhaqilat and crop-sharing brings to light the fact that Ibne Abbas took the initiative in his own hands to lead the no restriction campaign, just as prohibition campaign was led by Raafih bin Khadeej: A Muhajir against an Ansar.

How insecure and perilous the approach of Ibne Abbas school was, has already been explained in our comments on the previous reports; but this Muhajir versus Ansar situation also attracts one's attention. Was it a mere accident and chance or had environs and history any part to play in it; one is lured to ask. If we bear in mind a few facts of historical significance we might get enlightened and better informed.

At its formative stage two elements merged to form the embryo of the Muslim society. These elements were the Muhajirs and the Ansars. The Muhajirs migrated from Makkah while the Ansars already lived in Madina. The Muhajirs from Makkah and its surrounding areas knew no cultivation at all. They owned no cultivable lands in or around Makkah. They indulged in trade and commerce, in the areas of their approach, for their livelihood; and when they migrated to Madina, the Ansars offered them to share their lands and hearths, but the Muhajirs refused and preferred to be led to the market place. Why? Simply because trade and not agriculture suited their grains. On the other hand the Ansars were overwhelmingly cultivators of land and their wealth sprouted from agricultural produce. This temperamental difference between the two constituents of budding Muslim society found its expression in the economic field.

When Islam spread throughout the Middle East countries and conquered many lands, vast pieces of cultivable lands were distributed among the conquering Mujahideens. The Ansar Mujahids inclined towards cultivating them themselves, while the Muhajir Mujahids leaned towards leasing their fields on crop-sharing basis to the local population. For millenniums the practice of crop-sharing has been in vogue everywhere as a feudalistic device. When

facts are observed in this historical context one does not get surprised to find in the crop-sharing controversy Ansars advocating a ban on it, and Muhajirs advocating no ban. Their differing trends were the products of their respective environmental influences.

Now let us consider the set of eleven reports which admit prohibition of Mukhabira, Muhaqila and crop-sharing but see no harm in renting cultivable lands for gold and silver. This set consists of reports bearing numbers 19,20,27,28,39,40,41,42,44 and 53.

Report number (19) tells us that on being asked by Hanzala about leasing land for rental, Raafih said, "The Holy Prophet prohibited land rental". On further enquiry by Hanzala whether it was forbidden to lease for gold and silver as well, Raafih said that, "For gold and silver there was no harm".

Raafih bin Khadeej's first reply to the effect that the Holy Prophet prohibited land rental appears to be categorical and all-embracing. It was definite and clear-cut verdict which eliminated the necessity for any further elucidation. However, on being asked further whether it was forbidden to lease for gold and silver as well, Raafih's reply was expected to be quoted in the Apostle's own words like the first one. But the way Raafih replied induced ambiguity in it by making it dubious as to whether the Holy Prophet saw no harm in it or only Raafih himself did so. Thus this report does not provide a definite information.

According to report bearing number (20) Raafih said that among the Ansars their family practiced Muhaqila most. After describing this practice Raafih said, "So the Holy Prophet prohibited us from this practice (of crop-sharing); but he did not prohibit us from receipt of rental in silver".

It may be noted that Muhaqila was a particular form of crop-sharing in kind. Only crops as they stood were shared without involvement of any cash in it at any stage. So while prohibiting the practice the Holy Prophet had to prohibit the practice as it was. Since there was no occasion to say anything about the prohibition or permission of receiving rental in silver, naturally the Holy Prophet had to remain silent about it. To infer from such a situation that lack of prohibition implied permission is neither just nor fair.

Report bearing number (27) tells us that Hanzala bin Qais Ansari reported that he asked Raafih bin Khadeej about renting agricultural land against gold and silver. He replied that there was no harm in it. Then Raafih described a crop-sharing practice in vogue at that time, and he ended his statement with these words, "Besides this practice there was no other method of renting out land during that period. Therefore the Holy Prophet prohibited this practice. But there is no harm in the method which is safe and secure".

This report throws enough light on the issue under consideration. That 'there was no other method of renting out land during

that period' clearly acknowledges that rental in gold and silver was neither practiced nor thought of during those days. Its idea and practice appeared later on. Hence to ask the Holy Prophet about it was out of question; and to expect that the Holy Prophet should express his orders for a non-existing and unasked situation was almost silly. As the idea and practice arose later on, presumably after the demise of the Holy Prophet, to seek his guidance about it was not possible. Hence 'there was no harm in it' was Raafih's own conjecture for which he gave the reason himself by saying, "But there is no harm in the method which is safe and secure".

Report bearing number (28) is a repetition of report (19). Hence our remarks given under (19) equally apply to (28).

Next comes report number (32) with which report number (44) also concur. Due to some novel information contained therein we will discuss both of them at the end of the set of eleven traditions. Keeping them in abeyance for the time being, we take up the next report.

In report number (39) Raafih bin Khadeej tells us that, "The Holy Prophet prohibited us from renting of agricultural land". Hanzala bin Qais asked Raafih, whether against gold and silver as well; to which Raafih replied that, "there was no harm in it". This report is identical to the report number (19), and our comments on that report apply to it equally.

Report bearing number (40) tells us that, "Maalik quoted Ibne Shihab who had asked Saeed bin Museeb about renting of land for gold and silver He replied that there was no harm in it". Facts mentioned in the report are clear; but what Saeed bin Museeb had replied was according to his own opinion since no mention of its having been heard from the Holy Prophet is made.

Report number (41) is that 'Ibne Shihab asked Saalim bin Abdullah bin Umar about rent of agricultural land. He replied that there was no harm in renting for gold and silver. Ibne Shihab asked Saalim again whether he did not remember Raafih's quoted tradition, to which he replied that Raafih was correct; and added that if he had owned agricultural land, he too would have rented it (for gold and silver).

Here again the views that no harm existed in renting cultivable land for gold and silver are views of Raafih bin Khadeej and of Saalim bin Abdullah themselves, since no reference to the Holy Prophet is made while expressing their views.

Report number (42) tells us that, 'Maalik heard that Abdul Rahman Ouf had taken land on rent which remained with him throughout his life time, and one of his sons said that having possessed it for so long they considered it their own. But on his death-bed their father ordered them to pay its rent in gold or silver". Here the practice indulged in by a companion of the Holy Prophet comes before us to witness that there was no harm in it. Admittedly it adds weight to such an inference, but without any reference to any order of the Holy Prophet about it, to infer that it was the

Prophets order is not possible.

Next comes the report bearing number (53) reproduced below: "Hanzala bin Qais stated that he enquired from Raafih bin Khadeej who replied, "We used to rent out cultivable land on the condition that the produce of this portion would belong to us and of that portion would be of the cultivator. Then we were prohibited from renting on the produce basis, but we were not prohibited from renting for silver". As a statement of facts the report is entirely correct. Like our comments on report (20) we repeat that while prohibiting an unhealthy practice the Holy Prophet had to prohibit the practice as it stood. Since renting for cash was no part of the practice, the Holy Prophet had to keep silent about it. Taking his silence to mean non-prohibition of cash rental is irrelevant, because silence was equally applicable to both permission as well as prohibition. He had naturally to keep silent about a situation which was not referred to him for adjudication. As non-prohibition cannot stand for permission, the inference drawn is not correct.

Let us now take up reports number (32) and (44) together. Number (32) tells us that: Saeed bin Museeb reported from Raafih bin Khadeej that the Holy Prophet prohibited Muhaqila and Muzabina and said that land cultivation took place in three ways: A man owns his land and he cultivates it himself; a man gets land free of charge from others for cultivation and cultivates it; and a man who gets land on rent for gold and silver". Report number (44) says: 'Raafih bin Khadeej said that the Holy Prophet prohibited us from Muhaqila and Muzabina and told us that three types of people cultivate agricultural fields: people who owned fields and cultivated them; people who get them free of any rent and cultivate them; and people who hire them, paying the rent in gold and silver". These reports pertain to a single tradition picked up once (32) from the compilation of Abu Daud, and again (44) from that of Ibne Maja.

Its significance lies in the fact that it attributes to the Holy Prophet himself the statement of hiring agricultural land on payment in gold and silver. But the manner in which it is stated is only descriptive without asserting that all the three ways of land cultivation are permissible. However, its mention soon after asserting the prohibition of Muhaqila and Muzabina does imply permission of all the three, particularly when not a single tradition prohibiting renting of cultivable land for gold and silver is available and permission for the other two methods exists. Thus permission to rent for cash gains enough weight. How much weight it gains depends upon two considerations: action of the companions of the Holy Prophet and their successors on the permission and its good or evil effects for individuals and society.

The practice of some companions of the Holy Prophet has been noted in quite a few reports perused. For the effects of this permission on social practices, we have to observe that implementation of prohibition of Muhaqila, Mukhabira, Muzabina and crop-sharing in general are likely to get affected adversely during early

periods of enforcement, if a bypass is made available. We have seen in the case of those who deny prohibition of crop-sharing that its enforcement did suffer in early era due to non-cooperation from the Ibne Abbas School of thought. Otherwise in spite of indulgence in crop-sharing during the days of the Holy Prophet and of Abu Bakr, Umar, Uthman, Ali and early period of Amir Muaviyah, dignitaries like Ibne Umar gave it up on being convinced of its prohibition.

The cash-rent bypass appears to help the supporters of Mukhabira and crop-sharing although crop-sharing and cash rent are basically different. Let us consider how far they differ basically. Prohibitions of Mukhabira, Muhaqila, Muzabina, and crop-sharing are to be complied with, if for no other reason, for the solitary yet sound reason that these practices have been definitely prohibited by the Holy Prophet, and their prohibition is confirmed by so many companions of the Holy Prophet as evidenced by (44) out of the (57) reports recorded above.

These practices induce and promote feudalism and divide the human race into masters and serfs. The landlords dictate and the cultivating labour class suffers through generations. These are historically confirmed facts which are observable even today by visiting any agricultural estate in any under-developed country. To save society from such degeneration the Holy Prophet's prohibitive orders are the only cure.

Cash-renting of cultivable lands involves no such risk and humiliation. In that case the landlords step out of the land and entire control of the land falls into the lap of the lease-holder. The interest of the landlord shrinks to the receipt of annual rent alone in gold or silver. Due to such consequences permission for cash-renting becomes harmless, provided the lease-holder does not become an absentee landlord himself by resorting to the prohibited crop-sharing.

What modus operandi the cash lease-holder should adopt is made clear in the tradition (32,44) permitting cash rent. He should cultivate the land himself, and should, therefore, take only that much land on lease which he can utilize by self-cultivation. If he has to engage anybody to help him, he should comply with report bearing number (21) which reads: "Abdullah bin Saaib went to Abdullah bin Maaqal and asked him about crop-sharing Muzariat. He replied that Saabith thought that the Holy Prophet had prohibited Muzariat and had ordered to get land cultivated by wage-labour, saying that there was no harm in it".

Islamic injunctions are meant for practice and not for lip-service alone. Hence what has been said so far has to be implemented as an obligation. Putting Islamic injunctions into practice actually amounts to bringing about a change in social habits of the individuals: and people accustomed to act in a set pattern dislike change, oppose it, and do not yield to it easily. That is why efforts for successful implementation of the above orders got frustrated in

early era of Islam; and they are likely to face similar difficulties today in any Islamic country desiring in earnest to establish an Islamic order. People with the vision and intent of Lais as recorded in report bearing number (7) are needed to clear the way.

This report tells us that, "Umro bin Khalid, Lais, Rabiya bin Abu Abdul Rahman and Hanzala bin Qais reported from Raafih bin Khadeej, who said that his uncle told him that during the period of the Holy Prophet people used to rent out agricultural lands on a quarter of the produce or something specified by the landlord. Then the Holy Prophet prohibited this practice. Hanzala said, he asked Rafih what if land be rented for dinars and dirhams. Raafih said there was no harm in it. But Lais said if one capable of discriminating between the prohibited and the permitted pondered over this question, he would not allow it since there was definite risk involved in it".

When discriminating persons of that early era could smell a rat, why can't we? Let us follow in their footsteps who knew better and could judge better than us. Let us avoid the risk involved in cash-rent during the period of changeover from the feudalistic and capitalistic to an Islamic economic order.

22.4. ABOUT RENT OF BUILDINGS.

Besides the food which land provides to all living beings, the animate world needs habitat to dwell in. This habitat is provided by Allah free to all animals; but the human beings have to build their own residential and work buildings, for which God provides them land and building materials free. In this section we will consider the propriety of charging rent for such buildings, when they belong to somebody and are rented out to someone else. We will also seek guidance from Sunnah on this deal in so far as it is available.

The technology of constructing residential and commercial buildings has developed far enough to become an industry by itself. And people take residential, commercial and even industrial buildings on hire due to dearth of private capital with them. Since Muslim individuals and societies encounter this situation, they need guidance about it in the light of Islamic teachings and good commonsense. Let us, therefore, probe into this issue in depth.

Buildings need land to be built upon, and building materials to be build with. Both of them are marketable commodities and can be purchased with one's own wealth or with an interest-free loan, provided the borrowing entrepreneur is financially sound enough to pay back the loan quickly. Since interest-bearing loans are prohibited in Islam and interest-free loans are scarce, the enterprise of building construction becomes feasible only with one's own wealth and not otherwise. To proceed further we should, therefore, assume that our entrepreneur owns enough wealth to ensure completion of his building projects right upto the point of renting the buildings out to the prospective tenants.

Suppose one has abundance of wealth to indulge in the industry of housing construction for tenancy. Is he permitted by Islam to increase his wealth in this way? Do any prohibiting orders exist? Can any tradition of the Holy Prophet be quoted for encouraging and promoting such practices by which rich people help the needy by providing them with residential and trading facilities at a reasonable rate of return?

These are some questions which arise in the minds of devout Muslims; and since apparently there appears nothing wrong with this occupation, one feels inclined to brush them aside as frivolous and obstructive. But that does not satisfy the devout Muslims. On the other hand the sceptic minds argue that interest and rent are profits on investment of capital and they are basically alike. Either both should be prohibited or both should be permitted. Their differential treatment by Islam is illogical. If Islam prohibits interest, it should prohibit rent of buildings as well; or permit them both. Thus the issue acquires wider dimensions.

Life needs water for existence, but the topographical structure and geographical location of the Arabian Peninsula deprived vast areas of this country from rains. So here habitation could appear only near oases and springs, which were very few. Wandering tribes settled near an oasis or a spring they discovered during their wanderings and built their mud-huts around it. Families of all tribes lead a close-knit life within the tribal habitation; thus knowledge of and regard for all members of the tribe develops such a cordial and fraternal atmosphere that it becomes impossible for them to conceive the idea of or need for house-rent. However, civilization creeps in gradually everywhere; and with it wealthier families of any tribe start building spare houses to accommodate their guests and friends.

Arabs are hospitable by nature and in the field of housing accommodation their hospitality introduced a custom known by the name of 'UMRI'. They began to donate some of their spare houses to their deserving relatives or friends for living in them free for their entire lives. This is what 'Umri' meant. On the death of the donee, his successors had to vacate and hand back possession of the donated house to their real owners, confirming their title of ownership. The custom was no doubt enviable and this humanitarian custom of the Arabs was very old, being in vogue at the advent of Islam. The Holy Prophet appreciated it and many well-to-do Muslim families adopted it, as we find it mentioned in some Ahadeeth compilations.

Existence of Umri practice by itself is a proof of the fact that the practice of leasing buildings to others on rent was not unknown in Arabia. But those who embraced Islam in Makkah did not encounter it for the simple reason that at the advent of Islam all free men of Makkah owned their residences and all slaves lived with their masters. Unlike the well-known practices of riba, trade, slavery and polygamy, no traces of house-renting practice are

available in old records.

The advent of Islam did produce a social upheaval by splitting families into believers and non-believers, arousing antagonistic ideological feelings between the pagan Qureish and the believers in the new faith. This brought in its trail plenty of torture for the believing minority but it did not create any housing difficulty for them. At its worst this situation forced the Muslims to leave their homes and to migrate for safety first to Ethiopia and then to Yasrab. The migrating Muslims, now known as Muhajirs, received a very warm welcome from their brothers in faith at Yasrab, who became their Ansars or helpers. The help offered by them was an unqualified total help to share all they had. Ansars of Yasrab were mostly cultivators of land whereas the Muhajirs were traders by previous experience. They accepted housing accommodation with thanks, but declined the land offer due to lack of know-how. The Holy Prophet introduced a fraternity bondage between individual Muhajirs and Ansars. He picked up, turn by turn, a Muhajir and an Ansar to establish brotherly relations between the two. Finally he commanded all the pairs thus made, to mutually respond each other as real brothers do. With such close knit brotherly relations established in them all, they worked jointly to convert Yasrab into Madina-tun-Nabi (City of the Holy Prophet) in a very short period.

Since we are here concerned primarily with the issue of rent of buildings, this little digression was to pinpoint the fact that on migration to Madina nobody had to face the problem of residential rent, and therefore this issue was not brought to the notice of the Holy Prophet for adjudication. The spread of Islam within Arabia and its adjoining countries, during the life time of the Holy Prophet, created no such crisis as to compel the new believers to migrate else-where for safety. No demand for additional housing accommodation or promotion of rental practices, therefore, arose. Hence no orders to prohibit house-renting or to advocate it are available.

The pilgrimage to Makkah for performance of Hajj and Umra was the Only occasion in early Islamic period likely to create temporarily the problem of accommodation for a short period of a week or so. As Hajj is a ceremony involving quick movements from place to place, pilgrims use tents during this ceremony and usage of tents for this purpose was in practice since the advent of Islam, and remains so right upto this advanced age of road and air transport.

For a few days stay at Makkah, visit to Mina and stay at Aarafat for a couple of days, spending the night at Muzdalfa and back to Mina for offering animal sacrifice, and returning back to Makkah for final Umra; the ceremony is such that it makes unconventional arrangements in temporary dwellings everywhere. It is at Makkah alone that the stay is longer, the city owns permanent buildings, the pilgrims are inclined to offer more and more prayers in the Bait-Ullah. Therefore, during the life time of the Holy Prophet chances of charging rent for residential accommodation at Makkah

alone were there; and the Holy Prophet did observe substantial rents being recovered by the local residents of Makkah from the incoming pilgrims. He took notice of it and faced the situation gracefully. He told the residents to be hospitable to the pilgrims and to avoid harshness. But he did not order them to abolish the rent altogether. The reason was that for the common residents of Makkah pilgrimage offered an occasion to serve the pilgrims by providing them with facilities of board and lodging and thereby to get benefited in return. Therefore, it was only the abuse they were told to abstain from; to be hospitable to their utmost and not to charge any rent, if possible.

Islam prohibited crop-sharing in cultivable lands, and discouraged cash rental of such lands, but it did not prohibit rent of residential and commercial buildings. Why? Let us consider this carefully.

Products of cultivable land possess two peculiar attributes which the products of human labour do not possess. First peculiarity of the cultivated land products is that they are essential for the upkeep and survival of life in all its forms, and without consuming such produce life extinguishes automatically. Their second peculiar attribute is that they do not need any human assistance for coming into existence. The life preserving food grows automatically as a natural process in which man has no part to play essentially. Right from the stage of its sprouting from earth upto its stage of ripening for animal and human consumption no human help is needed at all. That man has learnt to lend a helping hand to nature for increasing land produce should not mislead us to depreciate the significance of the self-operating automatic production process designed and introduced by Allah for survival of life created by Him. Due to these two important attributes of agricultural produce, its manipulation by members of human society needs a different set of directives than the set of directives needed for converting natural resources into utility products by human agency.

Being basically different from the life-preserving food created untouched by human hand, those raw natural resources which demand the application of human skill and exertion to acquire a utility form, must naturally be governed by a different set of rules of social conduct, of price computation and evaluation of their rent. Since the major differentiating factor between the two types is the human labour involved in the later case, the quantum of this involved labour will dictate the evaluation of price and rent of the utility products thus produced. Hence rent for residential/commercial buildings and for all utility goods produced by human agency derives its justification from the human labour expended in injecting utility in the inert natural resources for presenting them in a readily usable form.

Food being a consumable commodity which vanishes soon as it is used, it becomes impossible to return it in original. Therefore,

it cannot be rented out. It can only be sold either for cash or on credit; and in case of credit, it is the monetary value thereof which becomes recoverable, the food having been consumed exists no more.

Thus the practice of renting out utility goods becomes applicable to durable, non-consuming utility products alone; and their sale and rental are both permitted due to human labour involved in their production.

Amongst the companions of the Holy Prophet, Abu Zur Ghaffari held his own views about rent of residential buildings. It was somewhat akin to modern hire-purchase deals, but without any interest element involved in it. He felt that the total cost of any building was its real and true value. As such the seller gets more or less this value from the buyer in cash and hands over its possession in exchange. If the seller agrees to receive the sale price in instalments, the product of the quantum of an instalment multiplied with the number of instalments must equal to cash sale price since interest is prohibited in Islam. Abu Zur Ghaffari extended this reasoning to rented houses as well and argued that the lease holder after paying full cash value of the building in rental instalments should be considered as the owner of the building. He should cease to pay any more rent and should claim the ownership of the building, which the previous owner should accede to. These views of a companion of the Holy Prophet deserve consideration as they reflect the concept of an Islamic hire-purchase deal. We will revert to it soon while commenting upon the current hire-purchase practices below.

22.5. HIRE - PURCHASE PRACTICES.

All economic transactions are dealings of give and take, and a hire-purchase contract is no exception. In this contract one sells some property on hire-purchase basis to another who buys that property on that basis. In hire-purchase two disconnected, independent and simpler economic transactions of sale and hire are knowingly and willfully merged into a complex one. As this merger is bound to create new problems demanding fresh solutions, the phenomenon needs a comprehensive study to equip us with a deeper insight into the issue for offering sound comments.

Manufacturers who produce utility products ever remain alert to push their sales sky-high for more reasons than one: (i) By expediting sales working capital begins to revolve more speedily and completes its operational cycle in a much shorter time than otherwise. The entrepreneur is thus enabled to reduce his financial cost and to operate with a smaller quantity of working capital, and thereby to proportionately increase sale opportunities for his products in a competitive market. (ii) To increase sale the manufacturer is lured to sell on credit as well. If such credit sales are established directly between the manufacturer and the consuming public, they become cumbersome and unwieldy to handle due to

widespread public and prolonged instalment recoveries, distracting the attention of the manufacturer from his main function of manufacture. Hence a separate commercial enterprise enters the field to operate on the hire-purchase basis exclusively, and to release the manufacturer for concentrating on bulk sales. (iii) Having no other responsibilities to discharge, this new enterprise handles the hire-purchase business exclusively. It buys goods direct from the manufacturers on cash payment or credit purchases as its financial resources permit; but sells them retail to the utilizing individuals on hire-purchase terms. Since such an intermediary institution helps the manufacturers to increase their sales, they encourage hire-purchase institutions by charging as low interest on their credits as possible.

Let us now see how a hire-purchase institution operates, what helpful service it renders to the public it attracts towards its hire-purchase scheme; and what disservice, if any, it renders to individuals and society as a whole.

The operational details of a hire-purchase institution differ fundamentally in its manipulation of moveable and immovable properties. In case of moveable properties the institution takes no part in their manufacture, it only buys them ready-made and sells them on instalment basis. But in case of immovable properties of land and buildings the institution performs the operations of preparing the land for construction, constructing residential/commercial buildings thereon, and furnishing them with electric, gas and water fittings with external connections, right upto the stage of finishing paints ready for immediate use by the intending buyer on hire-purchase basis.

Due to fundamental difference in the nature of functions performed by the hire-purchase institutions in case of movable and immovable properties, different enterprises are set-up to handle them separately. An enterprise dealing in hire-purchase of movable properties like motor cars, motor cycles, push bikes, coolers, refrigerators and airconditioners etc: does not indulge in the building construction trade; nor do the builders of residential/commercial houses for hire-purchase sale indulge in hire-purchase business of movable properties. The two types being thus completely segregated, it becomes easier to observe the operational details of each one in turn.

Those who sell movable properties on hire-purchase basis, sell them at prices higher than their cash sale price. What they charge over and above the market cash sale price of the commodity they sell on hire-purchase is considered by them partly due to interest leviable on delayed recovery of their capital outlay, and partly due to profit on their enterprise. Looking from a purely secular approach there seems nothing wrong with this logic, since capital and enterprise join hands to earn both interest and profit. But the teachings of Islam view this phenomenon differently. The Holy Quran tells us, "And Allah has permitted trade, but He has

prohibited riba (interest)". (Sura Al-Baqara, verse 275). For a Muslim a Divine command is an absolute order to be complied forthwith, unhesitatingly.

Human perversion to dictate and despoil is, no doubt, as old as history itself; but dictation and despoilment through usurious banking network on International scale is of recent growth; and its disastrous rampage is unparalleled in history. To nip such a mischief in the bud Islam raised its voice against it fourteen centuries ago and today war against usury is the need of the hour.

Such being the facts of modern life and economy any hire-purchase practice tinged with interest becomes unacceptable. If an interest-free hire-purchase scheme is not feasible, the interest bearing one is a poison for the Muslim community.

Now let us look into the hire-purchase scheme pertaining to immovable properties, i.e. the house building industry operating on hire-purchase basis. Population of any country increases faster than we manage to provide the necessities of life in the under-developed countries. Marriage is a biological necessity of every adult man and woman, but it results in speedy reproduction. The age bracket between 20 and 25 is of full maturity and marriage; and every couple starts reproducing a child every third or fourth year thereafter. The first born babies reach their maturity to start reproduction in turn during the next 20 to 25 years, and during this period their parents bring forth from six to eight children, out of which if two are claimed by disease and accident, five on the average still survive. Thus on dying a couple leaves five successors behind to add to the population of their country. These five alongwith their parents need a residential accommodation for seven during a quarter of a century till their parents expire and they get married to multiply further. This means that during a quarter century a country's housing need rises from 2 to 7 or three and a half times. Do we construct new houses with that speed? Certainly not. This makes house building a highly profitable trade and a much abused occupation. It leads to the following economic consequences.

I) Persons with experience of house-building rush in to get benefited by the increased demand for housing. They need no finance of their own. House-building finance corporations are there to lend on interest. They borrow, buy substandard materials, save on cement and steel, by using more bricks and sand; and sell the nicely painted building at twice or thrice the construction cost.

II) The above mentioned is the method used by ordinary building contractors. Sharp business needs sharper wits to do away with the expense of interest altogether and to increase the profit correspondingly. Hence sharp-witted entrepreneurs chalk out a grand plan to construct an A.B.C. plaza or an XYZ Township to meet both the residential and commercial demands of the public. They negotiate to purchase a piece of roadside agricultural land from its landlord at rates prevailing for such lands for agricultural use. On

paper they divide it to carve roads, lanes and residential/commercial plots of different sizes. The negotiated purchase price is divided by the total saleable area thus made available for housing plots, to work out the cost per square foot to be charged from the intending purchasers. Suppose it works out to Rs. 'P' per square foot.

Now the entrepreneur advertises in the daily newspapers sale of residential and commercial plots giving detailed terms and conditions of sale. Since the planning entrepreneur has invested none of his own or borrowed funds, and since he cannot take possession of the land without complete cash payment of its price to the landlord, in his advertisement he would demand an advance part-payment of Rs. 'P' per square foot as deposit money with the application for purchase. As soon as all plots are contracted for sale and deposit money collected, he will pay the collected funds to the landlord and take possession of the land. The land is now cleared of all wild growth and levelled. Demarcation of roads, lanes and plots is dug in and the plots are numbered for allotment to the purchasers.

The advance deposit is usually regarded as 25% of the total sale price of the plot. The balance of 75% is recovered in monthly instalments of a convenient amount. When the entire sale price of the plot is recovered, its physical possession is given to the buyer so that he may construct the building himself in accordance with the design approved by the entrepreneur and the local municipality, or he may join the construction phase planned for the Township to be executed by the enterprise of the entrepreneur.

The building construction scheme is equally cumbersome, taxing and exacting. The construction contractors receive the estimated construction cost by stages upto the plinth level, the door level, the roof level, and the finish. When all fittings are fixed and painting done, you make the final payment and step into your own house.

A notable feature of the building construction schemes operating in Pakistan is that they are not hire-purchase at all. They are a sort of turn-key contracts, without any guaranty of soundness and solidity of the building you receive.

Now let us hear the comments and counter-comments on the entire topic of hire-purchase made by the secular economists and the Islamic ones. The secular economists admit that as against cash-purchase a commodity or a residence acquired on hire-purchase costs more, but the higher cost is justified on the basis of readily utilizable facility it immediately provides. If the intending buyer wants to deprive himself of the benefit due to his religious, non-economic reasons, he is free to do so; but he cannot put the blame on economics. When the scheme helps the customer to possess and immediately avail of a utility product, to purchase which he would otherwise have to wait for a long period, saving and piling up enough money to buy that utility product on cash sale price; is not the service rendered by the hire-purchase institu-

tion worth its while and laudable? Surely the payment of interest is more economical and cheaper as a hire for the use of facility months ahead of its cash purchase. That people are attracted by and they hasten to avail of the helpful services rendered by the hire-purchase institutions are quite sound reasons to justify the rationale of the practice. What has Islam to say against it?

Islam says against it the following. To hire a thing and pay its hire, and to buy a thing and pay its value are both permitted by Islam; and when the two are combined in one, and its cash value is received by instalments, it is equally permitted provided nothing extra is charged. What makes the deal prohibitive is the additional charge of interest over and above its cash sale price. Ignore that element of interest and the hire-purchase deal becomes Islamic as visualized and argued by Hazrat Abu Zur Ghaffari.

Will the secular economy abolish the interest element from the modern hire-purchase deal? No! Why not? Because the invested capital is borrowed on interest and that interest has to be recovered from the customer. This means that the real mischief stems from borrowing. So why resort to borrowing at all? Why not use one's own savings to conduct any business. If one uses his own capital for his business enterprise and avoids calculating imaginary interest on it, and runs the business without receiving or paying any interest on any transaction, what will happen?

No catastrophe will happen at all. Only credit sales will stop and business will continue to run on cash purchases and cash sales. The quantity of business will be reduced to what is necessary and essential. Necessities of life will continue to be sold, only non-essential luxuries will sell less. But such reduction will not hit the production of necessities nor their sale. And the greatest benefit of such a situation will be that individuals, organizations and the entire nation will start learning to live within their means and to avoid spending before earning. Is this better for a community or to spend what one does not have; to live with a begging bowl in one's hands and to pawn one's posterity for eternal indebtedness and misery?

This is what Islam has to say against credit system and all practises based on borrowed funds. Islam has blocked all roads leading to credit, without prohibiting loans explicitly; because in that alone lies the prosperity of all individuals, all communities, all nations and the entire human race.

22.6. AT THE CROSS-ROADS OF WISDOM AND FOLLY.

Both the Capitalist and the Socialist schools of economy persuade us to believe that development of backward countries can be carried out only if they borrow funds and technology from an industrially advanced country. But as we have learnt from previous discussions, Islam blocks all roads to credit short of prohibiting loans explicitly. This leaves the Muslim intellectuals at the cross-roads of wisdom and folly, guessing which way they should turn.

The non-Muslim spectators pronounce that the Muslim community should thank itself for having been led into a quandary by their own unfeasible economic precepts, to validate which no practical proof is forthcoming. Is their verdict sound and valid?

Though in a fix, the Muslim intelligentsia is not cowed down. They have reasons to consider this pronouncement a hasty and fallacious one on many counts. Before donning the attire of an 'ism' capitalist economy was only a bunch of market practices sans theory, and it remained so for millenniums. Only three centuries ago theories were framed, revised and polished to raise it to an 'ism' and they called it 'Capitalism'. Similarly Socialism did not exist a century ago. Karl Marx's theory was only a concept without any practical proof to validate its feasibility. Only when Lenin and his party became powerful in Russia during the First World War, they converted the Marxian dream into a feasible reality. Thus the records of formative periods of Capitalism and Socialism both support us to regard the non-Muslim award invalid

Genesis and development of Capitalism teaches us that any prevailing economic practice which benefits a particular class of society becomes the preserve of that class. To conserve that preserve that class takes upon itself to do all that can be done for its promotion, preservation and fortification of their vested interests. Thus the money-lending class started justifying the rationale of interest by theorizing and by developing the banking network to its present stage. They opened a chain of schools and colleges to teach business administration and to impart commercial training for preparing teams of votaries for Capitalism, who would serve its cause for their own livelihood and survival.

A conspicuous feature of this so-called free economy is that it is subjected to controls both by the vested interests as well as the state authorities of the countries in which capitalism rules supreme. They make the dictated variations in the rate of interest their key control weapon.

Again the world regarded Marxism an unfeasible theory till Lenin and his party secured power by brute force and tried to establish their own dictatorship under the guise of the dictatorship of the proletariat. By grabbing all means of production they demonstrated feasibility of the Marxian ideology. This clearly proves that to condemn an ideology in haste due to lack of practical demonstration of its feasibility is neither fair nor wise. Theories and ideologies can be judged on their own merits and demerits. It is only a believing team of workers and favourable circumstances to help them to get into control of their country that provides an occasion for practical demonstration of its feasibility.

The feasibility of Islamic Economic Ideology was practically proved by the Holy Prophet and his companions during the early decades of Islam and history bears witness to it; but that was fourteen centuries ago, and much water has flown below the bridges since then. However, recent awakening in Muslim

Countries to research their moorings augurs well, and we can hopefully expect an Islamic economic revolution in the offing.

Fate of the Muslim community which now finds itself stranded on the cross-roads of wisdom and folly depends upon their own decision which turn to take. To reach that decision they must depend exclusively on their own discretion. No borrowed guidance will be of any avail. If they follow this golden rule, they are bound to succeed. They will easily discover that the road which their secular friends advise them to follow by borrowing funds and technology leads to certain disaster.

It is true that the underdeveloped countries need funds and technology to tap their natural resources and to exploit them; but it is not true that they are lacking in both of them. No doubt they have to learn the technical know-how, but the funds they already have are in sufficient quantity. If you feel surprised to hear this, let us unlock the mystery to help you see the truth.

Our first step should naturally be to know what constitutes the wealth of a nation. Geography and history join hands to help us understand the nature of wealth. Those who know the geography of our planet Earth will tell you that it is a huge globe consisting of many land masses and many vast spreads of oceans. The globe revolves round its own tilted axis as well as around the Sun in an ecliptic orbit to produce days and nights and different seasons during a year. The solar heat evaporates the sea water and helps it to rise up in the form of clouds which wander about in space, rising higher and higher till they condense in cool regions and getting heavier they fall down as rain and snow over different parts of the world. This rain water mixed with earth produces light and heavy vegetation in the form of grasses, cereals, bushes, trees and thick forests. The snow falling on high mountains melts in summer and streamlets rush down to join one another in bigger streams and rivers which carry huge bulks of water through plains of different countries to reach again their original abode, the ocean.

This water cycle produces and maintains life in its various forms: the vegetable kingdom which remains stationary, being tied to the ground with their roots; the animal kingdom which moves about in search of food, drink and shelter; and the human race which exploits both these living kingdoms because human subsistence and survival depends on consuming them. With knowledge gained through experience and research man achieved mastery over the world. And all this happened through self-reliance and self-help.

We know that our readers still feel convinced that no underdeveloped country can muster enough foreign exchange from its own resources to start development, and they expect from us more solid evidence to help them dispel their hesitancy and to accept our conclusion. What we claimed in this regard is reproduced below:

"It is true that the under-developed countries need funds and

technology to tap their natural resources and to exploit them; but it is not true that they are lacking in both of them. No doubt they have to learn the technical know-how, but the FUNDS THEY ALREADY HAVE ARE IN SUFFICIENT QUANTITY".

Every free country, howsoever backward it may be, has some potential and some apparent natural resources, and its manpower is busily exerting itself to exploit its easily exploitable resources with whatever crude methods they knew. They do it under the urge to subsist and survive. They use their commonsense to improve their lot. Since their normal basic wants are being satisfied somehow, they exert all the more aspiring to raise their standard of living higher and higher.

For the sake of argument we can assume that they process none of their produce to export because they have no machinery to process any; but to say that they were exporting nothing will not be true. Their outgoing masters had left behind the arrangements for exporting indigenous raw materials, such as machines for ginning, pressing and baling cotton and jute into hard pressed bales for shipment; for salting and semi-tanning hides and skins with bark-in-pits method to preserve them for export; equipment to fell trees in forest, to season teak and timber and to bundle them for floating down the rivers to harbours; rice husking plants to husk and bag rice; to preserve plucked raw fruits and pack them with straw in wooden crates for export. Since the outgoing masters were already exporting such commodities to their home lands for consumption or for further processing them, all the equipments already installed for this purpose were left behind intact to be helpful for the succeeding authorities to continue exporting raw materials to earn foreign exchange.

An interesting case in this connection is that of the gold mines of South Africa. The Britishers could not dig all the gold and they would not leave the remaining gold in the mines for the local blacks to become its masters. So they established a permanent colony of white settlers in South Africa to inherit the independence of the country and to rule over the vast black majority by dint of brute force and connivance of the white races of the world. Thus the wealth of south African gold still remains under control of the white inhabitants who treat the natives brutally as if the natives are a sub-human race.

Leaving aside that instance of white barbarity to be condemned by justice and fairplay, we have to pinpoint here the fact that the outgoing European masters left behind all the wherewithal they had set up to export local raw materials to their countries, and the local inhabitants continued to use it for exporting their raw materials to earn foreign exchange. This is a fact which nobody can deny.

Thus the freed backward countries everywhere started to manage their economy by exporting their raw materials. Their export earnings alongwith the locally saved production made up

their national wealth. If it were wisely husbanded, it could have sufficed to put up one or two industrial units every year, without asking for any loan from any country at all. And this is what we claimed by saying that all countries have sufficient funds of their own to start industrialization.

Actually the fault lies with our mismanagement and not with the lack of funds. We hasten to import luxury goods instead of productive machinery, and quickly fall into the snare of the international lending network, which is ever on the lookout to trap and rope in any country being ruled by unpatriotic bureaucracy.

It is not the funds a nation needs for development, it needs only a wise and honest bureaucracy, a determined will to achieve and sincere efforts to achieve the goal.

Technical know-how is, no doubt essential for industrial development, but it is not as easily available as the financial credit. In the following section we will discuss it in detail.

22.7. TECHNOLOGY AND ITS TRANSFER.

Science and technology are developing branches of knowledge; and they continue to grow, develop and to improve continuously. So much so that the 17th: and 18th: century science was ousted by the 19th: century science which itself is now being superseded by the 20th: century science. Technology follows science closely behind. For their development and progress all countries depend on science and technology and the under-developed countries need them in their latest form to help them develop speedily.

Science develops and improves with experimentation. Experimentation and measurement require equipment, facilities and materials, all of which contribute to the progressively increasing cost of science. Scientific results are, in general, the property of the whole world. When a scientist discovers a new principle, he does not sell it; he simply publishes it. Thus, upto a certain point worldwide science is at the disposal of the developing countries; but the same cannot be said about technology.

It is essential to distinguish clearly between science the knowledge of the nature of the physical world and technology the knowledge of process for production of goods and for the supply of services. There is a cost and a value to science but it has no price. On the other hand technology has a price; it can be bought and sold and stolen. The economy of the developing countries is held back not by lack of science but by lack of technology. Thus science should be supported principally for its role in priming technological development.

Imported technology is that for which express payments are made by way of royalties, manufacturing licences, technical assistance and for the use of trade marks. There is also an immense expenditure with "implicit" technology, the technology built into the imported products. The developing country pays for it but does not acquire it. An ammonia plant capable of producing 100 tons

per day costs roughly \$ 100 million, a good part of which represents the cost of the original development. The country that imports the plant pays for the development but does not learn how to develop. If more plants are bought, the same technology is paid for again and again. This is the general situation with any high technology product. Technological insufficiency is a major reason for the vulnerability of the economy of developing nations. It results in the necessity of obtaining foreign loans that are tied to technological expenditures.

For lack of technology, local resources cannot be adopted to substitute imported ones. For lack of technology a developing nation must export raw materials instead of finished products. Technological dependence can be reduced either by buying foreign technology or by generating technology autochthonously. From the pragmatic point of view, autochthonous technology is that either developed in the country or copied from others, provided no foreign payments are involved. Imported technology is that for which express payments are made. One may distinguish between the two classes of imported technology.

1. The import of information that permits the manufacture of a product but not its design. This is the import of a "technological recipe", which does not reduce the dependence, it may even increase it. Technology used by the multinational companies in developing countries falls in this class.
2. The import of information that allows the local design of the product. This occurs only rarely, which establishes that it is impossible to import complete technology at any cost.

Bought technology can only benefit the buyer if he has a capability of assimilating the information. It is impossible to transfer technology to a country that has no technology of its own. Autochthonous technology matches local conditions. It also is one link in a feed-back chain: the larger the local technological development the larger the capacity to make new inventions and to assimilate foreign technology. There can be no technology if there are no technologists. A constant improvement in the educational system is one of the fundamental pre-requisites for the success of a national technology programme.

Technology contributes decisively to the national product. It is a merchandise that benefits the nation as a whole and must, therefore, be promoted by the State. In capitalist economy, the principal mechanism for the promotion of technology is the placing of development contracts with the private industry.

A lecture delivered by Dr. Abdus Salam, the renowned physicist on 'Promotion of Science in the Third World' was published by the Pakistan Times in its magazine section of 23 and 30 May: 1986. We reproduce below some excerpts from it for the benefit of our readers.

"By and large very few realize that for long term effectiveness, technology transfers must always be preceded by science transfer; that the science of today is the technology of the future; that science transfer is effected by and to the communities of scientists; that these communities need stability, long term commitment, generous patronage, self governance and free international contacts to grow. Such communities must be allowed to grow to critical sizes in the developing countries; they must be visibly strong, and most crucially they must be allowed to play a role in nation-building as equal partners to the professional planners and the economists. I wish to make a plea to the development agencies everywhere that they must take a long term attitude to the growth of science both basic and applied in the developing countries. Through the immense leverage they can exert, they must ensure that adequate infra-structure is built in the developing countries they help, and that the scientific communities there are enabled and allowed to play their rightful roles, both in building this infra-structure as well as in the process of development. That in the energy field there is need for such high-level science is recognized even by stock brokers' journals. In the words of the Economist of London, "If Solar energy is to provide the solution to the world's fuel crisis, that solution will not emerge from low-technology house-top radiators which rely on 19th: century science. A breakthrough will come from applying quantum physics, bio-chemistry or other sciences of the 20th: century. Today's technology-based industries all depend on new sciences.

Science and technology amongst us are our own responsibility. Speaking as one of them (i.e. the developing countries) let me say this: The growth of science follows a well-tryed pattern, invented in the West and successfully copied by Japan and the USSR, a pattern now being copied by the larger of the developing countries like China, Brazil and India. No patchy applications of science and technology, no patchy transfers of technology will make up for it. We in the developing world must begin to realize that we must go the whole cycle".

*(THE PAKISTAN TIMES dated 23rd & 30th May, 1986.
Magazine Section.)*

All that has been said above about borrowed finance and borrowed technology leads us to conclude that both of them are hallucinations conjured up by the wizards of capitalist economy. They are only mirages, the under-developed countries are lured to observe, run after and exhaust themselves achieving nothing but wasted time and effort. In relying on one's own resources, however limited they may be, and in cultivating the habit of self-help, whatever time it may take to develop, lies the secret of success. This is what eminent leaders of science and technology teach us and countries which have risen to eminence after the Second World War confirm with their achievements. Let us take heed of their counsel and admit that the key to paradise on earth is held by self-reliance and self-help.

22.8. THE BOUNTY OF AL-AFVW.

If you carefully observe people engaged in their economic pursuits, you will find something common in their behaviour. They act as if some mysterious force is driving them all to a common goal. Some powerful motivation is goading them to acquire more and more wealth, power and position. They are enthralled by this captivating tendency to remain busy in their pursuit of wealth till death overtakes them. Whether this tendency sprouts from the human body itself, or it is a product of human environments, it is there to overpower all human beings, with rare exception, and to keep them spellbound under its influence, busy amassing wealth whether they act individually or as a team at community or national level.

Here we are not concerned with the nature of this tendency, but we are concerned here with its universal appeal and influence. It captivates all and keeps them so much attuned to itself as to make them forget everything else. The Holy Quran confirms the existence of this tendency and warns us to beware of its enthralling nature: "Desire for abundance of wealth distracts your attention (from more serious and important aspects of life) and keeps you spell-bound to itself till you enter the grave". (Sura Al-Takathur, verses 1 and 2).

Desire for abundance of wealth leads one to accumulate and hoard it. One may sit over it like miser enjoying the pleasure of owning hoarded treasures, but that attitude can only be an interim phase of lust for gold. It cannot last for ever because wealth by itself cannot be the ultimate goal of any sane person. It is not an end in itself. It has always remained a means to achieve other ends. The Holy Quran censures it vehemently: "And convey to those who pile up gold and silver and do not spend it in the way taught by Allah, the tidings of extreme suffering". (Sura al-Tubah, Verse 34).

Being in dormant state, accumulated hoards serve no purpose. It is the wealth which is being productively used that is helpful, not the locked up wealth. Power and pelf are only means to some other end, and that end is the ultimate goal, not the means which help to reach that goal. This brings home to us how vital it is for us to know the ultimate goal of human life to reach which Allah has bestowed upon us such boundless means to help us march towards it. Allah created us and gave us faculties of observation, judgement and freedom of action to examine and test us how sanely we use them for submission to the Divine guidance in His Worship and in our own social behaviour.

About wealth Allah commands:

"And spend your wealth in the Cause of Allah. Do not bring about your destruction with your own hands. Do good for Allah loves those who do good". (Sura Al-Baqr, verse 195). "Those who spend their wealth do not spend it extravagantly nor niggardly, but they follow a middle path between these two extremes". (Sura Al-Fur-

qan, Verse 67). "And render to the kindred their due rights and to the needy and wayfarer. But do not squander your wealth in the manner of a spend-thrift. Verily spend-thrifts are brothers of Satan and Satan is ungrateful to his Lord.....Do not tie your arm to your neck, nor stretch it full length so that you become blame-worthy and destitute". (Sura Bani Israel, Verses 26,27 and 29).

"Those who regularly recite the Book of Allah, perform regular prayers, and spend out of what we have provided for them secretly and openly, hoping for a commerce that will never fail; Allah will reward them and will give them more out of His Bounty, for He is Oft-Forgiving and He appreciates the loyalty of His servants". (Sura Fatir, verses 29 and 30).

The above few verses of the Holy Quran are random samples picked out of a continuous flow of verses laying stress on the significance of spending for the uplift of the downtrodden and the have-nots. According to Islam wealth is bestowed on people not to be locked up; nor to be lavishly and exclusively spent on themselves. It is bestowed primarily to be spent for reducing the poverty of the have-nots, to uplift them and to improve their standard of living. This aspect of the Islamic economic system is, in fact, its pivotal aspect.

Spending for social uplift helps the recipients of these monetary gifts to buy their necessities of subsistence. The increased demand for utility products encourages the entrepreneurs to expand their production units and to employ more labour, thus providing employment to jobless and producing more goods for sale. Industrial and commercial activities thus increase and national economy boosts.

Islamic teachings have laid great stress on spending because spending by the haves automatically boosts up the national economy. In fact Islam has given the pivotal position to spending with a view to expedite the advent of a welfare state. To a question as to how much a Muslim should spend out of his wealth for the above-mentioned purposes, Allah has given a reply pregnant with revolutionary potentials: a reply which is Divine Bounty revealing its treasures to those who are ready to reflect over it and wish to herald a true Islamic economic set up in their country. The Holy Quran says:

"They ask you how much they should spend. Tell them; Spend all that is left after satisfying your genuine needs. Allah thus explains to you His indicative signs so that you reflect and ponder over them to get benefited in this life and the life Hereafter".

(Sura Al-Baqr, Verses 219 and 220).

The orders to spend all the surplus wealth beyond our essential needs are clear and free from all ambiguities; they need no further clarification. In spite of this if Allah expects us to reflect and ponder over them as pointed out, it can only mean that the apparently simple looking orders are pregnant with revolutionary potentials, with a hidden treasure of socio-economic wisdom, which we are called upon to dig out, reveal and explain to our brothers-in-faith.

Surrounded as we are by usurious economy, the Al-Afw clue might provide an outlet for redemption and resurgence.

We need not master the theories of micro and macro economics to adopt the Al-Afw technique. Our methodology is as simple as that used in assessment of Zakat levied by Islam on Muslim owners of wealth. For this purpose we need some statistical information about the wealth, income and consumption needs of our people. This information can easily be collected through the agency of the periodical census-taking of the world's population. Every country of the world carries out its population census as an International obligation. Arrangements should be made by the State authorities of all the Muslim States to collect the following additional information on such occasions to be helpful in assessing the financial resources of the state to formulate its economic policies.

1. Individual's census Record Number.
2. Individual's name.
3. His/Her sex.
4. His/Her age.
5. Whether earner or non-earner.
6. Nature of wealth owned, if any.
7. Value of owned wealth.
8. Source of income, if any.
9. Amount of annual income.
10. Monetary value of the annual consumption norm of an individual as approved by the state.
11. Value of actual consumption being annually consumed by the individual.
12. Excess consumed annually.
13. Surplus saved annually.
14. Special reasons, if any, for number 12.
15. Comments, if any.

NOTE. According to our judgement the consumption of an individual must include all that is necessary for a frugal but decent living, and must exclude all wasteful expenditure censured by the Holy Quran. Consumption value of individual members of a family boarding and lodging collectively will be found if we divide the total annual consumption value of the family by the number of family members, counting two children as one adult. These figures are to be worked out ignoring all the duties and taxes which modern state-craft levy.

From the above-mentioned detailed information made available to us by the Population Census Authorities, we should prepare the following data:

1. Total number of earning persons.
2. Their total Annual earnings.
3. Total number of non-earning dependent persons.
4. Total number of consumers (1+3).
5. Total income or wealth consumed.
6. Permissible annual consumption under Islamic norms

- declared by the State.
7. Value over-consumed (5-6).
 8. Surplus saved (2-5).
 9. Per Capita Income.
 10. Per Capita consumption.
 11. Per Capita Savings.
 12. Total National Wealth at the end of this year.
 13. Total National Wealth at the end of last year.
 14. Increase or Decrease during the year.
 15. Comments, if any.

The amount of wealth disclosed by column (8) above is the Bounty of Al-Afw. What percentage of the total earnings given in column (2) it becomes should be worked out annually and preserved for comparison. The Al-Afw Bounty given in column (8) provides us finance both for producing more and more as well as for distributing the produce to raise the standard of living of the down-trodden to a level considered respectable by any impartial judge. There is nothing wrong in using the Al-Afw surplus as development finance. We will take-up this issue in the next section.

If the Al-Afw bounty is compared with the amount of annual capital formation achieved by the Capitalist method, it will disclose that the Divine method is far better than the man-made one.

22.9. INFAQ AND ITS CONTRIBUTIONS.

In the Arabic language the word 'Nafaq' and all its derivatives are used to record the activity of parting with what one has by giving it to others or by spending or consuming it. In the Holy Quran, too, they are all used to convey the same meanings. 'Nafaq' means to part with, to give it to others, to spend or to consume what one had. Verse 92 of Sura Al-Imran reads, "You will never achieve righteousness unless you give (tunfiqoo) out of what you love. And you do not part with (Tunfiqoona) anything but Allah knows it well". In this verse the act of 'infaq' (to part with by giving it to others or by spending or consuming it) is used for every thing and not for the economic wealth alone. It includes the economic wealth in all its forms, but besides them it also includes love of every thing else; knowledge, wisdom, humanitarian relationship, mastery over arts, sciences, technology, state-craft, wish to dominate over and dictate others, etc: etc: Just consider how all-embracing this Divine ordinance is, and how much its effective compliance will contribute towards the spread of mutual love and evolution of a welfare state.

Allah created human beings and endowed them with means of observation, judgement and choice of action to try, test and judge them how far they use these faculties judiciously. This Divine objective of Allah is mentioned in the Holy Quran at various places. "We created Man from a drop of mingled sperm (of male and female) in order to test and try him. So we gave him the gifts of hearing and sight, and we showed him the way either to be grateful or to

be ungrateful". (Sura Dahr, Verses 2 and 3). "Allah is He Who created Death and Life so that He may test which of you performs good deeds". (Sura Al-Mulk, Verse-2).

Human activity and display of behaviour extend to many fields of human life, but as we are concerned here with human activity in the field of economy alone, we will restrict our discussions accordingly. Economics deals with the production and distribution of wealth which abounds in nature in various forms as free gifts of Allah for His creatures. These free gifts can be classified into two groups: (i) Those which are essential for the subsistence of animal and human life, and (ii) those which are not essential for subsistence yet they are helpful for a better standard of living and can be made still more helpful with human skill and effort to lead a life of comfort and luxury. Those gifts of Allah which are essential for human subsistence grow automatically under Divine management, untouched by human hand; although man has learnt to accelerate the process of growth and to increase production with his knowledge and experience, yet the process is a Divinely operated automation. This is a clear proof of human limitations, of Divine Existence and of His Wisdom, which guides those who intend to learn the truth. But those gifts of Allah which are non-essential for subsistence, are helpful for a more comfortable and luxurious living.

Through the ages man has learnt to use these gifts of nature for making more and more goods of utility and weapons of war with them. With these products of utility and warfare technically advanced nations of the world exploited the natural resources of the ignorant nations. As a hand-maid of technology economics now contrives to deprive the poorer nations of the world, of their scanty indigenous financial resources. The remedy lies in seeing things in their true perspective, and in managing one's economy in Islamic way.

Evidently the only way to produce more wealth is to convert more and more natural resources of our country into products of subsistence, utility, comfort, luxury and defence. This process can be accelerated only by creating more and more demand for these products. To increase the demand for all these products, the poorer people should be provided with funds to purchase them. Only 'infaq' by the haves and the affluents can achieve this goal, and that is why Islam insists on spending all the surplus wealth for the welfare of the people. This is how 'infaq' contributes to boost economy and to promote a welfare state.

22.10. CAMPAIGN FOR SELF-HELP POLICY AND PRACTICE.

The foregoing discussions in this chapter make it abundantly clear that to achieve economic progress and prosperity in this world, Islam has prescribed a method for the Muslim community, which is quite different from the methods adopted by the Capitalist

and the Communist communities. The Islamic method contradicts the other two methods and operates against them. In fact all the three methods are mutually antagonistic and cannot peacefully co-exist in any country. Their inherent hostility prompts them to dominate the situation and to oust the adversaries.

In the Third World, which includes the Muslim countries as well, such tussle between capitalism and socialism continues and in their controversies they brush aside the Islamic economy as non-existing, and its ideology as an unfeasible religious fantasy. However the modern resurgence of Islam as a way of life has the germs of dynamism in it. No doubt, the movement is in its infancy yet, and needs a lot of bottle-feeding and nursing to reach full maturity; still in spite of all the obstacles it encounters, it is bound to gather momentum and assert itself soon. Our present situation demands that well-informed Muslim intellectuals should come forward to stir up the Muslim masses for shedding their lethargy and ignorance. A forceful campaign for self-help policy and practice is the need of the hour.

How to conduct this campaign is a fairly technical job which has to be executed very tactfully. The basic knowledge of Islamic economic ideology is to be taught to the ignorant Muslim masses, not through any big treatise on the topic, but through a short and sweet lecture or a well-written pamphlet, so comprehensible and convincing as to energize them with a patriotic mission they all must join hands to perform. Our intellectuals are fully competent to prepare such a pamphlet after reading this chapter afresh. We give below necessary guidelines to help them do so:

1) The adage that goals can either be reached with one's own solitary efforts or with the help of others applies equally to goals of economic endeavours. An individual can, therefore, strive to achieve economic benefits either with the use of his own financial resources or by using borrowed finance.

2) Borrowed finance demands payment of interest on the loan, which is categorically prohibited by Islam. Since receipt and payment of interest on loans is repugnant to the Muslim faith, and since none lends money gratis these days, borrowed finance becomes unavailable to devout Muslim entrepreneurs. Thus they are obliged to commence and carry on their enterprises with their own capital, howsoever small it may be.

3) With meagre personal capital to operate, every Muslim must lead a frugal family life so that he may save enough to expand his enterprise and also put up bigger industrial units. From national point of view it becomes obligatory for every member of the Muslim society to lead a simple life, and particularly for the well-to-do members to abstain from a lavish standard of living. They must invest their surplus funds in national industrial development. Frugality for all, rich and poor alike, becomes obligatory for the Muslim community, since spending on wasteful luxuries is prohibited by Islam.

4) To put the above-said three point self-help policy into a community-wide practice, a well-planned campaign becomes necessary. Servants of Allah to whom the dignity of Islam is dear must come forward to contribute some of their spare time for this campaign and the wealthy members of the Muslim community must provide funds for the publication and free distribution of the literature prepared by the intellectuals to arouse the Muslim public from their lethargy and to energize them with the spirit of self-help.

5) A committee of selfless workers, picked up from both the rich and the poor alike should be formed to supervise and direct the self-help campaign and to ensure its progress till the goal of infusing self-help spirit throughout the community is reached.



CHAPTER TWENTY THREE

MUSHAREKAT AND MUZAREBAT

23.1. STRUGGLE FOR EXISTENCE.

All living beings strive to exist but the struggle for existence of the animals and that of the human beings differ in their nature and extent. Animals only search for their food and habitat which already exist in nature; whereas human beings cultivate land to grow food, domesticate animals and build their houses themselves. Human social evolution has caused this difference.

Increase in human knowledge, experience and skill gave birth to human social evolution which brought industrial development in its wake. Industrial revolution created new situations and presented new problems demanding correct solutions. One such problem was the increase in competitive rivalries amongst the individuals, the groups and the nations of the world. These rivalries could no longer remain within peaceful and healthy bounds. They turned offensive, invented death weapons and drove human race into internecine wars. In spite of all their wisdom and sound minds men started killing and destroying members of their own race; a mad action in which no animal ever indulged. The insanity of killing members of one's own species is peculiar to the human race alone. No other animal species could even think of it. Perhaps it is an aberration of the human social evolution. God alone knows how it happened. Whatever be its origin, it provoked national enmities and pushed the world into the flames of two terrible world wars. Who knows what hell-fire the future holds in its lap for the human race!

We are sorry to have digressed far away from the real topic of this chapter, which is to record the various ways in which human individuals, families and groups of people associate to indulge in producing wealth to procure necessities of life; the various ways in which they conduct their economic activities, the various types of activities they indulge in; and how far such associations and such activities are approved or disapproved by the teachings of Islam.

23.2. SOLO AND FAMILY ENTERPRISES.

Persons who are detached from their families by adverse circumstances are obliged to sell their services to others if they lacked funds and know-how to start a business of their own: such solitary persons are solo venturers in the economic field. They set out on job-hunting expedition, and after a lapse of time get employed somewhere. They respond to this job diligently or otherwise in direct proportion to the time they spent on hunting for it. Those who respond to their jobs diligently, work hard on it, and try to learn the technique involved in it, become skilled in it with patience and perseverance. As a consequence they get a wage increase. With a little education such persons become useful assistants in their institutions. If they lead a frugal life and save a little every month, they can set up a little business of their own.

Families usually set up their own enterprises with their family finance, using all members of the family as unpaid workers. It is essential for the parents to learn before-hand the necessary know-how of the business they intend to set up, and to acquire enough experience in it. Sufficient financial resources to operate the enterprise without any hindrance are also necessary for successful operation. Aptitude of other members of the family to pick up the duties allotted to them by their parents proves to be a very good asset.

For a family without training in any specific line of trade it is better to set up a grocery shop in a room opening into the street or road running along the house. The outer door should be widened and provided with a let-down shutter to be locked up from within. Provide a counter to help the customers stand along, buy and take delivery of their purchases. It is not difficult to learn keeping accounts of the bulk purchases made by the family, and of the daily sales, or to count the cash received daily as sale proceeds. The father or an elder son can do it easily. Periodical checking of the commodities that sell most and how to replenish them from a reliable and cheap whole-seller is also easy to learn.

There are a lot of occupations which fetch more wealth than running a grocery shop; but they need specific knowledge and training, and more financial resources to adopt them. Families with courage, aptitude and finance, however, adopt them. Weaving cotton, silk and woollen cloths on handlooms or power-looms within the family premises is one of them. Lace-making, crochet work, embroidery, making dolls for children, knitting wool-wear and manufacturing readymade clothes, and setting up a bakery for bread and cakes etc: are a few others. Poultry farming on domestic scale for supplying chickens and eggs is also possible and profitable.

23.3. ASSOCIATION OF PERSONS.

Besides the above-mentioned solo and family economic ac-

tivities, people associate themselves in various ways to jointly conduct their economic exploits. The Holy Quran ordains: "Cooperate in acts of righteousness and piety, but do not cooperate in sinful and aggressive acts. Fear Allah; for Allah is strict in punishment". (Sura Al-Maaidah, Verse-2) "O believers obey Allah and obey the Apostle, and those charged with authority among you. If you disagree on any issue, refer it to Allah and His Apostle, if you believe in Allah and the Last Day: that is best and most suitable for final determination". (Sura Al-Nisa, Verse-59).

Thus under Islam association of persons is controlled and restricted to activities permitted by Allah and His Apostle. All permissible and prohibited acts are comprehensively explained in the Holy Quran and Sunnah. In respect of the economic field the role played by all the Imams of Fiqh was to systematically compile the record of the Holy ordinances on different economic topics, classify them and elaborate upon them. Further to study the economic practices in vogue during their life-time in Muslim countries and to comment upon their acceptability as a valid Islamic practice. They did it to the best of their abilities and preserved their findings in the literature compiled by them and their disciples.

Association of persons to conduct their economic exploits took the form of partnership in early Muslim society, and it was and still is known as MUSHAREKAT. Under it two or more persons merged their capitals and jointly exerted to earn wealth through economic activities which were then mostly confined to trade and commerce. No industry worth its name existed in the early epoch of the Muslim society and so we find no detailed instructions of the Holy Prophet on the industrial sector of the economy except to make justice and fairplay as a guiding principle in all our economic activities and to pay the workers their just dues promptly. Teachings of the Holy Quran and Sunnah about agriculture have already been dealt with comprehensively in the previous chapter, and trade and commerce will be discussed here. While giving their observations on the economic dealings, the Imams of Fiqh quote examples from trade and commerce alone because that sector of their economy was the dominating one during their period. However applications of their findings to the sphere of industry as well should present no difficulty.

In his voluminous Arabic book bearing the title of 'Kitabul Fiqh allal Mazahibul Arbah' Allama Abdul Rahman Aljazeerai tells us that in MUSHAREKAT, or partnership, the contributed share capital of every partner is so mixed up in a pool as to leave no discriminating trace for any individual partner's capital. He tells us that the use of the word 'Shirkat' as an economic term, conveyed different meanings according to its various applications, because there were many varieties of shirkat like Shirkat-i-Mufaviza (to take part in equal capital contribution, in its use and lending); or Shirkat-i-Wajuh (to contribute only one's influence) etc. All

varieties of Shirkat and their practical problems, as considered by the leaders of different schools of Fiqh are recorded by Allama Aljazeera in his book under different sub-divisions of the topic. We reproduce his compilation below after rearranging it in a different way, as we felt that it would make the picture more vivid and comprehensive if the entire views of each school on the subject of Musharekat are completely recorded as a single piece, one after the other.

23.4. HANFI MUSHAREKAT.

The Hanfi School of Fiqh commences its discourse on the subject of Musharekat by telling us that Shirkat can come into existence either by chance as in the case of heritage or common bestowal of free gifts; or by the exercise of free-will and choice of the associating partners. Partnership by choice and free-will can have two forms and three aspects. The two forms are those of Mufaviza and Enan, and the three aspects are property, labour and influence. Thus there will be six varieties of Musharekat in all.

The first variety is Mufaviza in property, which means that two or more persons associate themselves to work with equal capital contribution, equal operational powers and professing the common religion of Islam. All such partners must be Muslims, free-men and adults. It is not permitted to admit any non-Muslim, any slave and any minor into this class of partnership. Each partner in Mufaviza will be fully responsible for every other partner to any third person or party dealing with this partnership.

The second variety of Shirkat is known as Shirkat-i-Enan. It is not obligatory to have equal share capital in it. The amounts of capital contributed by different partners are unequal. It is also not essential in such a partnership to profess the same religion, or to be free-men, or to be adults only. Hence a slave with permission of his master, a minor and a non-Muslim can join such a partnership. The discriminating features between Shirkat-i-Mufaviza and Shirkat-i-Enan are that in Mufaviza partnership each member has to be a guarantee of every other member of the Mufaviza partnership; hence all the partners must be free Muslims of adult age with equal capital contributions; whereas these conditions do not apply to Shirkat-i-Enan.

Instead of viewing the association from the angle of capital contribution if we view it from the angle of contributing one's professional skill and exertion, we get another set of Shirkat varieties known as Shirkat-i-Abdan. This set also has the two varieties of Mufaviza and Enan. In Shirkat-i-Abdan Mufaviza the condition for all working partners is to commit themselves to exert and use their skill and professional knowledge jointly to the utmost, to share the profit and loss equally and to be guarantee of one another within the partnership. In Shirkat-i-Abdan Enan the proportions of work and reward of each is agreed upon before-hand and they share the profit and loss according to this proportion. It

should be remembered that in all varieties of Enan partnerships inequality between different partners always exists, and, therefore, every partner has a distinctive identity and distinct role to play.

The third set of Shirkat is known as Shirkat-i-Wajuh. This set appears when we view the association of persons from an angle which gives due weight to influence of influential persons when they use it in trading practices to the advantage of the undertaking they join. Influence can be used in effecting credit purchases at cheap rates and selling them on credit at high prices with certainty to be able to recover the sale proceeds due to their influence. Shirkat-i-Wajuh also has its two varieties of Mufaviza and Enan. In the Mufavizah variety both the partners will make purchases and sales equally and will be guarantee of each other for conduct and operations. They will be equally responsible to recover the sale proceeds and they will equally share the profits. The word Mufavizah means taking responsibility for the other's conduct and activities. Hence each partner will be equally responsible for the acts of others and for the assets and liabilities of the concern.

The second variety of Shirkat-i-Wajuh known as Enan does not carry the conditions laid down for Wajuhul-Mufavizah. In Enan one partner will not be responsible for the acts of others; they will make purchases and sales unequally, and will share the profit and loss unequally, according to a mutually agreed proportion settled between them before hand.

The Hanfees do not classify Muzarebat as a variety of Shirkat at all. They argue that all varieties of Shirkat come into existence prior to the commencement of any business operation. On the contrary in Muzarebat all operations precede and get completed before the act of sharing the profit comes up to suggest a similarity with Musharekat. The Hanfees argue that prior to the stage of sharing the profits in Muzarebat neither any partnership in property, nor in skill and exertion, nor in influence existed at all. That is why they are not prepared to regard Muzarebat a variety of Musharekat.

After discussing the various varieties of Musharekat the Hanfees tell us that essential component of Musharekat is only one, and that is the act of offer and acceptance of the contract to associate, because that alone brings a mutual agreement into being. All other items like the parties, the subject and the purpose of association and the operational details are incidental to it. A specimen of a Musharekat deed has also been suggested by the leaders of Hanfi Fiqh.

The Hanfees group the terms of Musharekat under four heads: (1) Terms which apply to all varieties of partnership, (2) terms which pertain to the invested capital, (3) terms peculiar to Mufaviza, and (4) terms peculiar to Enan. Under the first head two conditions are said to be essential: first that the nature of the work undertaken should be materially important enough to justify the appointment of an attorney advisable. It should not be negligible

like cutting grass or collecting wood in wilderness; and second that the share of each partner be fixed as a specified fraction of the total capital invested in the concern. The investment must be made in cash and it must come forth there and then. No credit contribution is acceptable.

Conditions specifically applicable to Mufaviza partnership demand that all partners must contribute equal share capital and each should be capable of becoming an attorney and be guarantee for others. They should all be free-men and Muslim adults. They should be free to trade in all types of commodities and not confined to any particular commodity. Under a Mufaviza partnership although individual partners make purchases, acquire loans and lend severally, all their acts are regarded as common acts of all and all stand liable for it. According to Hanfees an invalid condition does not invalidate a partnership; it remains invalid itself. Conditions applicable to a Mufaviza partnership do not apply to an Enan partnership in which share capital of each partner differs and their share in profit and loss also differs in proportion to their capital contribution. The partners do not guaranty the acts of one another and their responsibilities and duties also differ.

With respect to operational behaviour of different partners, the Hanfees say that under a Mufaviza Shirkat each partner is free to operate with the pooled capital according to his discretion and that he is entitled to interfere in any deal made by another partner with a third party if such an interference becomes necessary to safeguard the interests of the concern. Every partner is free to sell the goods dear or cheap, but the variance from the prevailing market rates should not be more than what the market norms allow. The same applies to purchases made by any partner. No favour to anybody against the interest of the concern is allowed. To indulge in Bai Salam is permitted if it helps in making profit. To purchase and sell on credit in a capital-tight situation seems permissible provided other partners agree to it. To safe-deposit surplus funds with reliable persons, or to pledge goods for securing loans for the concern should be done with the consent of other partners. To pledge the partnership goods for securing loans for any partner personally is not allowed. Every partner is entitled to prohibit any of his co-partners from acts which are likely to damage the rights and interests of the prohibiting partner, and the prohibited partner is duty bound to comply with it. If he refuses to abstain from the prohibited act, he becomes liable for the consequences. No partner is authorized to lend money out of the partnership funds without permission of other partners; and if any partner does it, he becomes responsible for the consequences; but such an act does not dissolve the partnership.

With regards to a partner's right to interfere in any deal made by any other partner, the Hanfees say that every partner is entitled to cancel and abrogate any deal entered into by any other partner with a third party if such an abrogation is in the interest of the

partnership. All partners are entitled to recover the dues of the partnership from others; to return any defective commodity purchased by any partner and to get it replaced by a good one; and if it is found that the third party selling any commodity to the partnership did not own it, every partner would be entitled to recover the price paid for it. If a partner admitted any liability of the partnership to others, all partners become involved in such an admission, except in a case where doubt of misconduct existed. All the above-mentioned conditions pertain to Mufaviza partnership. Conditions applicable to the Enan partnership are as under:

All conditions stated to be applicable to the Mufaviza partnership members apply equally to the Enan partnership members as well in so far as the exercise of rights and powers of operation are concerned, except that no Enan partner is entitled to admit into the partnership anyone as co-worker, or to pledge the partnership property for loan without prior permission of other partners. However if any partner had made a credit purchase of goods, with or without pledging the assets of the partnership, the liability of repaying the loan and getting the pledge assets released would become the responsibility of all the partners.

Mutual confidence among the partners is an essential ingredient of a lasting partnership. When it disappears, the partnership does not take long to collapse. If a partner tends to be dishonest, cracks begin to develop in the partnership frame. Hence honesty in partnership relations retains its survival. That honesty is the best policy applies equally to a partnership bond. So if any partner asserts that some goods of the partnership have been lost or destroyed, his claim should be considered with care and reliance. In fact whatever any partner said about the profit and loss position of the concern, and about having delivered any of its properties to another partner, it should be accepted. Even if he stated on oath after the death of any partner that he had paid all the dues of the deceased partner to him before his death, his statement should be accepted forthwith.

23.5. MALIKEE MUSHAREKAT.

Malikee school of Fiqh classifies Musharekat into six varieties: Mufaviza, Enan, Amal, Zimum, Jabar and Muzarebah. Their Mufaviza and Enan are similar to these varieties of the Hanfi school, and their Amal variety is similar to the Abdan variety of the Hanfees. In the Zimum variety purchases and sales are made on credit and every partner stands surety for the acts of other partners, or becomes their Zamin and guarantee. Malikees reject the Wajuh variety of the Hanfees by defining it as a partnership of an influential person with a trader having his own capital and business on the condition that the influential person will contribute his influence instead of monetary capital to help in cheap credit purchases and dear credit sales, and will share the profit due to his beneficial contributions. The Malikees regard such a

practice to be prohibited. They introduce a new variety of Jabar which is that if a person bought goods for trading in presence of a trader in such goods, and the buyer had no idea in his mind that he was buying it exclusively for his own trading, and the witnessing trader had said nothing on the event, the witnessing trader, by virtue of this situation had acquired the right to share in this purchase deal if he so desired; and the buying trader would be forced to take him into partnership. The Malikees say that Hazrat Umar accepted this practice as it then existed.

The Malikees say that there were six conditions for the Jabar Shirkat, three of which pertained to the goods; that the goods be purchased from a market dealing in such goods and be purchased for trading and not for personal use or hoarding, and that the sale be effected in that locality and not shifted to another city or town. Three other conditions pertain to the witnessing trader: that he was present witnessing the purchase, that he himself traded in such goods, and that he said nothing in favour of or against the purchase deal. If all these six conditions are fulfilled, the buyer of goods would be forced to take that trader into partnership if he wished it.

About Muzarebat as a variety of Musharekat Imam Malik deals with it exhaustively in his book Mauta, and since we want to discuss it independent of Musharekat as a separate topic we will take it up after the discussion on Musharekat is completed.

About the terms and conditions applicable to the partners generally, the Malikees say that there are three such conditions: that the partners must be free-men, adults and sane persons. The deed of agreement must express the act of becoming partners clearly, whether the agreement is written or oral makes no difference. Three conditions apply to the contributed capital: that it should be in gold or silver coins and should come forth in the same coins from all the partners, and must be presented on the spot, since no credit is acceptable. If any contribution is made in the form of merchandise, it should be readily measurable by weight or volume to work out its value in cash. Sharing in the profit and loss will be in the same proportion in which the capital is contributed. The partners will take part in the mercantile activities of the partnership in proportion to their capitals. Any condition imposed to permit greater or lesser activity for any particular partner will nullify the partnership.

As to the discretion of the partners used in operational activities the Malikees say that every partner is entitled to present free samples of commodities by way of advertisement in Mufaviza partnership; and to entrust any person with partnership funds for making purchases from other places; and to place as safe deposit surplus funds with any reliable person; and to enter into Mufaviza or Enan partnership with others; and to deliver some goods to anybody for Muzarebat sales; and to sell on credit without permission from other partners. But purchases of commodities on credit

without prior permission of other partners is not allowed.

The Malikees say that if any partner claimed loss or destruction of some partnership property due to some calamity or that the business had incurred losses, but the other partners doubted his statements and felt that he was concealing the truth; in such a case one should look for some clues which might establish the falsity of the first partner, he would be held responsible for the consequences; and if no such evidence was available, the statement on oath of the first partner would be accepted and the case disposed off accordingly.

If a partner claimed that he had purchased certain goods for himself or his family and another partner did not accept his claim; the nature of the purchased goods will be examined to establish whether they were of the type for personal and family uses, or of the mercantile nature. In the former case his statement without any oath would be accepted, and in the latter case the goods would be regarded as the property of the concern and his claim rejected. In all cases of dispute among the partners about the ownership of a property, clues and evidences should be traced out to help in the settlement of disputes; and where no clue or evidence came forth to help, the case should be decided by accepting the oath of the claimant.

If two partners disputed the proportion of their respective shares in the profit, like one saying that he was entitled to two-thirds and the other to one-third; whereas the other said that both of them were entitled to share half and half equally. The statement of the one claiming equal shares would be accepted on oath and distribution made accordingly.

23.6. SHAFAYEE MUSHAREKAT.

The Shafayees assert that there is only one kind of Shirkat and that is Shirkat-i-Enan, under which two or more persons agree to contribute wealth for trade and to share the earned profit in proportion to their capital contributions and mutually agreed conditions. Shafayees regard Shirkat-i-Mufaviza, Shirkat-i-Abdan and Shirkat-i-Wajuh as invalid and prohibited. They regard four components of a partnership to be essential. They are: the agreement, the two parties, and the contributed capital. The wording of the agreement should clearly specify the fact of entering into a partnership, and to record in detail the duties and responsibilities of various partners. Every partner must be sane, adult and a free-man. The capital contributions should be capable of being weighed or measured and to be used in a Salam transaction. The capital contributions should be valued in monetary terms and mixed up before commencement of business. Sharing in the profit would be in proportion to the respective capital contribution.

Every partner is entitled to deal with the capital funds for the benefit of the partnership. If any partner had agreed to sell some commodity to somebody, but before the deal was carried out if some

one came up with a better price, the first deal may be cancelled to benefit from the better offer. No partner is entitled to sell on credit or to go on a journey with the goods without a genuine need. It is not proper to entrust anybody with the partnership funds for making purchases without any remuneration, but if the partners agree to it, this may be done. Every partner has the right to abrogate the partnership; and the partnership gets dissolved on the death or permanent insanity of any partner.

Shafayees regard every partner to be a conscientious custodian of the partnership property, so whenever any partner stated anything about the profit and loss position of the concern, or loss and destruction of any of its property, his statement should be accepted without demur, if the loss is trivial; but in case of significant losses the matter should be probed into and investigated to verify its truth and check the causes of occurrence like fire etc. In such cases the claimant would be called upon to produce material proof and evidences in support of his assertions. If it is established that fire did take place, but whether the concern's goods were burnt in it or not remained uncertain, the claimant's statement on-oath would be accepted.

If a dispute arose among the partners about any particular purchase made by any partner, whether it was for himself or for the partnership; in such a situation the statement of the person in whose possession the controversial property lay would be accepted. If a partner possessed some goods and claimed that the assets of the partnership were distributed among the partners and what he possessed was his own share out of it, while some other partner disputed the truth of such statement, the assertion of the second partner would be accepted because in case of common properties the guiding principle was to consider it undivided yet.

23.7. HANBALEE MUSHAREKAT.

According to Hanbalee school of fiqa there were two main kinds of Shirakat: (i) Joint ownership of property, and (2) Association in joint ventures by agreement. Under the first kind the common ownership could arise due to inheritance, bequest, present or voluntary joint purchase. The right of ownership can arise either in the property alone, or alone in its usage, or in both. Under the second kind two or more persons agree to join in the utilization of something. This second kind is further subdivided into five varieties: Enan, Wajuh, Abdan, Mufaviza and Muzarebat.

Under Shirkat-i-Enan two or more persons agree to join in common ownership of capital with a view to increase it through their operative efforts, and to share the profit in a pre-decided proportion. Or two or more persons invest capital in common with condition that only one of them will conduct the business, and he will get more share in profit than others as a reward of his activity.

Under Shirkat-i-Wajuh two or more respectable persons who command trust in the market join to buy trading commodities on

credit and accept the responsibility to discharge the loan. They sell the goods, pay back the loan and share the profit in a pre-agreed proportion. Such a partnership is both permissible and correct. Under *Shirkat-i-Abdan* two or more skilled persons join hands to contribute their labour and skill in common and to share what they earn thereby according to an agreed proportion. Such a partnership is correct and permitted in spite of disparity in the productive potential of the various partners.

In *Shirkat-i-Mufaviza* the partners use commonly pooled funds to earn profit in such a manner that each partner becomes guarantee of every other partner for making purchases and sales on credit or in cash, for negotiating prices, for pledging goods and getting them released, and becoming surety or attorney for others, and to enter into a *Muzarebat* agreement with other persons.

According to the Hanbalees there are three types of conditions pertaining to partnerships: (1) the superficial conditions which do no harm to the agreement, nor does the agreement depend upon them, e.g. that the sale should be effected only on a specified price or at a specified place or that no travel would be undertaken for trading (2) the frivolous conditions which the agreement does not need but which do not nullify the agreement and are not acted upon, e.g. that the agreement will not be cancelled for the whole year, or that the sales would not exceed the total capital contribution or that no sale would be made to those from whom purchases are made. (3) the essential conditions on which the validity and stability of the agreement depend. These are: the details of the capital must be known to the partners; the capital contributions must be made there and then the apportionment of the profit for each partner as one-third or half etc: be made beforehand; and other conditions mentioned for the *Muzarebat*. The Hanbalees say that every partner is entitled to do all what is permitted in *Muzarebat* and he is obliged to abstain from that which is prohibited in *Muzarebat*. They say that every partner is a trustee of other partners and he acts as their attorney. Hence if any partner makes any statement about the profit and loss of the concern or about the loss or destruction of any of its property, all his statements would be accepted unless the disputing partner produced some witness to give evidence against the first. If the first stated any particular reason for the loss of property, he would be called upon to produce a witness in his support and also to affirm on oath that the destruction occurred due to that cause alone. A partner's statement as to whether he made any purchase for himself or for the partnership concern would be accepted.

23.8. GIST OF THE FIGHI CONCEPTS.

The subject of association of persons for the purpose of earning wealth through collective efforts to eventually share it among themselves was thoroughly considered by the various leaders of *Fiqh* in all its aspects. They pondered over the various practices

in vogue in the Arabian Peninsula during the advent of Islam; and judged them in the light of Islamic teachings emanating from the Holy Quran and Sunnah of the Holy Prophet as reported by his companions and their followers and eventually compiled in the Books of Ahadeeth.

The leaders of Fiqah were all pious men of integrity and discretion residing in different parts of the Islamic State which had spread wide from North Africa to Persia and Afghanistan. Their sojourn covered different areas with varying economic practices; and so their observations differed in detail, although in principle they all rigidly stuck to the Holy Quran and Sunnah. In spite of complete loyalty to the Holy Quran and Sunnah, when an honest person is called upon by his conscience to pronounce a judgement on any serious issue, he is obliged to use his discretion for discriminating between all the pros and cons involved to pick up the most appropriate solution. As no two persons are created identical their judgements differ. Different conclusions of the various leaders of Fiqah on any particular issue should be attributed to this disparity and skipped over. Thus where no guidance from the leaders of Fiqah on any issue befitting our current situation is available, we are left with no other alternative but to use our own discretion remaining well within the bounds of the Holy Quran and Sunnah.

Discourses of our venerable leaders of Fiqah on the issue of Musharekat cover the following aspects:

1. varieties of Shirakat,
2. Essential components of Shirakat,
3. Terms and Conditions of Musharekat,
4. Operational Freedom of the Partners, and use of their Discretion, and
5. How to Settle the Claims of Any Partner about the Loss and Destruction of the Association's Property.

Let us summarize their findings.

23.8.1. VARIETIES OF SHIRAKAT.

The Shafayees do not believe in many varieties of Musharekat and say that being an association of persons for economic endeavours, to regard it as only one without any varieties should suffice; and they label it as Enan. But the other three schools of Fiqah insist on five or six varieties of Musharekat. Evolution of the economic behaviour in Muslim society, however, favours the line of the other three schools.

The advent of Islam splitted Arab society into two different camps of believers and non-believers with their opposing schools of thought and action. Their hostile approaches to the problems of daily life eliminated mutual confidence and goodwill between the Muslim and non-Muslim population of the expanding Muslim empire; and this lack of mutual confidence influenced the economic behaviour as well. Its natural outcome was that associa-

tion of persons for economic exploits should have two clear-cut primary types: the one in which only Muslim adults should be admitted, and the other in which both the Muslim and non-Muslim adults could co-operate. The first was called the Mufaviza Musharekat and the second was called the Enan Musharekat. And since in an association for economic exploitation both these varieties could operate either with capital contribution or mere influences of the associating persons, emergence of the six types of Musharekat was a natural outcome.

Reasons given by the Hanfees to exclude Muzarebat from the varieties of Musharekat elucidate the criterion they used in their classification; but the classifications of the Malikees and the Hanbalees do not adopt that criterion nor do they reveal any basis for their respective classifications. The Hanbalee classification resembles somewhat the Hanfi pattern except for the inclusion of Muzarebat within Musharekat; but in the Malikee classification, which also includes Muzarebat within Musharekat, the inclusion of Jabar as a variety appears strange. Jabar as described there is so rare as to be regarded an exception rather than a variety.

23.8.2. ESSENTIAL COMPONENTS OF SHIRAKAT.

The Hanfees say that there is only one essential component of Musharekat and that is the fact of mutual consent, the offer and acceptance of the agreement; because that alone brings an agreement into existence. All other items like the parties and the subject of the agreement are incidental, they say. But other schools of Fiqh insist that more than one components are essential. They say that the parties to a Musharekat are as much essential as the agreement itself. The capital used for purchase and sale and the skill and labour of the exerting partners are equally essential. The shafayees who believe in only one type of partnership-Enan, count four essential components for it: the two partners, the capital and the agreement. Apart from declamatory hair-splitting of facts we see no basic difference between their views.

23.8.3. TERMS AND CONDITIONS OF MUSHAREKAT.

The Hanfees group them into four types. The first type of conditions applies to all varieties of partnership; the second type pertains to the invested capital; the third type pertains to Mufaviza specifically; and the fourth to Enan alone. For their details previous sub-section (4) may be referred to.

The Malikees say that three conditions apply to the partners, that they should be free men, adults, and sane persons; the deed of agreement must clearly express the fact of becoming partners; and that three conditions apply to the contributed capital that it should be in cash of same coins for all, or in kind which could be measured or weighed to be converted into cash value easily; it should be presented in full before commencing business, since no credit contribution is acceptable. The partners will share profit and loss and take part in the business activities in proportion to their

capital contributions.

Terms and conditions of the Shafayee school resemble those of the Malikees.

The Hanbalees split the partnership conditions into three categories: the superficial ones, the frivolous ones, and the essential ones. Only the third type of conditions need be considered. These are: the details of the capital must be known clearly to the partners; the contributions must be presented on the spot; sharing in profit by each partner must be fixed as a fraction of the total profit such as one-third, one half and two-third etc: clearly.

23.8.4. OPERATIONAL FREEDOM OF, AND USE OF DISCRETION BY THE PARTNERS.

The Hanfees maintain that all partners are free to operate with the funds of the association according to their own discretion and they are also entitled to interfere in deals made by other partners with third parties; when considered necessary. The Malikees and the Shafayees agree with the Hanfees in broad outlines with minor differences. The Hanbalees also concur, but with an additional modification, that every partner is entitled to do all that is permitted in Muzarebat and to abstain from all that is prohibited in Muzarebat.

23.8.5. DISPOSAL OF DISPUTED LOSSES.

Mutual confidence among the partners is an essential ingredient of a lasting partnership. When it disappears the structure of the partnership does not take long time to collapse. Hence if any partner tends to be dishonest, cracks begin to develop in the partnership framework. Further in spite of perfect honesty of all the partners, mishaps do occur and mistrust is likely to develop. Therefore assertions by any partner about loss or destruction of any property of the association should be considered with care and reliance.

The Hanfees say that in such a situation the assertions of the loss-claiming partner should be relied upon, even if he stated on oath after the death of a partner that he had paid all the rightful dues to the deceased partner, it should be accepted forthwith. The Hanbalees concur with the Hanfees on this issue, adding that if any partner disputed the statement of the loss-claiming partner the disputing partner should produce a witness to support him. If the loss-claiming partner gave any particular reason for the loss or destruction, he would be called upon to produce a supporting witness and also to assert on oath that the destruction occurred due to that cause alone.

The Malikees and the Shafayees both allow full regard for the statement of any partner claiming loss or destruction of the property of the partnership but advise investigation into the claims and a thorough enquiry for establishing the truth, and to satisfy any partner who might be contesting the claim.

In short all cases of disputes among the partners about the

profit and loss position or the loss and destruction of the partnership property do need thorough probes and careful investigation to do full justice to the rights and privileges of everybody concerned.

Perusal of the analytical works of the leaders of Fiqh confirms that all of them devoted their energies to examine all the prevailing economic practices of their times to accept, reject or revise them with a view to bring them in line with the demands of Islamic justice and fairplay for the common man. Association of persons for joint economic exploitation is a simple act of commonsense presenting no complexity, yet the amount of attention devoted to it by our venerable leaders of Fiqh (even to such simple aspects of economic behaviour) reveals how thorough their probes used to be. They deserve full praise from us all, and demand from us an equally judicious and impartial investigation into modern economic practices to Islamize modern economy in the Muslim world.

23.9. MODERN PARTNERSHIP.

To examine the nature, purpose and scope of modern partnership we need to go back in history only to the point from where modernity originated. Since industrial revolution in Europe enabled European countries to invade, conquer and subjugate other countries of the world, they exported modernity from Europe and the subjected countries inherited it from their previous European masters as a legacy.

An important instrument for governing the subject nations is to enforce such laws which help to keep the subjects under control. The civil servants of the outgoing European masters, inherited on independence as an experienced team in administration, felt it convenient to retain the legal framework intact, with minor changes here and there to suit their new bosses. As an instance, in the Indo-Pak sub-continent we still retain the Companies Act of 1913, the Income Tax Act of 1922, and the Partnership Act of 1932, besides dozens of other laws enforced by Britain, to govern us still after half a century of independence from the British yoke. To discuss modern partnership we are therefore obliged to use the Partnership Act of 1932, as amended and revised upto 1983 by the Government of Pakistan as a helping guide.

The Partnership Act of 1932 defines 'Partnership' as the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Persons who have entered into partnership with one another are called 'Partners' individually and 'a firm' collectively. And the name under which their business is carried on is called the 'firm name'. The Act tells us that expressions used but not defined in the Act shall have the meanings assigned to them in the Contract Act of 1872.

The word 'business' does not necessarily mean some undertaking of an industrial or commercial nature. For instance two doctors may form a partnership to treat patients and not to do

anything of a commercial nature such as selling medicines. Two owners of buildings which they let out to tenants can combine, dealing with the property in such a way as to form a partnership.

It is important to distinguish between a limited company and a partnership. A company is a juristic entity but a partnership is merely an association of persons for carrying on the business of partnership and in law the firm name is the compendious method of describing the partners. Such is not the case of a company which stands as a separate juristic entity distinct from its share holders, so the position of shareholders in a company is not analogous to that of partners inter se. A firm is not a legal entity but only consists of individual partners for the time being. The essential characteristic of a firm is that each partner is representative of the other partners. Each of the partners is an agent and a principal. He is an agent in so far as he can bind the other partners by his acts within the scope of the partnership business and he is a principal to the extent that he is bound by the acts of the other partners. The liabilities of the firm can be enforced against each of the partners personally. Though in the mercantile world the firm is used as a quasi-corporation, for the sake of convenience yet it is really not so.

A 'benami' partnership is not per se illegal, nor does a partner cease to be a partner if he or she is a benamedar. The law of benami is not restricted in its application to immovable property only. It is applicable generally to all kinds of properties including movable property. Nor can it be contended that business cannot be carried on in benami with a third party. The share in the partnership is a property and the ostensible partner may very well be not the real partner but only a benamidar of the real partner. Therefore, by raising the plea of benami a person who signs a partnership deed as a partner cannot escape his liability under the deed of partnership unless the other parties to the agreement have agreed not to hold him liable. A partnership is not a corporation or a legal entity. The word itself implies all partners individually and collectively.

An agreement is necessary for the creation of a partnership. It may either be express or implied. It can arise out of mutual understanding evidenced by a consistent course of conduct and by express admission of the parties concerned. It is not necessary that the agreement should be in writing. It may as well be an oral agreement. It is not necessary that all the partners should share the losses and they may agree to draw a salary instead of taking a share in profits. An agreement amongst persons to share profits of the business carried on behalf of all is one of the fundamental ingredients to constitute partnership. The fact that a party to an agreement is to have no interest in profits and no concern in loss is enough to take the agreement out of the definition of partnership.

An agreement to share loss is not a necessary ingredient of partnership under the Act., The mere fact that a person is to share profits only and not losses does not by itself militate against the

presumption of partnership. The essential requirement of a partnership is that there must be mutual agency between partners, i.e. the business must be carried on on behalf of all the partners. It can be said that as soon as there is mutual agency among the contributors of capital there is partnership. The true test for determination whether a person receiving a share of profits in a business is or is not a partner in the business is to examine whether the business was carried on by the others acting for him and whether the relationship of principal and agent subsisted between them, that is to say whether one was authorized to work on behalf of another, and not merely whether that other was sharing the profit. Where there is a clause in the deed of partnership that no partner shall mortgage, sell, assign or transfer his share in the business or the properties and assets of the firm or stand surety for anyone or do or cause to be done anything whereby the property or assets of the firm may be attached or taken in execution, by implication accept mutual agency between the contracting parties and this is sufficient to establish partnership between them.

An agreement to the effect that a particular partner shall be in management and that others shall remain dormant does not militate against the principle of agency and, therefore, is not against the existence of partnership.

A firm is not an entity; it is merely a collective name for the individuals who are members of the partnership. It is neither a legal entity, nor is it a person. A firm name, in truth, is merely a description of the individuals who compose the firm. It is true that under the law of partnership a firm has no legal existence apart from its partners and it is merely a compendious name to describe its partners, but under the Income-tax Act the position is somewhat different. A firm can be charged as a distinct assessable entity as distinct from its partners who can also be assessed individually.

In determining whether a particular group of persons constitutes a partnership, regard is to be had to the real relation between the parties as shown by all relevant facts taken together. Sharing of profits and taking part in the conduct of the business are important elements to be considered though they are not conclusive. Where there is an agreement to share the profits as well as the losses, there is strong presumption that the relationship between the parties is one of partnership. It must, however, be noted that though the receipt by a partner of a share in the profits of a business is an important element as to the existence of a partnership between him and the person carrying on the business, it is not conclusive evidence. The true test is to ascertain whether the business was carried on by others acting for him or whether the relationship of the principal and agent subsisted between them. Where two parties to an agreement are entitled to profits and to bear losses of a business in equal shares, a strong presumption arises that a partnership has come into existence. The provision in the contract of partnership about the liability to bear losses in

equal shares is ordinarily much more consistent with the constitution of a partnership than with any other relationship between the contracting parties.

The main difference between a partnership and a co-ownership are: (i) co-ownership is not necessarily the result of an agreement where as partnership is, (ii) co-ownership does not involve community of profit or loss necessarily, but a partnership does; (iii) one co-owner can, without the consent of the other, transfer his interest etc. to stranger, a partner cannot do this; and lastly but prominently (iv) while in a partnership each partner acts as an agent of the other, in a co-ownership one co-owner is not as such the agent, implied or real, of the other. The existence of a business is a *sine qua non* of a partnership. To constitute a partnership there must be an agreement between the parties, whereas no agreement is necessary between co-owners as to the property they own.

The essential distinction between co-ownership and partnership is that, in a partnership each partner is not only the principal but also an agent, whereas among co-owners each is the owner of his share. In a partnership, a partner cannot alienate his share without the consent of the other partners, whereas among co-owners, a co-owner can alienate his share, which is binding on the other co-owners.

The true test to determine whether a partnership exists is to establish that the relationship of principal and agent between all those who are taking part in a business exists and that each one acts as the agent of everyone else. For entering into a partnership agreement there is no necessity of consideration in cash or advance of any amount. Reciprocal promises of the parties form the consideration for an agreement of partnership. It cannot be said that every partner must make capital investment in a partnership. Where two persons agree to acquire a business jointly and to share its profits in proportion to their contributions and acquire the business, the fact that one of them has contributed nothing towards the capital of the business, does not terminate the partnership. It only affects his right to profits, it does not affect his position or interest in the business. The fact that one partner is paid a fixed amount per month in lieu of profit is not inconsistent with a partnership. On the death of a partner his heirs do not become partners in the firm although they become entitled to the share of the deceased.

Where partnership has been established and dissolution is not subsequently proved, it must be taken to exist. Where partnership is for a definite period, the parties can continue it by mutual agreement after the expiry of the term.

With regards to relations of partners to one another the principle adopted in the Act is that the partners are bound to carry on the business of firm to the greatest common advantage, to be just and faithful to each other, and to render true accounts and full information of all things affecting the firm to any partner or his

legal representative.

Where one of the two partners carried on a rival business in competition with and to the prejudice of the partnership, the other partner is entitled to an injunction restraining the former from carrying on a rival business. Every partner shall indemnify the firm for any loss caused to it by fraud in the conduct of the business of the firm. Subject to the contract between the partners, every partner: (i) has a right to take part in the conduct of the business (ii) is bound to attend diligently to his duties; (iii) has a right to have access to and to inspect and copy any of the books of the firm, and that (iv) differences arising in ordinary matters may be decided by a majority but every partner shall have the right to express his opinion before the matter is decided, but no change may be made in the nature of the business without the consent of all the partners. The property of the firm shall be held and used by the partners exclusively for the purposes of the business. If a partner derives any profit for himself from any transaction of the firm or from the use of the property or business connection of the firm or the firm name, or if he carries on any business of the same nature as, and competing with that of the firm, in all such cases he shall account for and pay to the firm all profits made by him thereby.

A partner is an agent of the firm, and in order to bind the firm an act done by a partner or an instrument executed by him shall be done and executed in the firm name or in any other manner expressing or implying an intention to bind the firm. But in the absence of any usage or custom of trade to the contrary this implied authority of a partner does not empower him to open a bank account on behalf of the firm in his own name or submit disputes to arbitration, admit liability in a suit against the firm etc., which acts need concurrence of all the partners. The partners in a firm may, by contract between them, extend or restrict the implied authority of any partner. Notwithstanding any such restriction, any act done by a partner on behalf of the firm which falls within his implied authority binds the firm, unless the person with whom he is dealing knows of the restriction or does not know or believe that partner to be a partner.

A partner has authority in an emergency to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances, and such acts bind the firm.

Whereby the wrongful act or omission of a partner acting in the ordinary course of the business of a firm, or with the authority of his partner, loss or injury is caused to any third party, or any penalty is incurred, the firm is liable therefor to the same extent as the partner.

No person shall be introduced as a partner into a firm without the consent of all the existing partners. A person who is introduced as a partner into a firm does not thereby become liable for any act of the firm done before he became a partner. A partner may retire

(a) with the consent of all the other partners, (b) in accordance with an express agreement by the partners, or (c) where the partnership is at will, by giving notice in writing to all the other partners of his intention to retire. Notwithstanding the retirement, he and the partners continue to be liable as partners to third parties for any act done by any of them which would have been an act of the firm if done before the retirement, until public notice of the retirement is published.

A partner may not be expelled from a firm by any majority of the partners, save in the exercise in good faith of powers conferred by contract between the partners. Where a partner in the firm is adjudicated an insolvent he ceases to be a partner on the date on which the order of adjudication is made, whether or not the firm is thereby dissolved. Where under a contract between the partners the firm is not dissolved by the adjudication of a partner as an insolvent, the estate of that partner is not liable for any act of the firm and the firm is not liable for any act of the insolvent, done after the date on which the order of adjudication is made.

An outgoing partner may carry on a business competing with that of the firm and he may advertise such business, but, subject to contract to the contrary, he may not (a) use the firm name, (b) represent himself as carrying on the business of the firm, or (c) solicit the custom of persons who were dealing with the firm before he ceased to be a partner.

The dissolution of partnership between all the partners of a firm is called the "dissolution of the firm". A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners. Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. The firm is dissolved as from the date mentioned in the notice as the date of dissolution; or, if no date is so mentioned, as from the date of the communication of the notice.

At the suit of a partner the Court may dissolve a firm on any ground considered sound enough to justify the dissolution by the Court. Notwithstanding the dissolution of a firm, the partners continue to be liable as such to third parties for any act done by any of them which would have been an act of the firm if done before the dissolution until public notice is given of the dissolution. This notice may be given by any partner. On the dissolution of a firm every partner or his representative is entitled, as against all the other partners or their representatives, to have the property of the firm applied in payment of the debts and liabilities of the firm, and to have the surplus distributed among the partners or their representatives according to their rights.

The authority of each partner continues to wind the firm after its dissolution to enable them to do all that is necessary to complete transactions begun but remaining unfinished at the time of dissolution, but nothing else except the task of winding up its affairs.

In settling the accounts of a firm after dissolution the following rules shall be observed:-

(a) Losses, including deficiencies of capital shall be paid first out of profits, next out of capital, and, lastly if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(b) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital shall be applied in the following manner and order:-

1. In paying the debts of the firm to third parties;
2. In payment to each partner ratably what is due to him from the firm for advances as distinguished from capitals;
3. In paying to each partner ratably what is due to him on account of capital; and
4. The residue, if any, shall be divided among the partners in proportion in which they were entitled to share profits.

In settling the account of a firm after dissolution, the goodwill shall be included in the assets, and it may be sold either separately or along with other property of the firm. A partner may carry on a business competing with that of the buyer of the goodwill and he may advertise such business but subject to an agreement between him and the buyer that he may not:

(a) Use the firm name,

(b) represent himself as carrying on the business of the firm, or

(c) solicit the custom of persons who were dealing with the firm before its dissolution.

This completes the synopsis of the Partnership Act, except for a few clauses dealing with the registration of firms with the Registrar of Firms, to retain an upto date record of their existence and to control their activities for dispensation of justice and fairplay to members of society.

We have now before us an old scheme for association of persons to run a business enterprise developed about twelve centuries ago by the leaders of Fiqh, as well as a modern scheme operating in Capitalist countries today. The more we try to compare them in detail, the more we feel convinced that both aimed at designing a framework for dispensing justice and fairplay to all parties involved in mutual economic transactions. However we fail to comprehend why modern partnership is deprived from the status of legal entity whereas Corporations are given that status. Was it a legal manoeuvre to press businessmen for changing their constitution.?

23.10. ASSOCIATION AS A CORPORATE BODY.

Apart from association in the form of a partnership, people associate themselves in other forms as well to pursue their trading, industrial and other gainful ventures. One of these forms which has been adopted universally is that of corporate bodies. To regulate and control the corporate business State authorities formulate laws and amend them from time to time. The first

Companies Act imposed in British India was the one enacted by Britain in 1866. It was amended in 1882 and 1913. The Indian Companies Act of 1913 was inherited on independence from the British rule in 1947 both by Bharat and Pakistan, which still operates with amendments brought up to date in the two countries.

As all Muslim countries are committed to Islamic ideology in all walks of their life including economy, it is incumbent on them to frame their own laws instead of following the inherited ones. Our comments on modern partnership were somewhat elaborate because partnership is a very old form of association a few millennium years old; but an association in the form of a corporate body is a comparatively new innovation of the Western civilization, at most a couple of centuries old. We will deal with it very briefly, only to pinpoint its antisocial aspects for remedial measures or its outright repeal.

All companies formed under the Companies Act belong to one of the two types: Private and Public. In a Private Limited Company the number of share—holders is confined between two and fifty—a number which the family members and friends of any promoter of the company can easily provide—and therefore invitation to general public through advertisement is prohibited. For the formation of a Public limited company people are invited through mass-contact media particularly by advertisement in newspapers to join, and therefore the number of its shareholders can be any figure above fifty. For encouraging everybody to come forward with their meagre resources to take part, the value of its unit share is kept low, say a dollar, a pound sterling or ten rupees.

A feature common to all the companies formed under the Companies Act is that the liabilities of all its shareholders is limited to the face value of its share held and no more. Another prominent feature is that the share capital authorized to be issued hardly suffices to procure land, buy machines, construct building, instal machinery therein, and to buy necessary equipment like tool, vehicles and furniture. The company is thus obliged to go to the money market for borrowing operational finance as an interest bearing loan.

Memorandum and Articles of Association are certain essential documents to be prepared beforehand prior to the incorporation of the company, whether Public or Private. In these documents the objectives of the company to be formed, its name, the place where its office would be located, and all other details about the management of the company by its directors and managing agents are laid down, including the keeping of necessary accounts and records prescribed by the Company Law, the audit of these accounts and records, as well as the process of winding up the company when obliged to do so.

Careful perusal of the complete Companies Act, of which the above is only a very brief synopsis, brings to our notice its following peculiarities:-

(a). It limits the liabilities of the shareholders, the directors and the managing agents towards those with whom the corporation deals, whereas they are allowed full freedom to incur unlimited liabilities for the corporation. This is an injudicious conduct permitted by the authors of the Companies Act, and unacceptable to the principle of justice and fairplay for all.

(b). Since the number of shareholders is small in a private company, every shareholder can easily peep into the process of management and pinpoint instances of mismanagement displayed by the directors and the managing agents, thus keeping them on the alert by becoming watchdogs of their company, and simultaneously by giving full vent to their right of ownership and of supervision. But all this is not possible in case of a public company, where the large number of shareholders become a barrier between ownership and management due to their enormous size. This dampens the owners' aspirations to take part in the management, and thereby drives a complete wedge between ownership and management. This being an inherent tendency in the nature of a public company makes the pattern of such companies unacceptable to the demands of justice and fairplay for all. Thus the Public limited company stands rejected due both to its limitation of liabilities and inequity.

(c). After depriving the shares-holder of his aspirations to take part in the management, the law reduces him to the position of a mere investor awaiting the declaration of dividend by the company so that he may collect the income accrued on his investment. On perusal of the published annual accounts of the company the shareholder observes that the total net income of the company is split up by the directors into the following parts:-

1. Some income is kept in the Reserve Fund to strengthen the financial position of the company.
2. Some income is set aside to be invested in buying the shares of other companies at shock exchange.
3. Some income is set aside for distributing dividends to the shareholders at a rate consistent with the profit potential of the company.
4. The remaining balance of the accrued income is carried over as undisposed profit into the Balance Sheet of the company. Allocation of profits in this manner is a set pattern which all companies adopt. Dividends declared by all normally range between 5 to 10, at most to 15 per cent of the investment.

No company places before its shareholders the annual accounts to let all the shareholders decide the allocation of accrued profit by themselves in the annual general meeting. The allocation is always imposed on them by the directors themselves to demonstrate that the shareholders have nothing to do with the affairs of the company except to receive the declared dividend on their share-holding. Does all this happen by chance accident or by

some design? Chance accidents do not repeat themselves in a uniform pattern, but motivated designs do.

(d). What motive prompted the Company law makers to frame laws on a pattern which drives people to such a sorry plight? The motive revealed itself when the share certificates were made negotiable and were allowed to be traded in at the stock exchanges. We are certain that it was definitely and exclusively to provide life-blood to stock exchanges that the share-certificates were made negotiable instruments. If we remember that originally the Jew, David Ricardo, was a stock broker at London Stock Exchange, who eventually became the co-author of Capitalist economy along with Adam Smith, we will easily discern the co-relation between theory and practice of the Capitalist Economy.

23.11. ISLAMIZING THE COMPANY LAW.

The above discourse makes it clear what restrains us as Muslims from associating in the existing firms of limiting liability corporations, whether private or public. There are two major reasons besides some minor ones which stand in our way. The two major ones are the limitation of the liability of share holders and the negotiability of their share certificates. It is good that the shares of the private limited company are not made negotiable and it encourages us to suggest that the negotiability of the shares of a public limited company may also be withdrawn. All companies should give up their limited liability status, become holders of full unlimited liabilities and their certificates should remain non-negotiable for ever. Among other demands the most important one is to introduce in law a clause prohibiting interest on any credit sale or paying interest on any credit purchase; in fact prohibiting calculation of interest on any transaction of the corporation.

Two other changes are also necessary to be introduced in the Company law. They are: one that every shareholder must have the right to look into the affairs of the management to point out irregularities for rectification and to supervise the process of managing effectively. The second suggested change is that the directors should cease to allocate the net profit themselves. The allocation should be decided upon by the shareholders in their annual general meeting wherein the directors will take part as shareholders. It would be more judicious and will keep up the morale of the shareholders.

To achieve the suggested results amicably and effectively, the distinction between public and private companies should go. All companies should belong to one type only with an upper limit on its membership, say upto forty or fifty. This will create a congenial atmosphere between ownership and management for constructive co-operation. Authorized capital of the company must always be such as to meet all the demands for fixed assets as well as for operational finance. It will obviate the need to borrow, and thus help in creating a society free from riba. In view of the limited

number of shareholders and suggested increase in the authorized capital, the face value of each share unit will rise high, may be ten or twenty thousand rupees each. But it will create no problem. There is no dearth of money with the public even in backward Muslim countries.

With these amendments we hope that the existing Company law will become a Muslim Company Law, fit to be introduced in all the countries where Muslim population dominates, and they aspire to make their country a Welfare State.

23.12. INVESTMENT OF PETTY SAVINGS.

We admit that in our zeal to Islamize the Company law we have closed avenues provided by that law for petty savings to be gainfully invested in Company shares bought at stock exchange. We have sound reasons to do so. Islam allows us to trade in true commodities but not in dubious things, nor does it accept incomplete deals as completed ones. An investment made in the share capital of a particular Company X, by Mr. A lies merged with other person's investments therein, now converted into building, machinery, raw materials or finished goods. The only evidence left with Mr. A. to establish that he is entitled to share in the assets of the company X is the company's Share Certificate now in his possession and its recording with the company in its Shareholders Register.

No doubt that the recorded right of ownership is transferable, but unless all the formalities of transfer are completed and the fact of transfer properly endorsed in all the relevant records, one cannot say that Mr. A has sold his right of ownership in Company X to Mr. B. and that now Mr. B. is legally entitled to hold that right instead of Mr. A. Share holding is not a tangible asset possession of which counts a lot. It is a non-tangible right, a recorded relationship between the company and its share holders. Hence its transfer from A. to B. remains unacceptable both under law and equity unless the entire process of transfer is completed by all the three parties concerned: the seller, the buyer, and the company. Since in purchase and sales of share certificates agreed to between buyer and seller at stock exchange, these formalities are not completed by the concerned parties at the offices of the relevant companies, the deals remain held up at the stage of agreement for sale, which cannot be legally considered a completed sale. Therefore all such deals have no legal standing, and become only traps to hoodwink the unwary public by displaying fictitious price fluctuations. Islam cautions us against such surreptitious dealings and prohibits them.

Genuine purchase and sale of companies' shares take place when two persons visit the concerned company's office with relevant share certificates and get the transfer completed there and then. The stock exchange does not come into this process anywhere. To mutually introduce the intending sellers and buyers, the concerned companies should made arrangements in their own

Share Departments instead of goading them to visit stock exchange. What goes on in the stock exchanges amounts only to agreements of sale and not completed sales. Unless the sale is factually completed, the right of ownership does not get transferred from the seller to the buyer, and Islam prohibits us from selling what we do not own. These are our reasons to establish invalidity of the stock exchange transactions.

Now let us attend to those who have petty savings of their own which they want to invest gainfully. Such persons can possibly belong to either the self-employed class or to the class of those employed by others. One advice to the self-employed is that they should plough back their savings in their own ventures to strengthen and expand them. To those employed by others who save some funds which they wish to invest somewhere gainfully, we advise to beware of non-Islamic investment schemes introduced either by the State Authorities or by other agencies, because what they pay on such investments is nothing but prohibited interest.

Earning persons employed by others who can manage petty savings also have some spare time in the evenings which they can beneficially use alongwith their family members to start a little enterprise of their own with their savings. There are a good many gainful occupations any of which they can adopt according to their inclination and convenience. They can open a grocery shop in front portion of their house, or a poultry farm in their backyard. It is possible to have a little bakery in the house. But the white collared employees may not like any of these occupations. They can resort to knitting, embroidery, lace-making, making readymade clothes, making dolls for children and even weaving cotton or woollen cloth if space is available and temperament suits. Fine woodwork, or making small fancy articles for decoration, or small utility goods to be made out of plastic and making decorative and playthings with plaster of Paris are some other suggestions. One can select any of them or think of one himself.

We may point out here that mere investment of ones funds in enterprises of other people may fetch monetary returns, but an enterprise of ones own is much more rewarding. It develops self-confidence, courage and a daring spirit — qualities which to a much more successful life every member of the family who take active part in family enterprises. A developed spirit of self-confidence and self-help is a wealth worth striving for.

23.13. MUZARIBET: ITS ESSENTIAL ATTRIBUTES.

Due to lack of rivers and scarcity of rains the residents of the Arabian Peninsula suffered from shortage of necessities of subsistence, to procure which they became a mercantile community. For conducting trade and commerce many practices were in vogue among the tribal Arabs, one of which was called Muzaribet or Qiraz. In it a person with sufficient experience in trading but having no wealth of his own to trade with agreed to trade with the capital of

a wealthy person on certain mutually agreed terms. The terms of a Muzaribet agreement used to be that the trading partner would get an agreed proportion of net profit, say one-third, half or two-thirds of it after refunding the capital to its owner. But in case of loss the trading partner would neither share the loss nor claim any remuneration for his efforts. The burden of entire loss would be borne by the owner of the capital.

This type of association between capital and trading skill is called Muzaribet, a practice which was prevalent in pre-Islamic Arabian society and which remained in vogue after the advent of Islam. Whether the teachings of Islam approved this practice to continue in Muslim society or not is a question needing careful probe.

A careful probe is all the more necessary because early Muslim scholars held different opinions about it and some of them who approved it also held the opinion that the trade carried out by the Holy Prophet for Hazrat Khudeijah with her wealth before marrying her, was on the pattern of Muzaribet. It would therefore be better first to find out the terms of that trade before further discussion on Muzaribet. It would be better to tell our readers that the practice under consideration carried two different names in Arab society. In Hijaz it was called Qiraz' or 'Muqariza', but in Iraq they called it 'Muzaribet; As both these names are used in the Islamic literature, we will use them both in this book indiscriminately.

How the Holy Prophet commenced trading for Khudeijah, the wealthy daughter of Khuvalid is reported in many old books of historical and biographical nature among which 'Tabqat-e-Ibne Saad' and 'Seerat-e-Ibne Hushsham' are two most popular books. We will use them both. 'Tabqat' records the following three reports:-

(i) Nafeesa-binte-Manniyah reported that when the Holy Prophet reached the age of twenty-five, his uncle said to him, "Due to acute famine I am left with no wealth for trading, and the caravan is ready to go to Syria for trade. Khudeijah daughter of Khuvalid is despatching her merchandise with the caravan. You had better go and request her to send you with her goods. I hope she will agree." When Khudeijah heard of it, she told Muhammad to go with her merchandise, adding that she would pay him twice as much as she paid to anybody.

(ii) Abdullah bin Muhammad bin Aqeel reported that Abu Talib said to the Holy Prophet, "Dear nephew, I have learnt that Khudeijah has hired so-and-so for two young camels to send him with her merchandise to Syria. I won't like that she should pay you only that much. Why not go and settle with her a better remuneration?" Hearing this the nephew declined to go. Abu Talib himself went to Khudeijah and said, "Would you like to engage Muhammad for trading in Syria? I heard you engaged so and so for two young Camels; but we wont send Muhammad for less than four young camels." Khudeijah replied, "Had you recommended some alien I would not have refused; how can I refuse you for one

who is so dear and closely related to you."

There is a third lengthy report in Tabqat-e-Ibne Saad about this event in which it is said that Khudeijah sent her slave Maisara with the Holy Prophet to Syria and they returned after doubling her wealth, hearing which she doubled the remuneration she promised before. In all these three reports there is no mention of Qiraz or Muzaribah at all. The remuneration settled beforehand and paid after accomplishing the deed was a certain number of camels and not any proportion of the earned profit. Hence it was not a Qiraz or Muzaribah deal at all.

Now let us have a look into the biography of the Holy Prophet written by Ibne Hushsham. It records: Muhammad bin Ishaq reported, "Khudeijah, daughter of Khuvalid was a wealthy and respectable lady engaged in mercantile business. She used to acquire experienced male traders on hire at fixed remuneration as well as on Muzaribah contract. Almost all the Qureish were traders, and when she heard that Muhammad was a truthful, honest and virtuous trader, she sent somebody to him with the offer that if he went to Syria with her merchandise and her slave Maisara, she would pay him more than what she used to pay others for such service. The Holy Prophet accepted the offer, went to Syria, sold the goods, and bought other goods which they wanted to import and returned to Makkah, with Maisara. They sold the imported goods, and thereby doubled the wealth of Khudeijah.

The use of the word Muzaribet in this report has led some scholars to conclude that the engagement of the Holy Prophet was on terms of Muzaribet, whereas the fact is that this word is used only while describing the two methods deployed by Khudeijah for engaging traders generally, and not for engaging the Holy Prophet in particular. However besides the above two books there are other records as well, which throw light on the exact nature of the deal between khudeijah and the Holy Prophet.

The book Al-Mustadrik-lil-Haakim gives us a reliable report to the effect that Hazrat Jabir said, "Hazrat Khudeijah engaged the Holy Prophet to go to Jurish for trading twice and each time the remuneration was a young she camel." Jurish is a place in Yemen. A similar report from Jabir is recorded in the biography of the Holy Prophet compiled by Ibne Kaseer, and both these reports are recorded by Imam Baihaqee in his book under Kitab-ul Ijarah (the chapter on 'Hire') instead of recording them under kitab-ul-Qiraz, which chapter also exists in his book. Allama Maqreeni in his book 'Imlaa-ul-Asma reports': "The Holy Prophet offered his services on hire to Khudeijah on two trading trips for two young she-camels each."

In short all books of history and biography which mention the engagement of the Holy Prophet, (long before attaining prophethood) by Khudeijah for trading expeditions give us a general impression that he was engaged by her as a hired person on hired remuneration. The second thing we learn from these

reports is that she used both the methods for engaging people; that of fixed reward hire and that of Qiraz or Muzaribet as it suited the occasion of the engaged person.

So far we have described the essential attributes of Qiraz or Muzaribet and have only tried to find out whether the pre-Islamic deal between the Holy Prophet and Hazrat Khudeijah was a deal of Qiraz or that of hired person on fixed reward. Let us now consider the practice of Qiraz in detail to help us judge in the light of Islamic teachings whether in our modern economic situation Muslim countries should promote this practice or suppress it.

23.14. MUZARIBET IN HADITH.

There is no mention of Muzaribet or Qiraz in the Holy Quran anywhere. Out of the six compilations of Hadith accepted to be reliable, the four i.e. Bukhari, Muslim, Tirmazi and Nasaaee make no mention of Qiraz or Muzaribet whatsoever. Only one chapter exists in Sunan Abu Daud and one in Sunan-e-Ibne Maja. The chapter in Sunan Abu Daud bears the title 'Chapter on Muzaribet that is Practiced', but the two reports recorded under it are:-

(i) Urwas Albaraqi reported that the Holy Prophet gave him a dinar for buying a goat for sacrifice. He went and bought two goats with it, and sold one of them for a dinar and presented the goat and other dinar to the Holy Prophet, who was pleased and prayed for Urwa's prosperity.

(ii) The Holy Prophet sent Hakeem bin Huzzam with a dinar to fetch a goat for sacrifice. He bought one and sold it for two dinars. With one dinar he bought another goat and presented to the Holy Prophet the animal as well as the dinar. The Holy Prophet prayed for prosperity in Hakeem's trading, but gave away the dinar in charity. The critics of Sunan Abu Daud comment that both these reports are weak due to their chain of reporters and that they are irrelevant to the topic of Muzaribet.

The chapter in Sunan-e-Ibne Maja bears the title 'Chapter on Shirkat and Muzaribet' but only one report is recorded under it to the effect that Hazrat Suhaib reported that the Holy Prophet said, "Three acts carry blessings: to sell on credit, to indulge in muzaribet, and to mix oats with wheat for personal use but not for sale". Due to two unknown persons in the chain of this report i.e. Nasar bin Qasim and Abdul Rahim bin Daud, this report is considered unreliable, and in the 'Tehzeeb-ut-Tehzeeb' Bukhari is stated to have classed this report as fake.

Now we are left with an important book to be consulted on the topic under survey. The book is known as 'Mauta' of Imam Maalik. Imam Maalik bin Ans was born in 93 Hijra, and he was a great-grandson of a companion, of the Holy Prophet, named Abe Aamir bin Umar. Maalik studied in Madina and became an acknowledged scholar in Hadith and Fiqh. He is one of the four Fiqhi Imams, the founder of the Maalikee school of Fiqh, and due to his early birth he became one of the two senior Fiqhi Imams, with Imam Abu

Hanifa born in 80 Hijra His compilation is known as 'Mauta' which contains a complete chapter on Muzaribet under the title of 'Kitab-ul-Qiraz. Its first report is translated below.

"Abdullah and Obeidullah, two sons of Khalifa Umar went to Iraq in an army contingent. On their return they paid a visit to Hazrat Abu Musa Ashari, the governor of Basrah, who greeted them and said, "I wish to do something which may benefit both of you. I have to send some revenues to khalifa which you may take. I suggest you may buy some merchandise from Iraq with it, sell it at Madina and deliver to the Khalifa the amount I hand you over, retaining the profit yourselves." The two brothers agreed and took the revenues Abu Musa gave them with a letter to the Khalifa. They bought merchandise with the money and sold it on reaching Madina, and presented the revenue in cash alongwith the letter to the Khalifa Umar, their father. Having discovered what had happened, the Khalifa asked them whether Abu Musa had lent money to other members of the contingent as well. They replied in the negative, on which Hazrat Umar said, "So he lent you only because you were my sons. Surrender both the revenues as well as the profit you earned with it." Abdullah kept silent but Obeidullah argued that they were the custodians of the revenues and responsible to make good in case it was lost or destroyed, and hence they would return the revenues alone. But Hazrat Umar persisted on refund of both the capital and the profit earned with it. Obeidullah was about to argue further when an elderly person stepped in with the suggestion that the Khalifa might regard it as a deal of Qiraz. Hazrat Umar agreed with the suggestion and received only half the profit, leaving the other half for his two sons to share.

Commencing with the above-mentioned event the chapter on qiraz in 'Mauta' spreads over fifteen sub-sections, each dealing with a different aspect of the practice and advising Muslims how to handle the arising problems according to the dictates of Islam. In short Imam Maalik regards Qiraz to be a permitted practice and guides his followers how to mould Qiraz in a Muslim pattern in the light of the principles laid down in the Holy Quran and Sunnah of the Holy Prophet, (peace be upon him). We give below a synopsis of Imam Malik's findings for the benefit of our readers.

According to Imam Maalik the well-known and permitted form of Qiraz is that a person takes wealth in cash form from the owner of wealth to trade therewith for increasing it, but without any commitment or guaranty. He exerts to increase it through commerce and trade. He is entitled to food and clothing out of the enterprise if he travels out of his town, but not within his town. He is also entitled to travel and carriage expenses. If either the owner of wealth or the working person help each other out of grace but without any commitment, it is permitted. If the owner of wealth gives his slave to the worker to work with and share in the profit, it is permissible but the slave's share in profit will belong to the slave and his master will have no right on it. The owner of wealth can buy from the Qiraz enterprise anything provided it is not made a precondition in the terms of the deal.

If a person is indebted to another, neither can agree to convert the loan into a Qiraz capital; it will become riba if done so. In case of partial losses in the cash amount of the Qiraz capital, the worker is not entitled to regard the remaining amount as the amount of Qiraz deal. He must earn to make up the loss and then earn more to share in the net profit. The Qiraz fund is always made available to the worker in cash. Capital in the form of commodities is not permitted.

There is no harm if the terms of Qiraz prohibited the worker from buying certain named commodities, but it is not permissible to bind the worker for buying only the named commodities. It is not permitted to the owner of wealth to specify any stated amount out of the profit exclusively for himself over and above the agreed proportion of profit like a quarter, one third or half, as it is un-Islamic to do so. In an Islamic Muzaribet, after trading and sale of all the commodities, the entire sale proceeds are collected in cash, and the invested capital is first refunded to its owner, and then the left over balance, which is the real profit, is distributed in the agreed proportion. If the venture ends in a loss, the entire loss is borne by the owner of wealth, the worker bears no loss, nor is he obliged to refund what he had spent on himself by way of food, lodging and clothing in accordance with the terms of agreement or established practice. It is not permissible to fix a time limit in a Muzaribah deal in terms of days, months or years. Neither the owner of wealth nor the worker can impose such a condition. A Muzaribah deal is a deal for a specified operation. The operation itself determines its life-span. It cannot be imposed on it from outside.

Payment of Zakat is an obligation on the wealth, and those who handle wealth are called upon to pay it. Therefore the owner of wealth cannot compel the worker not to pay it or to pay it only on his share of profit. The owner of wealth cannot compel the worker to buy only from a person selected by him. The worker is free to use his own discretion. The worker should use foresight in moving from place to place and not to waste the funds in the transport of goods thoughtlessly. The owner of capital is not responsible to provide more funds than the agreed amount within which the worker has to operate and produce positive results.

Indiscretion on the part of the worker in buying goods at prices higher than the market price entitles the owner of the capital to step in and take the operation in his own hand with a view to set matters right and lead the enterprise to profit. If a worker simultaneously indulges in a Muzaribet contract and carries on his own commerce with his own funds, he would not be entitled to push the entire burden of transportation on the Muzaribah concern. He must distribute this burden equitably on both the operations. The provider of funds has an upper hand over the worker in Qiraz deal, but this does not entitle him to abuse his superiority by pressing the working partner to do odd jobs for him gratuitously. If anybody

lent money to someone and then told him to retain it for operation as a Muzaribah contract between the borrower and the creditor, it goes against a fair and Islamic practice. First the creditor must receive back the loan in full amount without interest, keep it in his possession awhile. Then he may give it to the man afresh as a finance for a Muzaribah deal.

After a Muzariba contract is completely executed and its accounts compiled, the worker is not entitled to take his share of profit in the absence of the financing partner. Final accounts and the entire sale proceeds in cash must be placed before the financing partner first. He should first take in his possession the complete amount of money initially invested; and then the left over balance be divided between the two in accordance with the agreed proportion.

Disputes do arise between the financier and the working partner about the purchase and sale of commodities and the financier is likely to impose his discretion on the operating partner which is not correct. Operating partner must be selected only on the merits of his trading experience and honesty. Once selected, his decisions in purchase and sale as well as about appropriate occasion to do it should be respected as final and the financier must not interfere unless he has sound reasons to suspect the integrity and honesty of the operating partner. In case of dispute between the two about the proportion in which the profit was to be distributed, the proportion normally prevalent in the Muzariba trade will hold good. In case of loss, theft or destruction of goods no responsibility lies on the operating partner whatsoever. The financier has to bear it exclusively, except where the financier can establish beyond doubt willful negligence on the part of the working partner.

The above is a summary of the contents of the Qiraz chapter of the 'Mauta' of Imam Maalik in a nutshell. It describes the views of the Maalikee school of Fiqh on the topic of Muzaribet. The views of the other three schools of Fiqh are not difficult to know. For that purpose the book bearing the title of 'Kitab-ul-Fiqh alal Mazahibul Arbah' (a book on Fiqh according to the four schools) written by Allama Abdul Rahman Al-Jaziri in Arabic, comes to our help. It is a five volume book which contains in its second volume a comprehensive chapter, covering over fifty pages on 'Muzaribet'. We present a brief summary of that chapter below.

23.15. FIGHI SCHOOLS ON MUZARIBET.

Views of the Maalikee school of Fiqh are given in the previous section. Views of the Hanfi, the Shafiyye and the Hanbalee schools are as under.

According to the HANFI Fiqh, Muzaribet is defined as a co-operative association of two persons one of which provides finance for trading and the other trades with it for earning profit, which they share in an agreed proportion. Thus it is a specific type of

association of persons for gainful pursuits but not a variety of general type wherein each member provides his own share of finance. A Muzaribet contract comes into existence when two persons explicitly express their intentions to form a Muzariba association. This expression can be either oral or written, but the offer and the acceptance to do so is an essential element of Muzaribet. Among other conditions are: that the contributed finance must be in the form of cash in the prevalent currency; commodities are not acceptable; that the financial quantum must be clearly known to both the contracting individuals and be well specified and brought in and handed over to the working partner. Further that the share in the profit for the worker be explicitly specified as one-third, half or two-thirds of the total profit and in no other terms. It should also be made clear that the worker will share only out of profit and not out of the contributed finance.

There are some specific rights of the financier as under: He is entitled to fix a time period for the entire deal or to specify seasons for it, as well as to specify any place or area for trading and also to specify some commodities to be traded in or not to be traded in. He can also specify persons from whom to purchase and persons to whom sales be made. But the financier is not entitled to impose restrictions detrimental to the overall interest of the enterprise.

In cases where the financier has left the working partner free to conduct business using his own discretion, the working partner is free to do so remaining within the bounds of justice and fair-play for all. Still there are some acts he must not do without prior permission and concurrence of the financier. One such act is to make further credit purchases beyond the limits of existing finance, or to borrow for transport expenses etc. All such acts increase the liability of the financing partner beyond commitments, which the working partner is not authorized to do. Another such act is to lend money to some one out of the funds of the enterprise.

If a working partner in Muzaribet enters into another Muzaribet deal with funds of the enterprise, he oversteps his authority and becomes personally liable for it. If such an act is done with the prior consent of the financing partner, no harm is done.

A Muzaribet contract is a contract for the execution of a known and specified commitment. After its completion it is essential to compile accounts, determine the profit, deliver the original funds back to the financier first and to distribute the profit thereafter. No contravention of this process is permitted.

According to the HANBALEE school of Fiqh, Muzaribet is an agreement in which a wealthy person hands over a fixed amount of his wealth to some one on the stipulation that the recipient will trade with it and he will receive an agreed proportion of the profit earned thereby. The funds must be provided in cash form only. If the financier had already deposited some cash with somebody and subsequently asked him to conduct muzaribet with it, it would be acceptable. The agreement for Muzaribet, whether oral or written

must be clearly expressed as an offer and its acceptance. Among the essential terms and conditions of a Muzariba contract are that the amount of the funds must be known to both, it should be in cash and be delivered to the working partner. Commodities are not allowed to be contributed instead of cash. The rewards of the working partner must be fixed as a stated proportion of the total profit to be paid only out of the earned profit. In case of loss, it will be borne completely by the financier. It is admissible to fix a certain time-period for the contract to remain operative for instance a year, at the expiry of which the business should be wound up, invested amount refunded in cash form, and then profit distributed. The Hanbalees give full authority to exercise all rights and freedoms enjoyed by an honest trader in conducting his trade. The financier has no right to interfere in the routine. But the trading partner has no right to allow any third person to share in his trade, to enter into a Muzaribet contract with a third person without prior consent of the financier, or to mix up his own private trade with the trade of the Muzaribet enterprise. At the end of the stipulated period and completion of the trading objective, further purchases should stop, all sale proceeds be counted in cash, creditors be paid off, and accounts be wound up to determine the net profit, if any. First of all the initially invested funds be segregated in presence of the financing partner and delivered to him. Then the surplus amount be distributed between the two in proportion agreed upon beforehand.

According to the SHAFIYEE school of Fiqah the contract of Muzaribet or Qiraz is one whereby a person hands over his specified wealth to somebody so that the recipient should trade with it, for which the trader would get a part of the profit. It is essential that both the financier and the worker be legally competent to contract i.e. both should be sane persons and adults. Further it is essential for the working partner to work all by himself without any body sharing in his rights and duties. If the financier puts any of his slaves at the disposal of the working partner as a helper, he can do so provided the slave is a well known person having no authority over the Muzariba funds, nor interfering in the working partner's routine.

Certain conditions are inherent in the specific nature of the Muzariba trade which must be carefully observed. It is only a commercial practice which cannot be extended to manufacturing operations. Production of goods and manufacture of commodities like weaving cloth or running a bakery for bread are operations in which well-to-do people can indulge with the help of hired technicians on wage or piecework basis. It is only for trading in readymade commodities that Qiraz or Muzariba practice came into being; to help those who had wealth to invest in trade but lacked experience on the one hand and those who were experienced traders but had no funds of their own to trade with on the other hand. In Iraq Syria and Yemen both trade and industry flourished

side by side but the practice of Muzaribet in vogue there did not extend itself beyond commerce, nor encroached over the field of industry. For these historical reasons the Shafiyye school excluded industrial operations from the province of Muzaribet.

The financier should not restrict the legitimate freedom of the working partner, though he has the right to impose such conditions in the field of his operation which are likely to reduce risks and increase profit. No time-limit can be imposed by the financier on the Muzaribet trading as it is likely to stand in the successful execution of the contractual obligation. Sharing the profit should be clearly specified in terms of a fraction of the whole to avoid risk of split. Similarly the amount of the contributed funds must be well known to both, and be in cash form exclusive of mercantile commodities.

The power and authority of the working partner include the field of purchases and sales wherein he should use his discretion tactfully to procure sound commodities at minimum possible prices and sell them at reasonably higher rates preferably in cash, but credit sales are permitted to sound parties with the financier's permission. Barter is permitted as it helps to increase turnover. Defective goods must be replaced with sound ones by the suppliers. All purchases must remain within the extent of provided finance and no credit purchase be made over and above it. Sea voyages be undertaken only with the permission of the financier.

The financier can prohibit the worker and tell him to abstain from purchasing certain categories of goods, from undertaking sea voyages, from selling at credit, and from dealing with certain named persons, but he cannot bind the worker to deal with some stated persons.

The working partner is not authorized to enter into a Muzariba deal with a third person without the express permission of the financier. If the financier permits it can be done with mutual agreement of the three parties involved. In case of contravention the contravening party will be held responsible for the consequences.

Before the refund of contributed capital to the financier it is not correct to distribute the expected profit. If it is done, the working partner must return it immediately, while what the financier has received would be regarded as part refund of capital.

This completes the remarks of various Fiqhi schools on Muzaribet, and enables us to offer our own comments below.

23.16. USES AND ABUSES OF MUZARIBET.

In various books of Ahadees and writings of ancient scholars of established renown there are reports which allege that some companions of the Holy Prophet did indulge in Qiraz or Muzaribet with those who had good trading experience. Among the names mentioned are those of Hazrat Hakeem bin Hazaam, Hazrat Umar Ibne Khattab, Hazrat Usman bin Uffan, Hazrat Ali Ibne Abu Talib,

Hazrat Ayesha, wife of the Holy Prophet and some others. We will reproduce these reports below but the general impression they convey is that these important persons did not use their own wealth in Qiraz they used the wealth of those orphans who were under their guardianship. They wanted to save from depletion due to payment of Zakat from those wealth annually. If it is correct, even then it confirms that they saw no harm in the Qiraz practice. It matters little with whose wealth they indulged in Qiraz.

About Hazrat Hakeem bin Hazaam the author of Sunan Dar-e-Qutnee reports: Uria bin Zubair stated about Hakeem bin Hazaam, a companion of the Holy Prophet whenever he gave his wealth to anybody for Muzaribet, he imposed conditions thereon to the effect that the working person would not trade in animals, nor would he take the goods on river journey, nor would he stay in any low valley liable to be flooded with water. If he contravened any of these restrictions he would be held responsible for the loss. Imam Baikahi also recorded in his Sunan-ul-Kubra that whenever Hazrat Hakeem bin Hazaam gave his wealth to anybody on Muzaribet he imposed on him the conditions that he would not pass through any low valley liable to be flooded, nor would he trade in animals nor would he go on river voyage. If he violated these conditions, he would be held responsible for the loss.

Imam Jamaluddin in his book Nasabur Raya and Allama Shoukanee in his book Neel-ul-Aoutar have both quoted from Imam Baihaqee's book kitab-ul-Maarifah that, "Obeid Ansari reported that Hazrat Umar Ibne Khattab gave him the wealth of an orphan on Muzaribet for trade with which he travelled to Iraq and traded therein." In the book Sunan-al-Kubra it is recorded that Nafeh said about Abdullah Ibne Umar that he used to deduct Zakat from the wealth of the orphans under his guardianship and also gave such wealth for trading on Muzaribet. He also lent it.

About Hazrat Abdullah bin Masud, Imam Shafiye has recorded in his book 'Ikhtilaf-ul-Iraqiyeen' that Abdullah bin Masud himself said that he gave some of his wealth to Zaid-bin-Khaleedah on Qiraz. Imam Maalik has recorded in his book 'Mauta' that Usman bin Uffan gave some wealth to Yaqoob for trading on Qiraz terms.

It is written in the book Mabsoot-as-Surkhasi that Hazrat Ali Ibne Ali Talib said that he used to give the orphan's wealth on Muzaribet. And in the same book it is recorded about Hazrat Ayesha that Qasim bin Muhammad (the orphaned nephew of Hazrat Ayesha) said that their aunt Ayesha had their wealth with her as their guardian, which she used to invest in Muzaribet, whereby the wealth multiplied. In the book Sunan-al-Kubra, Qasim bin Muhammad is quoted to have said that his aunt Ayesha used to deduct Zakat from their wealth and also traded with it in Bahrain.

From the entire record compiled above it is evident that trading on Qiraz or Muzaribet terms was indulged in by many companions

of the Holy Prophet with their own wealth in case of some, and with the wealth of the orphans under their guardianship in case of others. This meant that none of them regarded Qiraz or Muzaribet as a prohibited practice. But what surprises an investigator is the fact that the entire evidence produced above pertains to a period after the death of the Holy Prophet and no evidence is available to assert that the Holy Prophet himself indulged in Qiraz or approved it or prohibited it, although he knew the practice to be an old one and still practiced. This non-committal attitude of the Holy Prophet towards this practice can only mean one thing: that the Holy Prophet left it to the discretion of the Muslim posterity to decide their own course of action according to the demands of their times and circumstances, provided they did not violate any principle of the teachings of Islam.

Allama Ibne Hazam, a renowned scholar of Islamic teachings, after discussing the issue of Qiraz says: "There is no issue among the topics pertaining to Fiqh for which there is no basic principle mentioned in the Holy 'Quran and Sunnah, except the issue of Qiraz! What we definitely know about Qiraz is that this practice was in existence during the life-time of the Holy Prophet in Arabia and he knew it. But in spite of this knowledge he did not order his followers to abstain from it, and let it remain in force. Had it not been so, it would have been prohibited." The stand of Allama Ibne Hazam thus supports our conclusion.

We feel that leaving the issue of encouraging or suppressing the practice of Muzaribet at our discretion, puts a great responsibility on our shoulders, particularly in modern times when the Muslim countries are pressed by their Faith to oust 'Riba' from their economic practices on the one hand, and on the other they are lured to develop their economy with foreign loans and credits bearing interest. Whether the practice of Muzaribet aids and abets interest-bearing economy or discourages and hampers it thus assumes a significant relevance challenging our wits.

Qiraz as once practiced in Arabia more than fourteen centuries ago is now practiced no-where in any part of the world. Its name, nature and attributes are all forgotten. In changed modern times nobody is interested in its advantages or disadvantages to individuals and society. In an old society with deficient means of transport, a few commodity markets and no means to communicate prevailing price situation in far flung markets, it was possible for two individuals to indulge in the practice of Muzaribet, the only effective advantage of which established itself to help the wealth of orphans to grow through trading. But now in changed situations of telephonic communication, of quick spread of information, of fast moving road, rail and air transport, of internationally managed markets, no scope is left for Qiraz to help individual orphans wealth to grow with certainty. On the contrary scopes for abusing the name of Qiraz have enormously increased. Association of persons has today developed to Public Limited Companies having

shareholders by hundreds and thousands, and no field is left for Qiraz to survive.

It is only due to the current movement for the revival of Islamic atmosphere in Muslim countries that trend to study and make research on old Islamic Economic Order developed and it prompted some zealous scholars to dig out the dead corpse of Muzaribet, and blow a fresh breath of life in it, to present it as a fit substitute enterprise for those who have spare funds to invest in an Islamic way. Bureaucrats in some such Muslim countries rushed to frame laws for Muzariba Companies; and foreign banks having their branches in those countries are now busy inviting Muzariba investments for their branches.

Such thoughtless schemes do not serve the cause of Islam. They do more harm than good. To eradicate Interest-bearing institutions in Muslim countries revolutionary steps are essential, and only missionary zeal can undertake this responsibility. A well planned programme with a team of selfless workers to execute it are its first requirements. Half hearted measures should be shunned.

Muzaribet is a dead practice, let it lie buried for ever. People with zeal of life and devotion of Islam must come forward for real action, mere lip-service will do no good.



INSURANCE, SPECULATION, LOTTERY, AND GAMES OF CHANCE

24.1. INTRODUCTORY REMARKS.

Under this chapter we intend to review some common practices prevalent in almost all the countries, whether fully developed or developing, which run their economics on capitalistic principles. All of them indulge in insurance of life and goods covering almost all types of transportation risks on land, sea and in air. The Insuring Companies compensate the losses of the insured and also earn profits for themselves. They do ample business and tender good services, save a lot of reserve fund and also pay dividends to share holders. There seems nothing wrong about the activities of these insurance companies, and so the Muslim individuals also avail themselves of their services. We will carefully consider in this chapter what the teachings of Islam have to say in favour of or against the insurance practice.

A lot of speculative practices are indulged in by the business community in their daily routine like trading in cotton futures alongwith trading in cotton itself, and like trading in documents of ownership, in stocks and shares at the stock exchange. Individuals and organizations operate lotteries, raffles and games of chance like roulette, horse-race betting and confusing cross-word puzzles which lure the public to avail of a chance to meet good luck. States issue prize bonds for collecting funds to meet genuine social demands but distribute the prizes on lottery basis. All these practices deserve to be carefully examined from the viewpoint of Islam to guide the Muslim masses how they should confront these allurements. Let us take up the insurance first.

24.2. INSURANCE: DEFINITION AND DEVELOPMENT.

The term insurance in its real sense is community pooling to

alleviate the burden of the individual, lest it should be ruinous to him. The simplest and most general conception of insurance is a provision made by a group of persons, each singly in danger of some loss, the incidence of which cannot be foreseen, that when such loss occurs to anyone of them it shall be distributed over the whole group.

In view of the significance of loss Adam Smith was of the opinion that insurance by dividing among a great many that loss which would ruin an individual, makes it fall light and easy upon the whole society. It is the compensation of actual loss that the insurance provides for. Insurance institutions have been divided into two groups: mutual and proprietary. In proprietary companies the insured has to pay a definite amount, called premium, in consideration of which the company undertakes losses that may result from the risks specified in the policy, i.e. the document of insurance contract. The insured is thus a policy holder, neither a member nor a participant in the company's affairs. In short he has no concern with the company which is a body earning profit by the insurance of others. The pure mutual institution, on the other hand, is managed and controlled by the members alone who are its participants. Here the premium is not necessarily to be paid in money, as it may consist of liability of contribution to the loss of other members. Prepayment, therefore, is not a condition precedent in this form of mutual insurance.

The modern contract of insurance has its origin in the marine loans of the ancient Greeks as described by Demosthenes who said, "Money was advanced on a ship or cargo, to be repaid with large interest if the voyage prospered, but not repaid at all if the ship be lost, the rate of interest being made high enough to pay not only for the use of capital, but for the risk of losing it."

The modern contract of insurance is defined as 'the act whereby for a consideration, the premium, one party, the insurer, binds himself in a contract, the policy, to indemnify or guarantee another, the insured, against the loss through the happening of specified contingency, the risk'. The compensation is thus paid by the insurer in consideration of the premium as it was paid in ancient Greece in consideration of the high rate of interest. The premium of the modern contract, therefore, represents the high rate of interest of the marine loans of the past.

This is further borne out by the word 'Premium' which is used in the sense of interest. Gebauer observes, 'The rate of interest includes together with other elements a premium for insurance in order to provide compensation for the loan to the lender, in case of a loss incurred through the bankruptcy of the borrower.' Walker holds that a high rate of interest is but a premium for the insurance of loan.

In view of the above it can be said that the modern contract of insurance is basically the same old marine loan. The aim of insurance of all types is to make provision against the dangers

which beset human life and dealings. Those who seek it endeavour to avert disaster from themselves by shifting possible losses on to the shoulders of others who are willing, for pecuniary consideration to take risk thereof; and in the case of life insurance they endeavour to assure to those dependent on the insured certain provision in case of his death, or to provide a fund out of which his creditors can be satisfied. Those who grant insurance under-take such risks at a price and upon calculations which, if well adjusted, will leave them, after providing against all contingencies, a fair profit.

In the context of the above definition and the outcome of the specified event, it may be said that the contract of insurance is "an agreement under which each of the parties promise to pay money or its equivalent to the other according to the issue of an uncertain event." And this is exactly the definition of a wager. Gambling and wagering were not prohibited by English Common Law, and a wager was not considered illegal at all, and could be enforced in a court of law. This encouraged mischievous forms of gainful practices, which caused the legislature to intervene, but without any success.

24.3. OBJECTIONS AGAINST INSURANCE.

Ulema reject the validity of the insurance contract on the following grounds:-

1. That it is a wagering contract.
2. That it is mere gambling.
3. That it is of an uncertain nature.
4. That life insurance is a device whereby an attempt is made to supersede the Will of God.
5. That in life insurance the amount of premium is indeterminate, for the insured does not know how many installments he will have to pay till he dies.
6. That the insurance companies invest the amount paid by the insured in interest-bearing securities, and in the case of life insurance, the insured, on his death, is entitled to get much more than what he has paid, which amounts to riba or interest.
7. That the entire insurance business is based upon 'riba' which is unlawful in Islam.

Due to the objections recorded above the Ulema regard the insurance business to be hazardous, unfair and uncertain which due to these facts becomes unacceptable to the Muslim society.

Let us examine the insurance contract from the Islamic point of view. Insurance contract is after all a business transaction between the insurance company and the insured and it should therefore be liable to be examined under the Islamic law relating to transactions. An obvious peculiarity of economic dealings under Islam is that it is ethical in character. Unjustified enrichment and risk are both forbidden. vague expressions and delay in delivery are rejected. All such factors which lead to dispute are condemned.

Uncertainty as to obligations under-taken by the parties is considered to be a risk. Starting from the Quranic prohibition of a certain game of hazard, Islamic law insists that there must be no doubt concerning the obligations undertaken by the parties to a contract. The object of the contract must be determined and known accurately. For this reason it is forbidden to sell dates which are still unripe, to be delivered when they have ripened, because it is unknown whether they will ripen at all.

Among the causes which go to vitiate a contract unjustified enrichment and risk are the most conspicuous. Clearly the contract of insurance could not be valid in Islamic Law unless it were free from these defects. Risk covering sold in consideration of the premium is the subject matter to be discussed. Its nature as a species of contract of sales is further evident from the policy which is the document containing the contract. Compensation in this contract is determined on the basis of risk, by the law of large numbers which never yields exact results. The law is but a process of speculation and not without uncertainty. How can a risk, abstract and indeterminate, be converted into a material thing? How can it be measured in terms of money before any loss has occurred? Is it not groping in the dark? Does it not amount to such speculation as is unlawful in Islam? Assuming that the subject matter is determinate still neither of the parties knows what exactly the compensation will be when it is actually paid, for it is to be fixed, as and when the loss occurs, within the agreed maximum limit. Thus uncertainty lies deeply embedded in the nature of insurance contract.

In short the contract of insurance is unlawful on account of its uncertain and indeterminate subject matter while its suspension on an uncertain event renders it a wager, a game of chance.

Now we turn to the purpose of this contract. This is clearly a transfer of the risk of cash-value loss from the one party to the other. In other words, what one is apprehensive of is shifted on to the shoulders of another who takes it upon himself in consideration of the premium. Such is the peculiarity of the modern contract of insurance, an upshot of capitalist enterprise, where selfish motives are at work, where interests of the insurer differ from those of the insured. In mutual insurance, on the other hand, the insured himself is the insurer; risk is not transferred but rather the actual loss when it occurs is shared by all; the golden principle of 'bear ye one another's burden' comes into play, and indeed cooperation and community of interests find their expression. Mutual help and security are, thus, the real attributes of mutual insurance, as against the modern form of insurance contract whose purpose is to deal in risk, which is unlawful in Islam.

24.4. STATUS OF MODERN CONTRACT UNDER ISLAM.

Modern insurance contract is admittedly a contract of sale, but sales having regard for the subject matter are of four kinds:

1. Bai, or sale of property, when a determinate article is sold for a price.
2. Barter, when a determinate article is sold for another determinate article.
3. Sarf, that is, sale of monetary value for monetary value, and
4. Salam, that is, sale of monetary value for a determinate thing.

To decide the exact position of this contract we have to look at the subject matter which is but cash (money) as is further supported by its definition of Mowbray who says, 'Stripped of all the verbiage involved in designating the risk, and in defining how loss shall be proved and collected; and reduced to its simplest terms, the insurance contract is a promise of one party (the insurer) that, in consideration of the payment, or the promise of payment, of a sum of money (the premium) by the other party (the insured), the first party will in case the risk eventuates in loss of a cash value, pay to the other, party that cash-value, usually upto an agreed maximum limit'.

From this it is quite clear that it is a contract wherein similar of the same species are exchanged and hence it is, according to Islamic law, a contract of 'Sarf', that is, exchange of monetary value for monetary value to which doctrine of riba applies and insists not only upon their equality in the bargain but also upon their mutual delivery at the time of the contract. Both these conditions should be strictly observed by the parties, but the reverse is the case in the contract of insurance and in consequence it is unlawful.

It is hardly necessary to point out that in a contract of insurance premium and compensation are not equal. Even if they were equal the contract would still be unlawful for want of mutual delivery at the time of contract. Payment of compensation being dependent on the happening of an uncertain event, mutual delivery becomes impossible. This is the position of the insurance contract in its modern form with the result that the profit or increase earned in the transaction, and still more the delay in delivery of the cash exchanged amounts to riba.

24.5. PROSPECTS OF MUTUAL INSURANCE.

Mutual insurance originated at some time in the past from those social and communal instincts of man which from time to time have driven individuals to cooperate for the furtherance of their common interests. There is a considerable controversy in regard to the beginnings of mutual insurance but we need not bother about it. In course of time such societies have developed. They are now wider in scope and large in size. In Britain the main representatives of mutual insurance are Friendly Societies. They have spread all over Europe. France has several thousands of such small association and their operations have been successful. The same may be said of Switzerland, Belgium and Holland, and

particularly of Italy, where large mutual associations have been greatly favoured by Governments. The measure of their success may be imagined by the fact that they are most popular in Russia and U.S.A. They are classified according to the social status of their members into big and small societies.

The organization is very simple, and is based on the idea of mutual aid, every policy holder being a member of the association. Usually the policies are for equal or nearly equal amounts and each member has an equal voice in its control. The affairs are nominally conducted by a board of directors and these are the usual officers. Not infrequently the secretary is the only paid officer, and gives only part time to the work. When a loss occurs the officers or a committee adjust the loss and an assessment is levied on the members in proportion to the amounts of their policies to raise enough funds to pay the loss. This is the simplest form of such an organization.

Under the advance premium plan the estimated premium is paid in advance for one year. If it is not enough to cover the losses and expresses an additional premium has to be paid by members. If there has been an overcharge, members receive back a dividend.

In a pure mutual institution the insured themselves are the insurers. It has neither capital stock nor any proprietary interest. Mutualisation means 'retirement of capital stock' and this is the real characteristic feature which distinguishes a genuine mutual insurance from other types of insurance organization. 'Non-profit-making is the second characteristic of mutual insurance. In mutual insurance there is no share capital and no dividends on capital. The income is used to cover the cost of operations and to pay benefits. The surplus, if any, is returned proportionately to policy holders. Taking into consideration all its merits a mutual insurance society may be defined as 'an unrestricted union formed by the insured themselves who undertake to pay on an agreed scale periodical contributions for the purpose of covering losses sustained by some of them in the cases of stipulated future contingencies, such losses being prorated periodically among all members.'

24.6. MUTUAL INSURANCE UNDER ISLAMIC LAW.

Cooperative societies of the modern world will not suit the temperament of Islamic law for the reason that they operate on the principle of fixed premiums and fixed policies. This is the same principle, of predetermination of risk, as is followed by stock companies and which stands condemned in Islam as of a speculative nature. Pure mutual institutions accord with the spirit of Islamic law but they are criticized by some as unstable, having no reserves to stand upon. This is not a serious defect as reserves may be built with the consent of the members, for the welfare of the community in the form of endowment (or waqf). Thus mutual association may be formed on the principle of assessment, every member paying the agreed amount or an amount according to the

value of the insured property as a first contribution, while liable to pay an additional sum (i.e., assessment), in proportion to the first contribution, in case the loss exceeds the sum total of the first contribution. If according to annual account loss does not exceed the collected amount and there remains a surplus, a greater part of it will be returned to the members or credited to reduce their future contributions, in case policy is renewed, carrying the remainder to the reserves. The reserves so built may be invested in commercial pursuits which are permissible in Islam.

24.7. SPECULATION: ITS NATURE AND SCOPE.

In previous sections of this chapter we dealt with the insurance practice and reached the conclusion that the contract of insurance is a wager, a speculation prohibited by Islam. It naturally raises the question whether all speculations are unhealthy and offensive or some are not. This leads us to consider the definition of speculation and to probe into its nature and scope.

Under the word 'speculation' the Concise Oxford dictionary tells us the following:-

1. "Meditation on, inquiring into, theory about a subject.
2. Speculative investment or enterprise, practice of speculating in business.
3. Game in which cards are bought and sold.

This description of the word informs us about the two different aspects of speculation: (1) Its theoretical aspect of mental brooding over some topic to weigh its pros and cons with a view to decide whether or not to put it into practice. And (2) its practical aspect which moulds human behaviour in a particular pattern on the one hand, and on the other it develops physical environments to entice people for indulgence in economic practices which suit their behaviour pattern so formed.

It does not take long to appreciate that the practical aspect of speculation is motivated by its theoretical brooding over the topic. But nobody explains how the theoretical mental process initiates itself and progresses. All that biologists and psychologists tell us about it is that it is a mental operation which takes place in the brain. They do not explain any further. In a manner comprehensible to every uneducated layman Islam explains it in the last Sura of the Holy Quran reproduced below.

"Say: I seek refuge with Rabb, the Cherisher of human beings, their Master and God, from the mischief of the stinking devil's whispers, who whispers into the minds of human beings, from among the Jinns and the Humans."

In this Sura we are taught to seek refuge from the mischief of one who induces evil suggestions in our minds from outside. The refuge is sought with the Almighty God, Who is the Cherisher of all human beings, their Master as well as the Object of their worship and devotion. As previously explained, 'Rabb' is One Who nurses from the start, provides all means of nourishment for

development into full maturity of all the aptitudes and potentialities granted to the creature for fulfillment of the purpose of its creation. Hence God is the most befitting person to seek refuge with from all evils.

One such evil is the prompting provided by evil forces in human and devilish garb, to think evil thought. Such externally induced mental suggestions seem to reach us as whispers to implant evil ideas surreptitiously and then vanish quickly. We take the implanted one as our own idea and start developing it in our minds. We must beware of such devilish tactics. The easiest way to be on the alert is to pray to God and seek His refuge against them.

Reverting to speculation in general we find that it has two well-defined phases: mental brooding over ideas, and practical indulgence in the speculative acts. In the mental brooding phase we ponder over two different aspects of speculation. (i) over its nature and scope in general, and (ii) over any specific speculative operation in particular. The first aspect of the first phase is motivated by the curiosity of human nature to know all about everything; and since its field is confined to mental operation alone, there seems no harm to indulge in it. In fact it helps us to understand the difference between the general and the particular, as well as to appreciate how the shift from the general to the particular brings about some changes in our approach to the issue, magnifying its advantages to individuals and diminishing its disadvantages to society as a whole. In spite of this defect, it is while brooding over a particular speculative operation that we are enabled to comprehend the advantages and disadvantages of the various speculative practices for individuals and society as a whole.

Practical indulgence in any particular speculative act is also preceded by mental brooding over it which acquaints the meditator with its advantages and disadvantages. But this acquaintance is usually made by the laymen in an atmosphere already tinged with partiality towards it, except in the case of a watchful and cautious, critical analyst who is bent on remaining impartial scrupulously. Self-interest persuades the laymen to be bewitched by the personal advantages to themselves and they quickly decide in favour of indulging in the speculative act. The impartial critic alone is thus enabled to present the facts in their true colours.

The scope of speculative acts is very wide, and their varieties are almost countless. The scope pervades over both the tangible and the non-tangible objects we come across in the economic field as well as the non-economic sphere. Purchases and sales of tangible goods of utility are made to render essential economic services to society. Purchases are made from manufacturers or producers by those who deal in bulk. These dealers in bulk sell those commodities to retailers. The retailers sell them to the consumers. These are essential economic stages through which the commodities pass to reach those who use or consume them. But many traders also indulge in purchase and sale of such

commodities not to render these essential services but only to create artificial price fluctuations in the market and to achieve monetary gains thereby. Such unnecessary trading is called speculative activity. As an instance we may cite the speculative business carried on in cotton producing countries. The objective of the speculators is to conduct a large number of purchase-sale transactions among themselves and benefit by the fluctuating market rates. This is just one example of speculative trading in just one commodity, cotton. Traders are busy in such speculative activities with not only real commodities, but with title deeds of ownership and with non-commodities as well. They indulge in betting on horse races and in games of chance and superficial skill. We will deal with all major varieties of speculative acts in this chapter, and explain how they exploit without creating a single penny of real wealth or rendering any useful service to anybody whatsoever.

24.8. COTTON FUTURES AND HEDGING.

As briefly stated above speculation takes place in trade both in tangible goods and in non-tangible objects. During the British regime over the undivided Indian sub-continent cultivators used to grow cotton over large areas in different provinces. It was ginned and pressed into bales for exporting to England, where cotton was spun into yarn and the yarn was woven into cloth by machines. Manchester was then the centre of cloth manufacture in Britain. Cotton bales from the interior places reached the exporting ports by rails and at the port cotton exchanges were built for trading in cotton bales. Both genuine as well as speculative trading was done in these exchanges which were set up at big ports like Bombay, Calcutta and Karachi. We have read about stock exchanges where stocks and shares documents of ownership of property are bought and sold; in cotton exchanges cotton, a tangible commodity is bought and sold in more or less the same way.

With independence from the British yoke we inherited these exchanges from our previous masters and we continue to run them as before inspite of realizing the fact that under changed circumstances we had not to export cotton but had to put up cotton mills in our own countries to manufacture cloth ourselves to clothe our teeming millions. We did put up a good many cotton mills in Bharat and some in Pakistan during the past forty years, still we operate our cotton exchanges with the same solemnity as before.

Those who had set up cotton mills to produce cotton yarn and weave cloth, needed hundreds of cotton bales, and to buy them from nearby ginneries was obviously advantageous as it reduced the cost of transportation. They could negotiate purchase contracts with them and even make some advance payments to them, helping them to reduce their liabilities towards cultivators of cotton. They had no reason to go to cotton exchange or to middle men for purchase of cotton. But the cotton market as already set up during

the British regime was not so simple. With the cooperation of the Imperial Bank of India and its branches spread throughout, a shrewed and cunning class of middlemen had already gripped the cotton market in its claws and this class was controlled by the British traders inclined to export cotton to England. These British traders were active members of the Cotton Exchange who set its trend towards dealing in cotton futures and hedging those transaction against losses.

Cotton mills, like any other smooth manufacturing process based on seasonal production of their main raw material, are subjected to the problem of adjusting their financial means to fit in with their purchase demand on the one hand and availability of sale proceeds of their finished products on the other. Themselves being a process operative throughout the year at a normal speed, but needing their main raw material seasonally produced, they are obliged to phase their procurement of that raw material to fit in with the release of the sale proceeds of their finished products: a problem of mismatched demand and supply of funds, beckoning the bankers to come for succour.

Under capitalistic economy it is a universal practice to borrow operative finance from the bankers on hypothecation of stocks in trade. So for the mill-owners adjustment of time lag for funds cannot become an excuse for speculation in futures. The mill owners want to ensure a continuous supply of raw cotton for their manufacturing process on the one hand, and on the other to reduce the burden of interest on borrowed finance to the minimum possible level. To ensure supply of raw cotton for future needs cotton mills must book cotton in advance, and contract its purchase from some reliable supplier be he a ginner, a trader or an exporter. Advance purchases and payment for them in advance of delivery to be made on some future date is permitted in Islam as Bai-e-Salam, which is not an interest-bearing deal nor a speculative venture. The difference between the permitted Bai-e-Salman of Islam and the forbidden speculative interest-bearing deal is very essential for the Muslim traders and industrialist to know.

As a Muslim purchaser of goods for future delivery your purchase contract must clearly state the quantity of goods to be taken delivery of in future as well as the rate per unit of its measure, at which it is purchased. In other words the quantity as well as the rate are to be mutually agreed upon in clear terms at the moment the deal is struck and neither of them is left for the future to be determined. But in cotton futures the transaction is not so clearly defined; it differs in many respects as explained further.

If the seller is himself the producer of the goods to be supplied, he agrees to supply the needed quantity but he leaves the rate to be that prevailing in the market on the future date or dates of deliveries. This open rate commitment is an act of speculation prohibited by Islam. If the seller is not a producer himself, he runs

risks of both purchasing and supplying the goods at a future date, neither the availability of which is certain to him nor the rate at which it would be available on that future date. Such vague and risky transactions are prohibited in Islam, both for the seller as well as the buyer. Hence neither a Muslim trader nor a Muslim cotton-mill owner can engage themselves in such prohibited deals. The only form of contract to sell now but to deliver at a future date, and to buy now for taking delivery at a future date is that which binds both the seller and the buyer to clearly known quantity as well as the price per unit of the goods in advance, at the moment of contractual engagement, leaving nothing vague and uncertain for future decision. This form is known in Islam as Bai-e-Salam, in which part or full payment in advance is also permitted.

Trading in future can possibly take any of the three different forms: Either (i) the seller or (ii) the buyer, or (iii) both find it necessary to indulge in it to discharge his or their committed obligations. If the seller is a genuine producer of the goods he commits himself to supply, he can meet all his obligations by proper planning of his production and sale without any necessity to indulge in speculation of futures. If the buyer is a genuine consumer of the raw material he needs for his productive operations, he must enter into contract for his requirements only with genuine producers of the commodities he uses as his raw material. He should carefully avoid the middlemen and exporters of that material so that it becomes totally unnecessary for him to indulge in speculative futures of the wanted raw material. Thus neither the seller nor the buyer would find it necessary to indulge in speculative futures of the commodity they handle as the raw material for further production of goods of utility. Such being the factual position the question arises: who indulge in speculative cotton futures and why?

We have explained above that neither the ginners nor the textile mills have any need to indulge in cotton future speculation when they can have straight forward dealings between them for smooth flow of cotton from one to the other. Besides these two groups we have two other groups operating in the cotton market. One of them, the exporters of cotton are not bound by any time limit for procuring and exporting cotton bales. Thus the only party left in the market to be accused of speculation in cotton futures is the group of cotton traders.

Why members of this group indulge in cotton future speculation and with whom becomes a fairly localized enigma to be solved.

The producers of cotton bales do not press the cotton traders nor are they pressed by those traders to indulge in cotton future speculation. No reason exists for any such pressure or persuasion between them. The same situation exists between the traders and the exporters. It is only the textile mill owners who need supply of cotton bales on future dates to maintain smooth flow of their textile

production; but instead of procuring cotton bales from their source of production, the ginners, why textile mills should enter, into any future deal with the resource-less traders is beyond comprehension. Between the ginners and the textile mills a contract for future supplies of cotton bales is most likely to be safe and certain as well as free from speculation; but such a deal between textile mills and traders in cotton is risky, uncertain and definitely involving in cotton future speculation. Every prudent textile mill owner is bound to ignore and avoid the traders and to deal with the ginners alone.

There is one basic difference between the producers of utility goods and their distributors. No doubt both are goaded by profit motive to indulge in economic activities, but the producers realize that they have first to produce some tangible goods of utility for public use, and then to benefit themselves by their sales; whereas the traders are not so socially conscious. The traders are only interested in their profits earned through repeated exchange of goods. This tendency of the traders goads them to indulge also in unreal and fictitious transactions of purchase and sale among themselves. They contract to purchase and sell on condition of future delivery a known quantity of goods at a price that would prevail in the market on its delivery date. Thus they play a game of chance with the risk of losing or gaining. They are not interested in the goods they gamble upon, nor do they actually give and take delivery of any goods on the due date. They are only concerned with the profit or loss they make in the deal.

In case of cotton futures, as soon as a deal is made by a trader, he tries to hedge it by a counter deal with someone else. If he had made a purchase, he makes a sale on the same conditions to counteract the consequences of the first. In case of profit on the first deal, the trader pockets the profit and enters into a third deal to counteract the ill effects of the second or the hanging deal, and thus the practice continues on and on. Evidently cotton futures and their hedging are games of chance and a form of gambling prohibited by Islam. In actual fact this practice neither helps in purchase of cotton for the textile mills, nor it helps the ginners in selling their cotton. They only create artificial fluctuations in the market price of cotton by their fictitious deals. As these practices are gambling prohibited by Islam, they should be banned in Muslim countries.

Another instance of speculation is the popular game of betting on horse races. It is indulged in throughout the civilized world. The race course committees manage it as an enterprise. They sell booklets giving full information about every horse and every jockey, who take part in the races, to help gamblers make their guesses. They collect stake money and issue stake tickets. Since games of chance follow no rules, only a few gamblers luckily win their stakes, but the organizers get the lion's share of the stakes pooled.

24.9. LOTTERY AND PRIZES.

Lottery is a well-known and commonly used method of distributing a smaller number of rewards among a larger number of their claimants. The Concise Oxford Dictionary defines lottery as, "An arrangement for distributing prizes by chance among purchasers of tickets." This definition implies that the number of available prizes is small, the number of those aspiring to claim any of them is comparatively large, and there exists no reason to discriminate between the claimants or to prefer any one of them over others; therefore it is considered expedient to decide the issue by chance.

From the above it is clear that lottery is only a distributive method which is liable to have its own merits and demerits in accordance with the situation wherein it is used. It tries to distribute prizes which by themselves may or may not be legitimate when socially, morally or religiously assessed. Therefore it becomes our first duty to probe into the nature of the prizes to be distributed, from Islamic point of view to find out whether their prevalence in Muslim society be allowed or not; and then in the light of the nature of those prizes to decide whether their distribution by lottery method be allowed or not, if the prizes are considered permissible.

Proceeding accordingly we learnt that the prizes are distributed to persuade people for contributing towards funds demanded by some social institutions or by state authorities to satisfy some helpful social needs or state functions, both objectives being sound and legitimate. We considered many instances in vogue and found the fund raising objectives to be praise-worthy and the motives of the authorities to be healthy and free from blame. However in some cases flaws crept in at the stage of creating and allocating the prize money. The source of prize money was found to have been prohibited by Islam in some cases, whereas in some other instances no prohibition existed. For instance Red Cross Societies issue tickets to collect funds for providing First Aid and medical care to the wounded persons. Bulk of these funds are used in that way, and only a small amount out of them is used for distributing prizes among the lucky contributors chosen by means of lottery. In this entire scheme nothing exists to violate the teachings of Islam. As against this Prize Bonds are issued by some States for collecting Loan Funds to meet their financial needs. These bonds are bearer and can be cashed at any time at banks and treasuries. However prizes are distributed annually to lucky holders of some bonds picked up by means of lottery. From where does the cost of those prizes come is not declared. But those who dug into it discovered that interest at market rates was worked out on all the bonds, and instead of paying it to each bond-holder individually, the entire amount thus made available was distributed annually in cash prizes of varying denominations to lure people for buying these bonds expecting to become the lucky

number holders, which are picked up by lottery method.

The issue of such prize bonds is prohibited by Islam for two reasons. The prize money comes from interest which is prohibited by Islam, and that interest is distributed among some in a manner as if they gambled for it, while gambling is also prohibited by Islam. Muslim states should cease to indulge in such un-Islamic practices; and all Muslims living anywhere, whether in a Muslim state or a non-Muslim state, should abstain from buying such prize bonds to avoid gambling and riba.

24.10. GAMES OF CHANCE AND SKILL.

Advocacy of freedom for market economy brought in its wake unlimited freedom for individuals to devise novel means for increasing their wealth. Among those devices games of chance and skill occupy conspicuous places being admired by rich and poor alike. Besides being gainful for the entrepreneur, they provide relaxation for tired bodies and minds after their day-long exertions in economic pursuits; and they can also be played with small stakes. People resort to places which provide these pastimes in the evenings after exhaustion with day's work and there they meet with friends, have chitchat with them on drinks and snacks and play the games. Hotels, motels, casinos and gambling dens all provide these facilities to the visiting public for relaxation and play.

Games of chance and skill can be segregated into three different categories: (1) Games of exclusive skill devoid of all chances, (2) Games of exclusive chances needing no skill worth its name, and (3) Games of mixed chances and skills. It would be helpful to discriminate between the three categories and group all games usually played in modern times under their proper classes, to observe where each game stands under the searchlight of Islam. By the way it is worth noting that there are very few pastimes which engage people as solo players like solving the cross-word puzzles; otherwise almost all games of chance and skill become competitive strife between two or more persons. Raffle is a way of selling some solitary property to any of the buyers of tickets sold to those who agree to own it by lottery draw. It is neither a game of chance nor that of skill, but we felt it advisable to mention it here due to awarding its ownership by means of lottery tickets. It amounts to gambling prohibited by Islam.

Let us now attend to the above-mentioned three categories of games of chance and skill, starting with the first, i.e. games based on skill exclusively. Such games can be sub-divided into two varieties of outdoor games and in-door games. Among the outdoor games some have achieved universal appeal and they are played at international competitive level like the Olympic games of cross-country racing, swimming, boating, wrestling, cricket, hockey, football, basket ball, polo, tennis etc. Islam permits such games.

Among the indoor games of skill only a few are physically exertive like badminton, table tennis and billiards, the rest pertain

to use of mental skill alone. Games of mental skill without any admixture of chance are very few. Darts, drafts, target shooting with rifle shots and chess are among them.

Crosswords puzzles once used to be exclusive games of skill, unadulterated by chance element; but the dealers of this pastime have not only contaminated it with induced chances, they have made it an exclusive game of chance now needing no use of skill at all. They have turned this pastime into a gamble by offering huge first prize and inviting numberless entries with token entry fee for each entry. People are thus lured to win the big prize and send entries by scores. The result brings bumper revenue to the promoter but the coveted prize is won by hundreds of contributors, each of them by split, getting a token amount. This is a complete gamble.

Since gambling is prohibited in Islam, Islamic states must ban such activities to save its Muslim population from sinning, and to prevent compilers of such puzzles from promoting sinful acts.

Let us now turn to the remaining gambling, gaming and betting acts indulged in by the affluent as well as the poorer population of the developed countries of the West.

24.11. INTERNATIONAL GAMBLING RESORTS.

Gambling is the risking of money or money's worth on the nature or result of an uncertain act or event. Depending on the way the money is risked, gambling is either gaming or betting. Betting is bilateral: two persons agree that, according to the determination of the uncertain fact or event, one will win and the other lose. Gaming is playing a game of either chance or skill for stakes; there may be two or more players. Gambling is probably as old as man. Knuckle dices have certainly been found on Neolithic sites, and later games with dice were popular in ancient Egypt, Greece and Rome. In Rome most games of chance were prohibited on the ground that time was better spent at more military pursuits; it was also on these grounds that gambling was forbidden in medieval England. Various statutes were passed in different countries to prohibit gambling but they remained ineffective. Gambling became so popular among the nobility in particular, that it was a real social evil in England and on the continent of Europe.

While laws against gambling multiplied in nearly all Europe, so did new ways of gambling. From the late 17th century private and state lotteries became enormously popular, and became a popular method of providing extra state revenues in several European countries. Horse racing provided the most popular form of gambling in early 20th century Britain but in the 1920s betting on horses or on greyhounds found a rival in the football pools, a legal form of betting which became nation-wide after 1945. In 1976 in Britain 17 million persons filled in over 400 million football coupons. Staking 247 million pound sterlings; winners won back 71 million and 99 million was paid in taxes. But the true turnover

was still under half that of off-course betting. The newly authorized casinos had a true turnover of 100 million, and slot machines 126 million pound sterling.

Betting in Britain is not illegal in itself, although a bet is not a contract enforceable at law. However betting in any street or public place is illegal. Betting houses were illegal till 1960, but are now permitted under licence.

In Europe Monte Carlo has been a favourite resort for gamblers since the latter part of the nineteenth century, and its tables still provide the major part of the state revenue. In America state laws generally forbid most forms of gambling, with the exception of Nevada, where Las Vegas has consequently become one of the most famous world centres of gambling.

MONTE CARLO is a town in a very small Principality of Monaco in Western Europe. Monaco is so small that its entire territory covers an area of only about two square kilometers. It lies on the Mediterranean coast surrounded on three sides by southeastern France. It consists of three urban units forming a continuous built-up area along the coast. Monaco-Ville is the seat of government and administration on a rocky promontory. La Condamine is a residential and commercial zone on the lowland northwest of Monaco. Monte Carlo is a luxury resort on the slopes.

Monaco depends basically on its tourist trade and is chiefly famous for its casino in Monte Carlo and the luxury hotels. The casino of Monte Carlo was built in 1895. Being a French protectorate it enjoys free entry of its goods into France and freedom from income and property taxes. It has therefore developed some small industries of medicines, radio, textiles, footwear and food processing.

The harbour, practically square in shape lies in the bay which has Monte Carlo on the north, La Condamine on the west, and Monaco-Ville on the south. It is almost exclusively concerned with tourist traffic, and during the season is used by large numbers of yachts. The territory of the Principality became a protectorate of France in 1861 and remains as such to date.

LAS VEGAS is a city of the state of Nevada which lies in the rocky Mountain division of the United States of America. The city is 620 meters above sea-level. Mining and tourism are Nevada's main resources. Gold, silver and copper are the available minerals. The principal cities are Las Vegas and Reno. About 85% of the residents of Nevada state live in these two tourist towns. The growth of these cities was based on gambling. The towns are also convention centres, while Reno has the reputation of being the wedding and divorce capital of the United States. Each has over ten million staying tourists a year.

Taxes on gambling enable Nevada to do without income and inheritance taxes. 'One-armed bandits' (mechanical gambling machines of sorts) are an important source of revenue. There is also an exceptionally high consumption of alcoholic drinks. The

main artery of casinos and cabarets and luxury hotels on the south side of Las Vegas is known as the 'Strip'.

Las Vegas lies in the extreme south of Nevada and it owes its name meaning 'The Meadows' to the fertile area round artesian springs on the old Spanish Trail to California. Its real growth began with the expansion of tourism after the Second World War. The increase of air travel gave it a nationwide market for the attraction of its winter climate, easy divorce laws and legal gambling. The number of visitors is estimated at ten millions a year; they come to visit the night clubs and casinos and stay in the hotels that line the 'Strip' and provide the main source of income to the town. But the largest syndicated gambling society in the world has also given scope for crime bosses and the highest murder rate in the United States.



CHAPTER TWENTY FIVE

INFAQ, SADAQAT AND ZAKAT

25.1: SIGNIFICANCE OF DISTRIBUTION.

One of the distinctive features of Islamic economic system is that it dwells upon the distributive aspect of wealth much more elaborately than upon its production. It has its own reasons to do so. What to produce and how to increase that production is that aspect of economy which the law of necessity teaches human beings to learn by exertive experience for sake of subsistence and survival. To subsist, grow and develop is an inherent human urge which goads men to learn how to produce the necessities and luxuries of life. But how to distribute the wealth so produced judiciously among the factors of production, and benevolently among the needy and the destitute, is a wisdom to acquire which no favourable environments exist, although inherent urge to do so exists in the human body. On the contrary scarcity of necessities of life and hardship experienced in acquiring them tends people to preserve the acquired wealth for their own future use, instead of spending it benevolently on others.

God created this Universe and introduced in it an automatic natural process for producing all necessities needed to preserve life and to enhance human welfare. It operates without involving human agency at any stage. Man entered the scene much later to benefit by this automatic production process and to learn by experience how to improve it. With his acquired knowledge, skill and wisdom he manufactured a lot of new things for his comfort and luxurious living, but he failed to distribute the products equitably amongst the producing team, the needy and the destitute. Those at the helm of the economic affairs behaved selfishly and ignored justice and fair-play for others.

The Creator, Who knew human nature full well, took upon himself to issue proper guide-lines from time to time for guiding people in different places and times through His Apostles. As human wisdom matured with passage of time, Divine guidance also

became more elaborate and detailed till the last Word of Law was conveyed to us by God through His last Prophet, Muhammad, peace be upon him. The Holy Quran and sunnah thus comprise a comprehensive guide-line for the human race in all its walks of life including economic behaviour. On further study we will soon find that the economic teachings of Islam lay much more stress on the distribution of wealth than upon its production since all economic ills sprout from the maldistribution of wealth.

25.2. THE HOLY QURAN INSISTS ON CHARITY.

As we open the Holy Quran to commence reading it from the start, Allah tells us in the third verse of Sura Al-Baqrah that "God-fearing persons spend out of what Allah has provided for them." Beginning with this mention of the word 'Infaq' (Spending) we find this word used in the Holy Quran twenty-nine times. The second word used in this regard is 'Infaq fi Sabeel Allah' (Spending in the way of God). This term is used in the Holy Quran for only five times. The third word used for distribution of wealth is 'Sadaqat' (charity in general). This word is used for thirteen times in the Holy Quran. The fourth word used in this context is 'Zakat' which occurs in the Holy Quran nineteen times and means a specified form of charity made obligatory on all Muslims who own wealth above a specified minimum quantity throughout an year. To copy all these sixty-six verses here would occupy a lot of space. We will therefore record below only such of them which claim preferential mention due to some reason or other.

(1) Verse 177 of Sura Al-Baqrah reads as under:-

"It is not righteousness that you turn your faces to East or West. But righteous is he who believes in Allah and the Last Day and the Angels and the Book and the Prophets. He who gives some of his wealth out of love for Allah, to his relatives, to orphans, to the needy and the wayfarers, to those who ask for it, and as ransom of the captives; he who is steadfast in his prayers and pays Zakat," (a specified welfare tax imposed on Muslims).

What is noteworthy in this verse is the fact that inspite of general orders to spend one's wealth for humane purposes, it is additionally ordered to pay Zakat.

(2) Verse 195 of Sura Al Baqrah ordains:-

"And spend in the cause of Allah and do not contribute to your own destruction with your own hands."

This order pertains to wars with infidels and the use of the phrase, cause of Allah points towards it.

(3) Verse 245 of Sura Al-Baqrah addresses the Holy Prophet for our information saying:-

"They ask you what they should spend (by way of charity) Tell them that whatever they spend out of their wealth should be spent on the parents, the relatives, the orphans, the needy and the wayfarer. And whatever you do with your wealth, Allah knows it well".

(4) Verse 219 of Sura Al-Baqrah says:-

"They ask you how much wealth they should spend. Say: whatever is beyond your needs and is surplus. It is thus that Allah explains His directives to you so that you may ponder over them for your good in this life and the life Hereafter."

This verse teaches us to strike a balance between our immediate and future needs but to avoid hoarding and also to use our wealth liberally for social welfare of all.

(5) Verses 261 to 279 of Sura Al-Baqrah are very important because they deal collectively with Infaq, Sadaqat, Zakat and Riba at a stretch. Riba is the method erroneously used by many to increase their personal wealth. These verses reveal the Divine intent and guide line about how Muslim society should use its wealth. We record these verses below one by one, with our comments:-

"261. The instance of those who spend their wealth in the way of Allah is that of a grain or seed of corn. It grows seven ears and each ear contains a hundred grains. Allah increases them manifold for whom He likes. Allah knows all".

"262. Those who spend their wealth in the cause of Allah and do not injure the feelings of those to whom they give, by demanding thanks or by ill treatment, they will get their rewards from Allah, and they need not fear or grieve."

"263. Kind words and covering of faults are better than charity that is followed by injury. And Allah is free from wants and is Most For-bearing."

"264. O you who believe, do not destroy the bestowal of your Sadaqat by reminders of your generosity and injury like those who give riches for mere show and do not believe in Allah and the Day of Judgement. They resemble barren rocks on which some earth is strewn. When rain falls on it, the earth is washed away leaving the stone bare. They would reap no harvest of their deeds; and Allah does not guide those who disbelieve."

"265. And the example of those who spend their wealth to seek pleasure of Allah and to strengthen their souls, is like a garden, elevated and fertile, on which rains fall and produce crops two fold. If no rain falls, humidity and moisture would suffice to produce. Allah sees all that you do."

"266. Does any of you wish to own a garden with date palms and grape vines, and streams flowing beneath; the garden bearing plenty of fruits of all kinds in it. When the owner grows old while his children are not strong enough to look after themselves, a whirl wind blows with fire in it and burns the garden. This is how Allah makes His signs clear to you so that you may consider and reflect."

"267. O believers spend out of your good earnings and out of the fruits of earth which We produce for you. Do not give to others the rotten produce such as you yourselves would not accept but unwillingly. Know that Allah is free from all wants and is worthy of all praise."

"268. Satan threatens you with poverty and bids you to do shameful acts; but Allah promises you His forgiveness and bounties. Allah's knowledge is vast."

"269. He grants wisdom to whom He pleases. And those who

receive wisdom, receive a great wealth. None will appreciate this truth but those who understand."

"270. And whatever you spend in charity or devotion becomes known to Allah. But the wrong-doers have no helpers."

"271. If you disburse charity openly it is good; but if you disburse it secretly and give it to needy, it is better still, since it will wash off your sins and Allah knows what you do."

"272. O Apostle, it is not your responsibility to set them on the right path; but Allah sets on the right path whom He pleases. Whatever you spend out of your wealth is for your own benefit. You spend it to please Allah and what ever you spend will be rendered back to you and you will not be dealt with unjustly."

"273. Charity is for those in need of it; those who are restricted from movement in Allah's cause and are deprived from freedom to work by the anti-Muslim element. Because of their modesty ignorant persons presume them to be free from wants; but you will recognize them from their facial expressions that they do not openly beg. And whatever you give is known to Allah."

"274. Those who disburse their wealth by night and by day secretly and openly, they have their rewards with their Lord. They need not fear nor grieve."

"275. Those who devour usury present a picture of standing like one who has been driven to madness by Satan's touch. This is so because they say, 'Trade is like usury'. But Allah has permitted trade and forbidden usury. those who desist after receiving instructions from their Lord will be pardoned for the past. Their case is to be judged by Allah. But those who repeat the offence are dwellers in fire wherein they will abide for ever."

"276. Allah obliterates riba and multiplies Sadaqat (charity), and Allah does not like the wicked and ungrateful persons."

"277. Those who believe and do deeds of righteousness, and establish regular prayers and give Zakat, their reward is with their Lord. They have nothing to fear or grieve."

"278. O you who believe, fear Allah and give up what remains of your demand for riba (usury), if you are indeed believers."

"279. If you do not do it, take notice of war from Allah and His Apostle; and if you repent and submit, you shall have your capital back to you. Thus you will not be unjust to others and you will not be dealt with unjustly."

The nineteen verses of Sura Al-Baqra quoted above contain in a nutshell the nature of wealth, its various forms and their utilities; the different uses and abuses of wealth in which human beings indulge, and the declaration of the Divine intent about wealth; i.e. how people should use their wealth to achieve the triple objective of benefitting themselves, of helping society to benefit by it, and of pleasing their Creator by submitting to His obedience. Verse 267 reveals how wealth lies hidden in the bowels of earth as minerals and vegetation; how food crops and fruit trees vegetate out of earth and how man earns wealth by converting various natural resources into products of utility, comfort and luxury with his knowledge and skill.

Verse 261 tells us how social welfare spending multiplies wealth. Verse 266 pin-points the limitations of human beings in acquiring and retaining wealth inspite of all their practical wisdom, and how the Will of God prevails over all, Here and there some verses explain how best the charity should be disbursed and to whom. Verse 275 points out how businessmen consider trade and usury to be equally good means of multiplying their wealth. They ignore entirely the evident as well as the hidden differences between the two processes. The announcement that Allah permitted trade and forbade usury alerted the people to brood over the two practices to discover the difference.

Verse 276 declares the Divine intent to obliterate *riba* and to promote social welfare spending thereby pin-pointing how dangerous *riba* was, and how helpful *Sadaqat* (charity) is. Verses 278 and 279 foretold how horrible inter national indulgence in usury could be, both for the lenders as well as the borrowers. Current history of the two World Wars and their aftermath confirmed how true the prophesy turned out to be. The lending haves still fleece the have not nations by the weapon of lease and lend. The international network of banking system is their snare. Let Muslim countries of the world beware of, lest we forget.

(6) Verse 34 of Sura Tauba warns us:-

"And those who hoard gold and silver and do not spend them in the way of Allah should be warned that grievous sufferings await them."

(7) Verse 60 of Sura Tauba teaches us that:-

"*Sadaqat* (charitable alms) are for the poor and the needy and those employed to administer these funds; for those whose hearts have been recently reconciled to Islam; for those in bondage or in debt, and for use in the cause of Allah and for the wayfarer. This is imposed as a compulsory duty on the Muslims by Allah, Who is full of knowledge and wisdom."

(8) Verses 103 and 104 of Sura Tauba say:-

"(O Apostle) Take *Sadaqa* out of their wealth to clean and sanctify them with it and pray for them since your prayer brings solace to them and Allah hears and knows. Don't they know that Allah accepts repentance from His votaries and gifts of charity and that Allah is most reconciling and merciful."

(9) Verse 39 of Sura Rum divulges an economic truth when it states about *riba* and *Zakat* that:

"What you give to others by way of *riba* (interest) to increase their wealth, that brings about no increase in Divine reckoning; and what you give by way of *Zakat* (charity) seeking the pleasure of Allah, that is bound to increase."

This verse reveals two facts of economic transactions we all know full well nowadays. Interest only transfers some money from the borrower to the lender's pocket without bringing about any increase in the national wealth of the community or country. Its GNP remains unchanged. But charity enables the recipients to spend it for buying necessities of life, thereby increasing demand

for such commodities, which pushes production upwards, boosting economic activities and increasing the national wealth with it.

(10) Verses 16 and 17 of Sura Tagabun dwell upon the moral and spiritual healing effects of social spending when they ordain:

"So fear Allah as much as you can, listen and obey Him; and spend in charity for the benefit of your own souls. Those who are saved from the covetousness of their own selves, are the ones that achieve prosperity. If you lend to Allah a righteous loan, He will double it for you and will grant you forgiveness. Allah appreciates and is most forgiving."

(11) Verses 24 and 25 of Sura Al-Maarij are:-

"And those in whose wealth there is a known right for the needy who ask for it, as well as for the deprived who abstain from asking (for reasons of their own.)"

In these verses the known and defined right refers to Zakat, the rate of which is fixed and well-known to the Muslims:

All verses copied above from the Holy Quran lead us to conclude that Allah used the terms of Infaq, Sadaqat and Zakat indiscriminately in His Book to exhort the Muslims to spend as much as they could for public welfare and for helping the needy and the deprived. The Holy Prophet, peace be upon him, acted upon these Divine orders himself and taught his followers to do so regularly for their own benefit in this life and the life Hereafter. How admirably the Holy Prophet did so, will be evident from the traditions of the Holy Prophet. Let us, therefore study the Sunnah of the Holy Prophet in this regard.

25.3. SUNNAH ON INFAQ.

Dispensation of justice and fair play to all, and practical uplift of the down-trodden and deprived members of the human society was the second prior duty and responsibility of the Holy Prophet, after, convincing the pagan idol-worshippers of Arabia that there is One and Only One God worthy of worship and obedience to Whom all should submit. Sunnah of the Holy Prophet is communicated to us in the form of his traditions duly checked and compiled by painstaking and truth-seeking Muslim scholars like Imam Bukhari, Muslim, Imam Malik bin Ans, Abu Daud, Nassae, Ibne-Maja and Tirmizi etc. We record below from their compilations traditions pertaining to Infaq in general and to Sadaqat and Zakat in particular. Eight reports from Imam Bokhari are as under:-

(1) Hazrat Ibne Abbas reported that the Holy Prophet sent Hazrat Ma-Aaz to Yemen to preach Islam there, and advised him to invite those people to bear witness that there was none worthy of worship except Allah and that Muhammad is His Apostle. If they accepted this then to tell them that Allah had ordered them to say prayers five times daily. If they accepted that too, then to tell them that Allah had imposed Zakat on their wealth, which would be collected from their well-to-do persons and disbursed to their

needy havenots.

(2) Hazrat Abu Saeed Khudree reported that there was no Zakat on silver less than five Oqqiah (200 Dirhams), nor on camels less than five, nor on food grains or dates less than five Wasaq (200 kilograms) in weight.

(3) Hazrat Abu Zarr reported that the Holy Prophet said, "If I possessed gold equal to the mountain of Uhad in quantity, I would not like to retain it with me except for three gold coins' worth and I would distribute all of it in charity."

(4) Hazrat Abu Hurairah reported that the Holy Prophet said, "That charity is best after disbursing which the man remains wealthy. You should start disbursing first to those who are under your guardianship."

(5) Hazrat abu Bakr wrote a lengthy letter to the governor of Yemen on the topic of levying Zakat on animals in kind, detailing what to levy on camels of varying ages. The letter is copied in full by Imam Bukhari, which we omit to reproduce due to its length and due to lack of camel-breeding practice in the Muslim world today. In brief the letter advises to charge about two and a half percent of the monetary value of one's property, whether in the form of cattle or in any other form of wealth.

(6) Hazrat Ans said that among the Ansars of Madina Abu Talha was the richest. He owned many orchards of date palms, and in all his wealth he loved most a well named Ber-i-Haa, situated not very far from Masjid-i-Nabvi. The Holy Prophet used to go there and enjoy drinking its clear sweet water. When the verse, "You will not attain righteousness unless you spend out of what you love" was revealed, abu Talha went to the Holy Prophet and said, "I loved Ber-i-Haa most and I give it up as Sadaqah. Please take charge of it." The Holy Prophet said in reply, "You have struck a very beneficial bargain. You had better give it to your relatives." There upon Abu Talha gave it to his relatives including his paternal cousins.

(7) Hazrat Abdullah Ibne Umar reported that the Holy Prophet said, "There is Ushar (one tenth part) on lands which are watered by rain or spring or which get moisture by themselves, but the lands which are watered from well have to pay one-twentieth part as Zakat."

(8) The Holy Prophet levied Sadqah Fitr as an obligation on all Muslims, freemen as well as slaves. A minimum quantity of Saah (one and a half kilogram) of dates, or oats, or wheat or cheese, or dried grapes, which must be given to the poor before going out for Eid prayers.

Traditions of the Holy Prophet recorded by the compiler Imam Muslim include the following six reports on Zakat and Sadaqat:-

(9) Abu Saeed Khudree reported that the Holy Prophet said, "There is no Sadaqah on less than five basketful (about 200 kilograms) of food grains, nor on less than five camels nor on less than five Oqqiah of silver."

(10) Hazrat Jabir reported that the Holy Prophet said, "The lands which are watered by rain, or springs should pay one-tenth of their produce, and those to water which camels are used to draw water from wells should pay half of the tenth."

(11) Abdullah bin Umar said, "Sadaqah Fitr is imposed on all Muslims, free or bonded, male or female, the quantity of which is about one and a Half kilogram of dates, or food grains to be delivered to the poor."

(12) Abdullah bin Umar said that the Holy Prophet ordered to pay Sadaqah Fitr before going out for prayers on Eid morning.

(13) Saeed Ibne-Abi Burdah reported from his grand father that the Holy prophet said, "Every Muslim must pay Sadaqah (charity)."

Someone asked the Holy Prophet what to do if one could not afford it; the Holy Prophet replied, "He should work with his hands, exert and earn, benefit himself and pay charity as well." On further asking if that was not possible the Holy prophet replied, "He should help the needy in distress." When asked if that was also not possible, the Holy Prophet replied, "Teach good things according to usage." When asked if that could not be done, the Holy Prophet replied, "Then desist from doing mischief, since that too is a kind of charity."

(14) Hazrat Abu Hurairah said that the Holy Prophet used to ask whenever he was presented with eatables, how it was brought. If he was told that it was a present, he would eat it. But he would not eat it when told that it was a sadaqah or charity.

Sunnan compiled by Abu Daud include the following eight reports on the topic under consideration.

(15) Umme Salma said that she used to wear a gold ornament known as Owzah. She asked the Holy Prophet whether it was considered a 'kanz' (an hoarded wealth). The Holy Prophet replied, "The quantity of wealth on which payment of Zakat is obligatory does not remain 'kanz' when Zakat is paid on it."

(16) Muhammad bin Idrees reported that he visited Hazrat Ayesha with others and she said, "One day the Holy Prophet came to me, saw big silver rings on my fingers and asked about them. I told him that I had them made to adorn myself for you. He asked me whether I pay Zakat on them. I replied in the negative. Where upon the Holy Prophet said, "That is enough to drag you into the Hell."

(17) Abdullah bin Muslimah reported that he went to the Holy Prophet and embraced Islam. A man came there and asked for alms. The Holy prophet said, "Allah himself reserved Sadaqat for eight types of people. If you come under any of them, I will pay you as your rightful due."

(18) Addee bin Alkhiyar said that two persons told him that they went to the Holy Prophet on the occasion of the last Hajj, when he was distributing alms, and they also asked for some. The Holy Prophet looked at them, lowered his eyes and said, "If you wish I

will give you some but there is no share in alms for the well-to-do persons and those who are sturdy and can exert to earn."

(19) Abdullah bin Muslimah and Ata bin Yusar reported that the Holy Prophet said. "Sadaqah is not for the well-to-do persons except to the following five types: (1) Those engaged in war for sake of Allah, (2) Those engaged in managing the collection and disbursement of it, (3) Those whose wealth is tied up in debts, (4) Those wealthy persons who buy with their wealth goods received in charity from their poor owners, and (5) Those whose neighbours send them as gifts things they had received in charity."

(20) Qabeesah bin Mukhariq said, "I stood surety for a debt and went to the Holy prophet for help. The Holy Prophet told me to wait for a while till charitable funds came. Then the Holy prophet addressed me and said, "O Qabeesah, begging for alms is not permitted except to three types of people: One who stood surety but could not fulfil his responsibility can beg till he fulfils his responsibility but no more. Second he on whom calamity falls which destroys his wealth, can beg till he receives enough to sustain himself. Third he on whom an unavoidable responsibility falls suddenly which he cannot meet by himself, and three reliable and intelligent members of his community testify and recommend for help may beg for so long as to enable him to face the situation, but no more. It is forbidden to beg except under the above-said situations, O Qabeesah, and he who begs and eats alms otherwise devours what is forbidden."

(21) Ans bin Maalik reported that a person from Ansars came to the Holy Prophet asking for alms. The Holy Prophet asked if he had anything in his house. He replied that he had a blanket, half of which they spread to sleep upon and with the other half they covered themselves. He added that he also had a bowl for drinking water. The Holy prophet ordered him to fetch both. When he brought them, the Holy prophet put them to auction. A person from the audience said that he would pay one dirham for both. The Holy Prophet asked who would pay more. Another person said that he would buy them both for two dirhams. The Holy Prophet gave him the bowl and the blanket, took two dirhams from him and handed them to the Ansar saying, "Go to the market, buy food grains for your family with one dirham and take them home. With the other dirham buy an axe blade and bring it here." The Ansar complied. The Holy Prophet fixed a wooden handle to the axe blade and handing it over to the Ansar ordered. "Go to the forest, cut wood and sell it. Continue this job and do not come to me for the next fortnight."

The man complied and came to the Holy Prophet after fifteen days. In the meantime he had earned ten dirhams by selling fuel wood, with which he had bought clothes and some foodstuff for his family. The Holy Prophet said to him. "This is better for you than to show a scar of begging on your face on the Day of Judgement. Begging is not allowed but to three persons: to a helpless, penniless

person rolling in dust; to one heavily indebted and perplexed by the burden of his debt; and to one who had killed somebody, and owned no wealth to pay blood money with. Only these three can resort to begging while in distress."

(22) Ibne Abi Rafih, who was a freed slave of the Holy Prophet, reported that the Holy Prophet appointed a member of Bani Makhzoom tribe as a collector of Zakat. That man suggested to Ibne Abi Rafih to accompany him, whereby he would be able to get some Zakat. Ibne Abi Rafih replied that he would first consult the Holy Prophet about it. On query the Holy Prophet told him, "You are our Maula (a freed slave) and as such you belong to our family. Zakat and Sadaqat are not for us to take, and so it is not available to you for use."

Imam Maalik bin Ans, born in 93 Hijrah was both a compiler of traditions of the Holy Prophet as well as a leader in Fiqh. His compilation, known as 'Mautah' reflects his both aspects in a way which makes it difficult to discriminate between them. However that does not lower the value of Mautah as a book of traditions of the Holy Prophet. We reproduce below the twenty reports taken from Mautah of Imam Maalik:-

(23) Qasim bin Muhammad said that while disbursing the stipends to individuals Hazrat Abu Bakr used to ask the concerned individual whether he had any wealth on which Zakat was due. If the individual replied in affirmative, the khalifa would deduct due Zakat from the stipend, and if he replied in negative, the stipend was paid to him in full.

(24) Quddamah bin Mazoon said that whenever he went to Khalifa Hazrat Uthman for receiving his stipend, Hazrat Uthman would ask him whether he had any wealth on which Zakat was due. If he replied in the affirmative, the khalifa would deduct the Zakat for that year from his stipend, otherwise he paid the stipend in full.

(25) Imam Maalik said, "If anybody owned silver which lay with different persons, he should compile an account of all that silver, work out the total Zakat due on it, and pay it."

(26) Imam Maalik said, "Wealth in mines is like the agricultural wealth and Zakat would be recovered on it in a similar manner without waiting for an year to pass, i.e. Zakat would be charged on the same day that wealth is dug out of mine at two and a half percent, like the Ushar which is charged on agricultural produce when crops are harvested."

(27) Abu Salma bin Abdul Rahman reported from Hazrat Abu Hurairah that the Holy Prophet said, "One fifth part will be recovered from 'rikaz'" Imam Maalik said, "Rikaz is that buried treasure found by the believers, which the infidels had buried, and the recovery of which involved no expenditure or exertion worth mention. But that to obtain which wealth or labour is expended, and still one is not sure whether anything would be obtained, is no Rikaz."

(28) Imam Maalik said that Zakat on inheritance commences after a lapse of one year on it.

(29) Qasim bin Abdullah said that Hazrat Ayesha maintained him and his two orphan sisters, and she used to deduct Zakat from their wealth.

(30) Saaib bin Yazeed reported that Hazrat Uthman used to announce that it was the month of Zakat and that whosoever was indebted should pay off his debt so that he may pay Zakat on what remained.

(31) Imam Maalik said about a person who had commercial goods but did not have spare cash to pay Zakat on. Such a person should reckon his wealth in any one month to know the total monetary worth of his commercial goods and spare cash. If all of them together turned out to be of such worth that Zakat became levi-able on it, he must pay Zakat.

(32) Imam Maalik said that a trader and a non-trader are alike, whether they trade with their wealth or not. They must pay Zakat once in an year just the same.

(33) Salman bin Yusar and Busar bin Saeed reported that the Holy Prophet said: "Zakat is due as one-tenth of the produce of such lands which are watered by rain, or spring, or pool. But the lands which are irrigated by drawing water out of wells should pay one-twentieth of their produce as Zakat."

(34) Imam Maalik said that no estimate of fruits be made on their tress except for dates and grapes, and the estimates of dates and grapes should be made only when the fruits ripen and become ready for sale. This is to avoid miscalculations and misunderstandings in trading. When estimates are made in the suggested manner, Zakat will become due according to such estimates.

(35) Imam Maalik said that no estimate would be made of such fruits which are not eaten raw, but their seeds, grains or kernel are eaten after harvesting them. It becomes the responsibility of the owner to harvest, thrash and winnow the grains and measure their quantity. According to their findings they will have to pay Zakat on those crops if it became due.

(36) Imam Maalik said about food grains which people eat or store that if they grow being watered with rain, spring or under ground moisture, one tenth of it was due as Zakat, but if watered with the water drawn from wells, one twentieth of it was due, provided the quantity exceeded the minimum prescribed for Zakat.

(37) Imam Maalik said that the foodgrains on which Zakat is levi-able are wheat, oats, rice, millet, gram and pulses of sorts, and all other seeds that are eaten by human beings. It becomes due when they are ready for use, and about their quantities statements of their cultivators would be relied upon.

(38) Imam Maalik said that Zakat on the olive oil will become due after it is extracted from the quantity of olives above the prescribed minimum. No estimate of olives should be made on their trees.

(39) Imam Maalik said that when grain crops become ripe in their ears and need no water or moisture any longer, they are ready for sale; but Zakat due on them is to be paid by the cultivator and not by the buyer of the grains.

(40) Imam Maalik said that there is no difference between diverse varieties of fresh fruits from the view point of Zakat. They are all alike since they are all eatable fresh fruits. So they are equally liable to Zakat under prescribed terms.

(41) Imam Maalik said that no Zakat was levi-able on vegetables. It became due only when their sale proceeds become wealth and lie with their owners as such for an year.

(42) It is recorded in Mauta that Suleman bin Yusar said that the residents of Syria suggested to Hazrat Abu Obaid bin Al-Jarrah (the collector of Zakat) to collect Zakat from them on their horses and slaves. But he refused to do so. On their further insistence Abu Obeid wrote to the Khalifa Hazrat Umar, who wrote back in reply, "Take what they want to give, and give it back to their poor people and feed their slaves with it."

With that we complete the section about Sunnah on Infaq, Infaq, Sadaqat and Zakat are contributions from the believers for the needy and deprived members of society. Their dispensation commenced during the life time of the Holy Prophet and continued thereafter as the Muslim State expanded. With the passage of time those at the helm of affairs became power hungry and worldly wise. Some Muslim scholars realized that it was necessary to preserve comprehensive instructions about the teaching of Islam for the guidance of the Muslim posterity. A class of such scholars attended to preserve the traditional record of the Holy Prophet, while another class attended to its interpretation and practical application to the problems of daily life. We have availed of the class of the first type on the topic of Zakat etc. Let us now turn to the other class, that of the scholars and Imams of Fiqah.

25.4. DIFFERENT FIGHI SCHOOLS ON ZAKAT.

Both the Sunni as well as the Shia sects of Islam believe and affirm that Zakat is one of the five essential elements of Muslim faith. All of them confirm that disbursement of Zakat out of one's wealth to specified persons is obligatory for all Muslims who own wealth in any form over and above a minimum exempted quantity, and that it is to be paid to those entitled to it every year. On this topic the differences between the four Sunni Fiqhi schools and the Shia school of Fiqah lie in the description of details and the manner in which its dispensation is to be managed in actual practice.

Reasons why different schools of Fiqah differed on matters of detail in the application of Zakat and other orders in actual practice are both historical as well as conceptual. We know that Sunni Shia differences started immediately after the death of the Holy Prophet. Although they did not take a serious turn during the life time of the four Caliphs as spiritual and temporal leaders of the Muslims

throughout the Islamic State, they became significant when the worldly wise and power hungry persons usurped power to become rulers of the state. Being rival claimants of both the spiritual and secular leadership, the followers of Hazrat Ali, the Shia sect suffered most from this event, and became the target of tyrannical oppression. Indirectly this happening encouraged a split between the channels of collecting and compiling the record of traditions of the Holy Prophet and their subsequent interpretation between the Sunni and the Shia schools.

The Shia school relies only on such traditions which reached them through Hazrat Ali, his progeny and followers. The scholars who interpreted the shia record of traditions of the Holy Prophet were called Mujtahids. They provided material for framing the Fiqah Jafariyah or Shia Fiqah. On the other hand those scholars of the Sunni sect who complied the traditions of the Holy Prophet after checking the authenticity of the record were called Muhaddis, and those scholars who applied this store of knowledge to different aspects of Muslim daily life, both spiritual and temporal, to deduce the operative details were called the Fiqhi Imams. Thus among the Sunni sect of Muslims the four Imams of Fiqah are Imam Abu Hanifah, Imam Malik bin Ans, Imam Shafiyye and Imam Ahmad bin Hanbel. We will produce below their discourses on Zakat, one after the other.

25.5. HANFI SCHOOL ON ZAKAT.

Instead of regarding it a social obligation towards the poor members of society, the Hanfi school regards Zakat as a Divine worship to be personally performed, like prayers, by the Muslim owners of wealth themselves. As such the minors and the insane persons do not become liable to it till they reach the age of maturity and become sane. Therefore their guardians should not be pressed to pay Zakat on their wealth for them. But the other three schools of Fiqah among the Sunni sect of Islam feel that the guardians should pay it since it is an imposition on wealth of the owners rather than on the owners themselves.

Liability to pay Zakat is also subject to the possession of wealth one rightly owns, and, therefore the wealth loaned to others but not yet recovered does not become liable as it may become a bad and unrecoverable debt. Wealth which remains in possession of the owner for an year and remains above the exempt minimum at the beginning and the end of the year becomes liable to pay Zakat on it. Only a lunar, not a solar, year is to be taken into account and it is to be counted for all sorts of wealth except fruits and other agricultural produce of land.

Residential house, personal clothes, household effects in family use, decoration pieces made of materials other than gold and silver, weapons of defence, professional tools and implements, books, beasts of burden and riding under use are all exempt from Zakat, so long as none of them is made the object of trade and

commerce.

For the purpose of levying Zakat all types of wealth is divided into the following five categories. (1) Animals and cattle. (2) Gold, silver and coins. (3) Merchandise. (4) Mineral wealth and buried treasures. (5) Agricultural produce and fruits of sorts. Let us consider them one by one.

The Hanfi school classifies animals and cattle into two varieties: the wild one which feed themselves freely in wilderness and the domesticated one which are fed by the owners on bought fodder. Generally no Zakat is levied on the wild fed animals, being levied only on the domesticated ones; but in fact it all depends on the object with which cattle breeding is carried out and the scale on which it is done. If a few cattle are kept for family use to get milk, wool and meat or to ride upon and carry load on private level, no Zakat is due on them; but if they are bred and maintained for trade, Zakat becomes due on them.

In Arabia camels, goats, sheep, horses and donkeys were bred and used, among them camel being the most common species. so the incidence of Zakat on animals came into consideration with the camel to begin with. The minimum number of camels liable to Zakat levy is five and on them one goat or sheep is due upto twenty camels. When the number becomes 25, an year old camel young becomes due instead of a goat or sheep. Thus upto 25 camels give an year old camel,

Upto 36 camels give one 2 years old camel

Upto 46 camels give one 3 years old camel

Upto 61 camels give one 4 years old camel

Upto 76 camels give two 2 year old camels

Upto 91 camels give two 3 year old camels

Upto 121 camels repeat the above once more.

When the number of camels exceeds 200, repeat the imposition rate once again besides what became due on 200 camels and so on. It should be remembered that the animals given in Zakat should be healthy and free from all body defects regardless of any defect existing in camels on which the Zakat is paid.

Levy of Zakat on cows, oxen, buffaloes and bulls is different. Less than thirty of their numbers are free. On thirty and above upto thirty-nine a one year old calf and on forty a two year old calf is due. Above that number of contribution for every set of thirty is to be repeated as for the first set. Levy of Zakat on sheep and goats commences when their collective number becomes forty, below which no Zakat is due. On 40 such animals or above upto 120 one goat or sheep is due; and from 121 to 200 two goats or sheep are due. On 201 to 299 three and for every additional set of a hundred, an additional animal is due. The animals given in Zakat must be one year old and free from all body defects. If the herd is a mixed one, the contributed animals should come from the dominating species or from that which the tax-collector prefers.

Next we take up the second category of gold, silver and coins

for levying Zakat thereon. The minimum quantity of gold liable to Zakat is 20 Misqal or 20 Dinars (equivalent to 12.125 pounds sterling of gold coinage). Two and a half percent of it in weight is to be paid in Zakat. The minimum quantity of silver liable to Zakat is 200 Dirhams (about 16 ounces of pure silver by weight) on which two and a half percent is to be paid in weight for Zakat.

Zakat is due on all types of ornaments and utensils made of gold or silver for male and female use, whether they are made by melting the metals or by chiselling them in anyway. Zakat is to be paid on them by weight and not by their market value. Metallic impurities have crept in the manufacture of ornaments and utensils, and even the coins are no longer free from adulteration. In such a situation Hanfi Fiqah advises to assume the object under assessment to be made of the dominating metal and to work out Zakat accordingly.

Since money used to be made of gold and silver and since it is used for lending, loans become an appropriate topic to be discussed here. The Hanfi school classifies loans into three varieties: (1) Loans which are extended to others for trading purposes on specified terms known to and agreed upon between the lenders and the borrowers. They are called firm loans. (2) Loans which are extended to borrowers not for trade or business but for meeting their own long and short term requirements like constructing or buying a house, furnishing it, providing one's family with food and clothings, providing medical aid to sick members of the family, or to meet the wedding expenses of daughters and the like. They are called routine loans. (3) Loans which crop up due to some social events like the payment of 'Mehr' (wealth gift committed by the bride-groom to his bride on the eve of marriage), divorce penalty or inheritable property on the death of ones father before it is received. These loans are called weak loans. Lenders of any type of the above-mentioned three varieties of loans who own enough wealth besides what is to be recovered from the loans, to become liable for Zakat must pay Zakat on the wealth in their possession and on what is recovered from the loans as and when the recovery is made. But if they own no other wealth besides the loans, they should pay two and a half percent of what they recover as soon as the recovered amount exceeds the exempted minimum. Zakat is due on the entire loan so long as it remains a good loan, but Zakat payment becomes due only on what is recovered, when it is recovered.

The Hanfi school of Fiqah accepts paper currency to be as good a form of money as the metallic one and therefore equally liable to Zakat as monetary wealth.

While discussing the merchandise, the Hanfi school lays down certain conditions detailed below, according to which trade goods become liable to , or remain exempt from, the levy of Zakat. The entire merchandise in trading operation must be assessed in terms of gold and silver coins to work out its monetary wealth at any one time of the year. These goods include herds of animals if they are

bought or bred for trading. An year must pass in trading activity with the merchandise which continues to pass through the commodity - money - commodity cycle, but remains collectively over and above the exempted minimum at the end of the year.

Two and a half percent of the total monetary value of the trade goods is to be paid in Zakat for every year. Goods lying with the trader for years are liable to Zakat for all these years. Only animals bought, bred and retained for personal use are exempt from the levy of Zakat.

The Hanfi school treats the extracted mineral wealth and the dug out buried treasures alike. They are not liable to Zakat because 'khums' (one fifth part of the whole) is due on them. About the buried treasure it should be ascertained that it was buried by the infidels and not by the Muslims. If buried by Muslims it should be treated as lost property and handled as such by the state. Things recovered from sea-bed or sea shore are exempt from Zakat and khums, but if they are traded in they become liable to Zakat as merchandise.

Agricultural produce of land and fruits are treated differently. The way in which land receives water for cultivation causes the difference. If the land gets watered by natural means like rain, or from spring, river or pool, 'Ushr' (one tenth of the produce) is due to be paid into the Muslim state treasury. But if human and animal exertion is involved to draw water from wells for irrigating the fields, only half that rate, that is, twentieth part of the produce will be collected. The levy of 'Ushr' or its half is on the actually produced product and not as a tax on cultivable leased land. All kinds of produce like wheat, oats, barley, millet, pulses of sorts, sugar cane, fruits and vegetables of all kinds are subject to it, whenever they are produced in quantities over and above the exempted minimum quantity. Vegetables and fruits, whether perishable or preservable, including the fruits of wild growth are subject to Ushr if they are edible as food.

Those who are entitled to receive Zakat are classified by the Holy Quran into eight groups, Hanfi Fiqah defines them as follows. (1) Faqir are those who are unable to provide the necessities of life with their deficient means. (2) Miskeen are those who own nothing and have to beg for subsistence. (3) Those engaged for collecting and disbursing Zakat are entitled to receive their service dues out of it. (4) Slaves who have contracted to buy their freedom from their masters. (5) Such indebted persons who are left with nothing if they liquidate their debts with their belongings (6) Those who go on wars in the cause of Allah. (7) The wayfarers who fall short of funds during travel. (8) Those non-believers who have to be persuaded to cooperate.

The owners of wealth should deduct Zakat from it and pay to any, some or all the above-mentioned groups entitled to it, using their discretion to be effectively helpful to the payees. The owner of wealth cannot pay Zakat to his or her parents and ancestors, to

his or her descendants, to her husband or his wife; but they can pay it to other deserving relatives.

Zakat funds cannot be utilized for building mosques, schools, roads, waterways or other public facilities or for their repairs; nor can they be used to bury the dead. They are only to be paid to the deserving persons who should take them in their possession and use them according to their own discretion. These funds should be spent on the deserving persons of the locality from which they are collected. Nothing should be paid out of Zakat to the descendants of Bani Hashim, since they are prevented to use it.

Sadqah Fitr is obligatory on all sane Muslim males and females, young and old, to be paid for each person by the head of the family who owns wealth over and above the exempted minimum for Zakat. It may be paid in kind of foodstuff to the extent of about three pounds by weight per head, or its market value in cash. It must be paid before going out for the Eid prayers. Those who are entitled to receive Zakat are also entitled to receive Sadqah Fitr.

25.6. MAALIKI SCHOOL ON ZAKAT.

The Maaliki school stipulates certain conditions under which the Muslim owners of wealth become liable to pay Zakat on their wealth. One of them is that the owner should have that piece of wealth in his complete possession, which means that he should have full authority to manipulate it as he liked. This stipulation takes out a wealth owning slave from the category of liable persons since the slaves lack full authority over their wealth which is controlled by his master. Further it is held that one who holds a piece of wealth in his possession should also be its real owner; which means that borrowed wealth does not make the borrower liable to pay Zakat on it, because he is not its owner. The same conditions apply to mortgaged properties. In case of unpaid 'Mehr' (husbands marriage gift to his bride promised on the eve of wedding) the wife owns it but does not possess it, and therefore she does not become liable to pay Zakat on it till she receives it and retains it in her control for an year. Prior to this she is not liable to pay Zakat on it.

Debtors who can pay off their debts become liable to pay Zakat after the lapse of an year of indebtedness irrespective of the fact whether they liquidate their debts in the meantime. Wealth endowed in trust, whether for one's offspring or for the poor, or for any specified purpose, remains liable to Zakat, which becomes the responsibility of the trust creating person to pay. If only the produce of a productive unit is endowed in trust, the liability to pay Zakat on produce alone will be that of the creator of trust as such; the productive unit remaining a part of his total wealth will become liable to Zakat as such.

An essential condition of liability to Zakat is that the wealth should remain over and above the exempted minimum for an year, and should remain for that year under the control of the owner.

This condition applies to all types of wealth except the minerals, the buried treasure and the agricultural produce which become liable immediately without waiting for an year to pass on them. If anybody owned gold and silver below the exempted minimum and traded with it, and earned enough to raise it above the exempted minimum, and continued to trade, he would become liable to Zakat from the time his wealth with profit rose above the exempted minimum. His year for Zakat would commence from that moment, and he should pay Zakat after an year on all his wealth at the end of the year.

An indebted person, who would be left with nothing if he paid his debt is not liable to Zakat in so far as his wealth in gold, silver and money is concerned. But with regards to his wealth in the form of animals, agricultural produce, minerals and buried treasure, he remains liable under the concerned rules, irrespective of whether he liquidated his debt or not.

No Zakat is due on the house one resides in, and on the household effects, clothes, decoration pieces made of materials other than gold and silver, the professional tools and implements, weapons of defence, precious stones in personal use, books and riding animal. They are all free from Zakat provided they are not traded in.

For Zakat levy all forms of wealth are classified under five groups as below. (1) Animals and cattle. (2) Gold, silver and coins. (3) Merchandise. (4) Mineral wealth and buried treasures. (5) Agricultural produce and fruits. For detailed discussion we begin with the animals. The Maaliki school makes no discrimination between the wild-fed animals and the domesticated ones. They all become liable to Zakat when their numbers exceed the minimum prescribed for each species separately. In respect of camels the Maaliki school concurs with the Hanfi school about the rate of levy, which, therefore, need not be repeated. About the goats and sheep paid in Zakat on camels the Maalikees stress that the animals must be one year old whether male or female, and must be free from all body defects. They should preferably belong to the species more freely available in the area, and the collector of Zakat should not insist on the contrary.

In respect of cows, Oxen, buffaloes and bulls it should be known that thirty heads of them make them liable to Zakat, and an year old calf, preferably female should be paid in Zakat for so long as their number remains below forty. On forty a two year old cow be given till their number reaches 60. On 60 a two year old cow and a one year old calf be given. On 80 such animals 2 two year old cows and on 90 three one year old calf be delivered. On 100 such cattle a two year old cow and two, one year old calves be given. On 110 cattle 2 two year old cows and a one year old calf are due. On 120 cattle 4 one year old calves or 3, two year old cows become due; and so on. In respect of sheep and goats the Maaliki school concurs with the Hanfi school.

On gold, silver, their coins and on articles made of these precious metals and on ornaments the Maalikees follow the Hanfees in so far as their minimum exempt quantity and the applicable rates of Zakat are concerned. The Maaliki school however imposes no Zakat on such ornaments which are permitted to males like the ornamentation of swords and gold casing of defective teeth, nor on the female ornaments permitted to be used and being used. Otherwise Zakat is due on all ornaments owned for presentation to others like daughters, daughters-in-law or anybody else, and also on ornaments which are traded in. Zakat is also due on goods made of gold and silver, use of which is prohibited by Islam. It should be kept in mind that while levying Zakat, the weight of the article and not its market value will have to be taken into account.

Metallic impurities have crept into coins, ornaments and utensils. How to calculate Zakat on such articles poses a question. Maaliki Fiqah advises us to work out Zakat on them as if they were made of pure gold or silver at places where the use of such mixed metal articles has become as good as that of the pure one. At other places where the mixed metal objects are not so accepted, the quantity of the pure gold and silver contents in them should be worked out; and if that quantity became liable to Zakat, it should be paid, otherwise not.

Zakat on loans extended to others, and on such wealth of which one becomes rightful owner, but which does not yet come into his possession will become his liability only after it came into his possession and remained under his control for an year. Counting of the year will commence from the date one took possession of it.

The Maaliki school makes no difference between paper currency and metallic currency, regarding them both equally liable to Zakat as valid and sound forms of monetary wealth.

Merchandise is liable to Zakat. The Maaliki school advises that the goods should be valued in monetary terms to ascertain whether they are over and above the exempted minimum. The owner should expressly make up his mind to trade with them and to continue trading inspite of any inadvertent break. To work out the liability of Zakat, the trader should assess his merchandise at any time of the year, and find out how much he had sold in cash. He should add this amount to the other wealth lying with him and if the two combined become liable to Zakat, he should pay it for one year. No Zakat is due for the previous unpaid liability, nor any Zakat is due on goods sold on credit which remained still unrecovered. On such outstandings Zakat is paid as and when the outstanding debts are recovered. No Zakat is due on bad debts. Zakat on the animals traded in will be payable according to the rates applicable to animals bred for trading.

About the minerals the Maaliki school is of the view that they are not liable to Zakat except the extracted gold and silver. However if mineral wealth of any kind is traded in, it becomes liable to Zakat in that capacity. Buried treasure (Rukaz) is liable to 'Khums'

(one-fifth of it) which will be utilized by the state for general welfare of the public, instead of distributing it among the poor individuals. Whatever is recovered from sea bed and sea-shore is subject to payment of its one fifth to the state.

All agricultural produce of various sorts, including fruits and vegetables are liable to Zakat on becoming ripe, when they need water no longer. It becomes due when the quantity of each species, assessed separately, exceeds the exempted minimum. Varieties of each species can be collectively measured or weighed to find the liability, and how the land is watered has to be kept in view to apply the rate of Ushr or half Ushr. The produce of the land watered by rain, spring, pool or any other natural source freely has to pay one-tenth of it, whereas the produce obtained by irrigating with water drawn out of well with human or animal labour, has to pay half of ushr or the twentieth part of the whole produce.

The people entitled to receive Zakat are divided into eight groups by the Holy Quran as mentioned before. The Maaliki school defines 'Faqr' as one who does not own enough to meet all his normal needs, even though he himself may be liable to pay Zakat on his possessions. 'Miskeen' is a pauper who owns nothing and is thus better entitled to Zakat than the Faqir. Those engaged for collecting and disbursing it are entitled to receive their remunerations out of Zakat receipts, for rendering the service, even though they may be rich people.

Freshly converted to Islam do often need encouragement and financial aid. To create an accommodative atmosphere for them financial help should be extended to them out of Zakat collections. Slaves can also be bought with Zakat funds to set them free, and those slaves who have contracted with their masters to buy their freedom must be financially helped out of Zakat to expedite their freedom. Such indebted persons who are unable to pay off their debts are also entitled to benefit themselves with the Zakat collections. Those who are busy in the cause of Allah defending Muslim territories as warriors or in any other capacity are also entitled to be paid out of Zakat. Zakat funds can be used for purchase of defence equipment according to the Maaliki school of Fiqah. Such wayfarers who fall short of funds during their travels should also be helped with Zakat collections to tide over their difficulties.

Although Zakat collections should preferably be disbursed at the places of their collection, they can, however, be shifted to other places where the residing poor are considered to be in worse plight and better deserving. In case of Zakat collected in kind it would be advisable to sell it at the place of collection instead of shifting it to elsewhere involving avoidable expense.

Sadqah Fitr is obligatory on all free Muslims who own enough wealth to subsist. It should be paid by the heads of the families for all their dependents, young and old, including the slaves. It should be paid in kind of the foodstuff which is commonly used by the residents of the place in about three pounds in weight per head for

each dependent on its market value in terms of local money. It should be paid before going out for Eid prayers.

25.7. SHAFIYEE SCHOOL ON ZAKAT.

Shafiyees consider it essential for the owner of wealth to have full control over it as only then he can become liable to pay Zakat on it. Due to this stipulation the wealth of slaves and bonded persons become exempt, since their ownership is precarious and weak. Corn and fodder growing in wilderness are also exempt as they belong to no specific person. Similarly properties converted into trusts for public benefit, without mentioning particular persons as beneficiaries also become exempt from Zakat like the Mosques, Sarais and Public Gardens. But lands leased out for cultivation become liable to rent as well as to Zakat on their produce which the lessee must pay. Properties donated for the benefit of specified persons become liable to Zakat. 'Mehr' (wealth gift promised by the bride groom to his bride on wedding) is a kind of debt on the husband and all loans are liable to Zakat, but Zakat on Mehr would fall due as and when the wife receives it from her husband. Goods received on credit and remaining under the control of persons receiving them make them liable to pay Zakat on them since for all practical purposes the borrowers with powers to utilize become complete owners according to the Shafiye school.

Zakat becomes due only when one's quantity of wealth rises above the exempted minimum and it remains with the owner for full one year. Completion of an year is such an essential condition that any short fall in that period makes the liability to Zakat null and void. Except the mineral wealth and buried treasure, this condition applies to all commodities. Zakat on trading profits is paid alongwith the goods in trade. It is not at all obligatory that one's wealth should be free from the burden of debt. Debtors are liable to Zakat even though their debts overwhelm all their wealth.

Some types of property in personal use is exempt from Zakat. Residential house in one's own use, his household effects, clothes, weapons decoration pieces made of material other than gold and silver, professional tools and implements, books, animal to ride upon and precious stones in use are all exempt from Zakat, provided none of them is made an object of trading.

All things are divided into the following five groups for the purpose of considering their liability to Zakat. (1) Animals and cattle. (2) Gold, silver and coins. (3) Merchandise. (4) Mineral wealth and buried treasures. (5) Agricultural produce and fruits. Let us take them up one by one. Commencing with the animals and cattle the Shafiye school discriminates between the domesticated and the jungle-fed animals, but of what ever type they are, they are all liable to Zakat, since they constitute wealth. Only such animals which are used to carry personal loads or to ride upon, or to draw water for irrigating agricultural land and allied uses on it, under one's own cultivation, are exempt from Zakat liability.

Tax liability of Zakat to be levied on camels of different ages as detailed under the Hanfi school is also followed by the Shafiyee school with minor differences. The same applies to Zakat on cows, sheep and goats. The minor differences between the two schools are so trifle as to be ignored.

After the animals, gold, silver and their coins come up for consideration, here again the findings of the Shafiyee school concur with the findings of the Hanfi school including what is said about the ornaments and utensils both of the permitted variety as well as that which is prohibited.

Metallic impurities have become quite common, involving the manufactured ornaments, utensils and coins. How to calculate due Zakat on such properties becomes a difficult question to answer. In such cases the Shafiyee school advises us to find out how much pure gold and silver are contained in the objects under consideration. If the pure quantities of these precious metals exceed the minimums exempted, Zakat should be paid on them, otherwise not.

The lender is liable to pay Zakat on his wealth which he lends out to others, but its payment will become due only on the recovered part of the loan. The liability of the lender for the unrecovered part for the past period remains, but since some debts become bad and unrecoverable, the payment for all the past period will have to be made on the recovered part, as and when it is recovered. No Zakat is due on lent cattle if they die before return, nor on the foodstuff like dates or grapes which are lent but which get destroyed before use or recovery.

The Shafiyees hold that the paper currency is as good as the metallic currency for so long as the public regards it so; and therefore Zakat is due on this form of wealth like the other form.

Merchandise becomes liable to Zakat on the following conditions. It must have been purchased for trading and not for personal use. Trade goods received in inheritance do not remain trade goods unless they are actually traded in by the inheritor afresh. Intention to continue trading in goods must remain unimpaired throughout the year inspite of any break in the activity due to which goods remained untraded for any length of time. Further the merchandise must remain under the trader's control in changing forms of goods and money throughout the year, and it must remain above the exempted minimum at the end of the year. Zakat will remain the liability of the trader for all the past years, if the goods remained above the exempted limit regardless of any break in the trading operation. In case of animals Zakat would be collected in kind, otherwise in the form of money in use. Valuation at the end of the year should be done by reliable persons and Zakat should be paid at two and a half percent on all goods and other wealth with the trader, besides what is levied in kind on animals, and recovered as 'Ushr' on the land produce.

The Shafiyee school imposes no charge on any product exca-

vated from the mines excepting gold and silver. The extracted gold and silver become liable to Zakat when their quantum exceeds the minimum free limit. Buried treasures become liable to khums (one-fifth) on discovery, which the person who owned it rightfully should pay into the state treasury.

Zakat is due on all agricultural produce which is edible including the fruits of palm dates and grape vines. All other fruits are free from Zakat. Each variety of produce should be measured separately to find out whether it became liable to Zakat, and no two species should be mixed together. Whether Ushr (one-tenth) or half of it is to be recovered from the land produce depends on the way the land is watered by natural means like rains, spring and pool water, or by water drawn from well with human and animal exertion.

For distribution of Zakat among the different categories mentioned in the Holy Quran, the Shafiyye school defines Faqir as one who cannot provide himself with even half the necessities of life by serving others or by trading with what he has; and Miskeen as one who is some what better off than Faqir, still who cannot earn enough to maintain his family throughout the year. Those employed for collecting and distributing Zakat are entitled to receive the rewards of their services out of it. In the category of the persuaded ones come those newly converted Muslims who would be helped to reinforce their faith in Islam if they are given financial aid. Those new converts to Islam who still hold influence among the infidels and can prevent them from doing any mischief also deserve to be supported with the Zakat funds.

Those slaves who have contracted to buy their freedom from their masters are entitled to receive financial aid from Zakat to expedite their freedom. Persons who become indebted for valid reasons, and those who stand surety for those who borrow are also entitled to be helped with the Zakat collections.

Warriors in the cause of Allah are equally entitled to help from Zakat so that they may fight free from worry about their own and their family's subsistence. Such travellers who fall short of funds during their travels are also entitled to be helped with Zakat funds to enable them reach their destinations free from worries.

Whether Zakat is disbursed individually by the owners of wealth or it is handed over to the state authorities for disbursement, the funds should not be shifted from the centres of their collection without first satisfying the needs of the local poor, as they hold a prior right to it.

Sadqah Fitr is obligatory for all Muslims regardless of their standards of living for so long as none of them is pauper. Paupers are naturally exempt, since they have nothing to give from. They are on the receiving end of it. Quantity of Sadqah Fitr per head is about three pounds of foodstuff by weight or its value at local rate. It is to be paid to the poor by the head of the family for every person as his guardian, whether he or she be young or old, free or slave.

It must be paid out to the deserving person before going out to pray on the Eid day.

25.8. HANBALI SCHOOL ON ZAKAT.

The Hanbali school lays down certain conditions due to which owners of wealth become liable to Zakat. One of them is that the possessor of a valuable article must also be its sole owner excluding everybody else; and the second is that he must also have full freedom to use it according to his own discretion, without anyone else having any right to interfere or influence him. As a consequence of these two stipulations, Zakat cannot be imposed on the wealth of a slave, which he sets aside to buy his freedom from his master or for any other purpose, since the age-old custom has given the masters control over the wealth of their slaves. Further any property endowed for a school, a mosque or for the benefit of the poor generally, without explicitly specifying the persons who would benefit therefrom, remains free from the liability of Zakat. But the trusts in which the beneficiaries are specified become liable to Zakat. Thus the lands and trees given in trust specifying the beneficiaries from their produce and fruits will become liable to Zakat as soon as the produce rose above the exempted, minimum.

The 'Mehr' of ones wife is just like an unpaid debt and liability for Zakat on it exists. But payment becomes due only when and to the extent it is received by the wife from her husband. If the wife owns no other wealth, as soon as the received amount of Mehr rises above the exempted limit, she should pay Zakat on it.

No Zakat is levied on the slaves one owns.

For liability to pay Zakat on ones wealth a minimum exempt level is fixed for each species of the owned wealth. The liability to pay Zakat begins from the time ones wealth rises above that level. That point of time should be noted down by everybody, since from that point of time the wealth should remain under the control of the owner in any dormant or active state for an year. This condition applies to wealth in the form of gold, silver, money, animals and merchandise. It does not apply to land, its agricultural produce, its mineral wealth and buried treasures. In their case the passage of an year is not necessary.

If persons owning wealth below the exempted minimum start trading with it and earn enough to raise their wealth above the free limit, they should note down the date when they crossed the limit, as from that day counting of their respective year would commence. All wealth at the end of their respective year would become liable to Zakat including the profits earned during it, even though full year may not have passed on the earned profits.

About a person in debt, the Hanbali school holds that if we clear his debt with his existing wealth and then find him left with nothing or so little as to reduce what remained below the exempted minimum, such person would not be considered liable to Zakat. Therefore they advise the indebted persons to mentally calculate

their financial position and pay Zakat only if any becomes due.

Certain personal effects are exempt from Zakat for everybody, rich or poor. They include the residential house, clothes, household effects, animal to ride upon, weapons for family defence, decoration pieces made of materials other than gold and silver, professional tools and implements, books, and precious stones in use; provided none of them are made the objects of trading.

All forms of wealth and property are divided into five categories for considering their possible liability to Zakat. They are: (1) Animals and cattle. (2) Gold, silver and their coins. (3) Merchandise. (4) Mineral wealth and buried treasures. (5) Agricultural produce and fruits.

Like other schools the Hanbali school also begins their discussion with the class of animals and cattle. They do not discriminate between the jungle-fed animals and the domesticated ones. Both varieties are liable to Zakat as well as the progeny born out of their mixed mating, if they are bred with the purpose of getting milk and wool from them or they are fattened for meat. But the cattle used for carrying load or riding upon or for cultivating land are all exempt from Zakat. However, if cattle breeding is carried out for trading in them such breeds and trading would expose them to Zakat liability.

While discussing levi-able Zakat on camels of different ages, the details given under the Shafiyye school are also followed by the Hanbalees in broad outline with minor deviations such as the sheep offered in Zakat should not be less than six months old and the goat so offered must be one year old. Levy of Zakat on sheep and goats as detailed under the Hanafi school is also followed by the Hanbali school in broad outlines.

The next category of wealth discussed is that of gold, silver and their coins. The minimum quantity of gold liable to Zakat is 20 Misqals or about 25.3 Dinars made of gold. This quantity is equivalent to the gold contents of sixteen British pound sterling. One who owns that much gold must pay two and a half percent of it in kind in Zakat. The minimum quantity of silver liable to Zakat is 200 Dirhams, or about 16 ounces of pure silver in weight, on which two and a half percent by weight must be paid in Zakat. There is no Zakat on such ornaments which are made for permissible personal use or for presentation to those who are permitted to use them. Otherwise Zakat is levi-able on ornaments and utensils made of gold and silver, regardless of whether their use is permitted or forbidden.

Use of metallic admixture has become so common that it has crept in coinage and in the manufacture of ornaments and utensils. To work out Zakat on such articles, the quantity of pure gold and silver contained in them should be assessed. If that pure quantity exceeded the exempted minimum, Zakat should be paid otherwise pay nothing.

Zakat is due on all well-established loans, but it becomes

payable only on their recovered part, since some debts become bad and unrecoverable.

The Hanbali school does not regard paper currency liable for Zakat till it is converted into gold or silver monetary forms; only then it becomes liable.

The Hanbali school lays down two conditions about merchandise and levy of Zakat thereon. The first condition is that the merchandise must come into existence by one's own exertive effort and not by inheritance or as gift. The second condition is that on attaining ownership of goods the owner must clearly resolve to trade with them. The intention to trade must continue throughout the year, in spite of any break in the activity. Goods bought for private use become trade goods only after such intention is made and those goods are actually traded in. For finding the amount of Zakat to be recovered, the merchandise must be valued at the end of the year in terms of gold and silver whichever is more beneficial to the poor recipients even though it may not be the usual practice of the locality concerned.

Zakat on animals is due according to the rates applicable to them for breeding them with the intent to benefit by their sale. Similarly if land is purchased for cultivation and it is cultivated, both the land and its produce become liable to zakat, when the produce exceeds the minimum exempted level. Zakat is due on both the goods traded in as well as on the profits earned thereon.

The Hanbali school imposes 'Ushr' (one-tenth) on all wealth excavated from mines, but it considers free from any liability what is recovered from sea-shore. Buried treasure is liable to Khums (one-fifth) which should be paid into the state treasury.

Agricultural produce is liable to Zakat, but such produce which cannot be preserved and quickly perishes like vegetables and some fruits are exempt from Ushr or Zakat. Those liable to Zakat must be over and above the exempted minimum on being weighed or measured separately in different species. Ushr or half Ushr rate will apply to the produce depending on the way land is watered by natural means or with exertive human and animal efforts.

With regards to distribution of Zakat among the eight types of deserving persons mentioned in the Holy Quran, the Hanbali school defines. Faqir as one who does not get enough to meet even half of his genuine needs, and Miskeen as one who gets enough to meet only half of his needs. Both deserve sufficient aid from Zakat funds to enable them and their families pull on for one complete year. Those employed to collect and distribute Zakat are entitled to their remunerations out of Zakat. Tribal heads and persons commanding influence over the tribes men and freshly converted Muslims, all need persuasion with financial aid to become believers and to become firm in their faith. They should be helped with Zakat funds to win their cooperation in propagation of Islam. Slaves who have contracted to buy their freedom from their masters must be

helped with Zakat funds to expedite their freedom. Such indebted persons who are unable to liquidate their debts with their own resources are also entitled to be helped with Zakat. Warriors in the cause of Allah are yet another group deserving help from this source. Such wayfarers who fall short of funds during their travel deserve to be aided from Zakat funds to be able to complete their journeys and reach home.

Those who are wealthy enough to become liable to Zakat must pay it to any or some of the above mentioned people to enable them get out of their straitened circumstances. No disbursement should be made at random to undeserving persons as it would amount to throwing away one's wealth without discharging the responsibility of paying Zakat.

The Hanbali school regards Sadqah Fitr obligatory for all such Muslims who own more than what they need to feed themselves and their dependents for a day on Eid. Quantity of foodstuff to be paid for each person, young or old, male or female is two pounds by weight. It should be paid by the head of the family for all his dependents before going out for Eid prayers to deserving persons.

25.9. SHIA FIQAH ON ZAKAT.

Muslims all over the world unanimously believe the Holy Quran to be a Divine Book revealed to the Holy Prophet Muhammad (peace be upon him), and they also unanimously believe that the sayings and doings of the Holy Prophet alongwith the text of the Holy Quran form the true basis for the teachings of Islam. Differences between the Sunni and the Shia sects of Muslims arose due to different channels adopted by the two for collection, preservation and communication of the sayings and the doings of the Holy Prophet of Islam to pass them on to the descendants of the early Muslims. Historical events that followed soon after the death of the four Caliphs widened the gap between the two sects and made it a permanent feature of subsequent Muslim history.

The Shia school of religious lore passed on to Shia posterity their version of the teachings of Islam which reached intact the present Shia generation. Today Shias living in different parts of the world look towards the Iranian spiritual leader, Ayatullah Ruhullah Khumini for religious guidance. That respectable leader has written many books on various religious topics explaining all the religious issues that confront a modern Muslim in his daily life today. We reproduce below his guide lines on Zakat from his book bearing the title "Towzeh-ul-Masaail", to present the modern Shia stand on this topic.

Before discussing Zakat the author takes up the issue of 'Khums' and tells us that Khums (one-fifth part) is due to be paid on the following seven categories of wealth:-

1. On one's business profits.
2. On mineral wealth that is excavated.
3. On hidden treasures which are discovered.

4. On mixed well-earned and ill-gotten wealth.
5. On pearls and precious stones obtained from rivers and seas by diving.
6. On spoils of war.
7. On lands purchased by a Zimmi (protected non-Muslim) from a Muslim.

All the above seven categories are elaborated below one by one.

1. Business profits include all net incomes derived by personal exertion and skill, with or without the participation of capital. Out of the gross receipts of ones productive activity as an entrepreneur all expenses incurred on the inputs must be deducted to arrive at the net business income. Since one exerts primarily to exist, annual household expenses of the family of an entrepreneur are admitted by Islam as a legitimate business expense. This should, therefore, be also deducted from the net business income to arrive at the true figure liable to imposition of Khums.

Those who receive wealth without any personal exertion, like a freely bestowed gift, are not liable to pay Khums on it, but it would be better if after deducting ones annual maintenance expenses, Khums is paid on the balance. There is no Khums on the brides Mehr, nor on what anybody receives in inheritance, but if there is any outstanding Khums on the left over wealth not paid by the deceased, it must be paid by the inheritors. Khums is due on the produce of trust property set aside for the benefit of specified persons. After deducting all genuine expenses from the gross income, it should be paid on the net income. There is no Khums on the wealth received in Zakat or Sadaqat, but if such wealth is productively used, Khums becomes due on the net profit received therefrom.

To trade with the wealth on which Khums is not paid, or to bestow it on some body freely, is not allowed. The Shariah authority should recover the outstanding Khums from the defaulters. All traders, industrialists and entrepreneurs should fix their dates from which their respective year would commence. The fixed year can be a lunar or a solar one. Permitted deductible expenses from the gross receipts of ones business include food, clothes, household effects, purchase of a residential house, wedding expenses, and dowry for ones daughters, considered by custom as normal according to ones social status but not amounting to extravagance. All these are allowed by Shariah. Similarly travel expenses for Hajj and pilgrimage to holy shrines are allowed as permissible expenses. Nobody is entitled to manipulate his wealth without first discharging his Khums liability, since wealth is liable to destruction and loss; and if that happens, the Divine liability would still remain.

2. Mineral Wealth includes all those naturally existing materials which one digs deep out of the mines or scraps from its upper surface like gold, silver copper, zinc, iron, crude oils, coal, lime stone, salt, marble, graphite, mica, quartz etc. If any of these

materials or any other useful material is obtained in quantities above the prescribed minimum it will become liable to payment of Khums. The materials so obtained should be sifted, ground, melted, distilled or otherwise treated as their nature demanded to make them fit for further commercial and industrial exploitation. All expenses incurred in this connection should be noted down for deduction from the gross sale proceeds. Thereafter its market value should be assessed to know its net worth in terms of gold or silver coins. If the quantity is able to fetch a net worth equal to 105 Misqals silver (about 42 tolas by Indo-Pak weight) or equal to 15 Misqals gold (about 6 tolas by Indo-Pak weight) it would become liable to payment of Khums; but if it remained below that value no Khums is to be paid on it. If the mines do not belong to mine-diggers and are acquired on lease from their owners, royalties and annual lease charges also become permissible deductions from the gross sale proceed.

3. Hidden Treasures include all wealth lying buried under ground or in caves or in cavities of trees and walls. Anybody finding such wealth would be entitled to its ownership after making certain that no other claimant existed anywhere. The discoverer must pay Khums on owning it. But if the hidden treasure is found in lands, trees or premises which belonged to someone else, that owner must be located and the treasure handed over to him. The same procedure applies to hidden treasures found in the bowels of animals bought or acquired from their previous owners. If after thorough search the previous owners are not located, only then the person discovering the hidden treasure can become its owner, and pay Khums on it. The minimum quantity of such treasure liable to payment of Khums is the same as mentioned under the mineral wealth.

4. About Ill-gotten and Well-earned Mixed Wealth the Shia Imams ordain that if the two varieties are so mixed as to make segregation impossible, the owner should pay Khums on the entire lot. That will purify the ill-gotten part for him. If the quantity of ill-gotten wealth is known but the person from whom it was swindled is not known, that much quantity should be distributed among the poor as charity on behalf of the swindled person. If the swindled person is known but the quantity of swindled wealth is unknown, the swindled person should be contacted to decide the matter by mutual compromise, and the swindled quantity so ascertained be handed over to him.

5. About Ocean Wealth, pearls and fishes etc., the Shia Imams ordain that after deducting all expenses incurred on diving and fishing, if the remainder fetched value equal to 18 pieces of gram (edible dry seed) weight of gold, collectively weighing all pearls and such wealth together, Khums should be paid on it. The same procedure applies to valuation of the edible ocean animals such as fishes, lobsters and the like which the professional fishermen catch from rivers and sea.

6. Spoils of War consist of such wealth which Muslim warriors fighting religious wars against infidels, under the orders of their Imam, acquire as victors. These spoils remain at the discretion of the Imam to manipulate, to distribute among the warriors and to spend for specific purposes to be decided by the Imam himself. After deducting all expenses incurred on its collection and carriage, and after setting aside the specific share of the Imam, Khums becomes payable on the remainder; which those who receive their shares must pay out of it.

7. About Lands Zimmies Buy from Muslims. Zimmies are those non-Muslim permanent residents of a Muslim state who are protected by the state to enjoy all rights of full citizenship, including the freedom to practice their own religion. The Shia Imams ordain that if any Zimmi buys land from any Muslim, the Zimmi should pay its due Khums. If he buys any residential building or business shop or any other structure on land including the land, he should pay Khums on the land only; but if he buys the superstructure alone without the land, nothing is due by way of Khums. If a Zimmi sells his land to a Muslim with its superstructure, the Zimmi should clear the due Khums on its land. On his purchase and sale of lands no Zimmi is entitled to impose the condition that he would not pay Khums on it. However, he can impose the condition that the Muslim party to the deal should pay the Khums on his behalf. If a Zimmi dies and leaves his landed property to be inherited by his Muslim progeny or relatives, the Khums due on such land must be recovered from the inherited land or from other wealth of the deceased. If any Muslim stealthily transfers any land to a Zimmi and receives its value secretly, the Zimmi must pay Khums on this deal. If a Zimmi guardian buys land in the name of his minor child, Khums must be collected on it as soon the child becomes adult.

Distribution of Khums. The Khums receipts should be divided into two parts, one being the share of the Imam, and the other being meant for distribution among deserving Syeds who are the followers of the Twelve Imams. The division and distribution should be conducted by a most learned and pious Mujtahid, who will set apart the share of the Imam to retain it in his own custody for spending it on such aims and objectives as he deemed fit. The other part meant for distribution among the Syed followers of the Twelve Imams will be distributed by that Mujtahid among the Faqirs, the Orphans, the Indebted and the Wayfarers who fell short of funds during travel. Orphans who inherit wealth are not entitled to receive anything out of Khums collections. Only faqir orphans are entitled to it. Only one years maintenance expenses be given to a faqir or a deserving orphan. The indebted Syed follower of the Twelve Imams cannot refer his creditors for discharge of his debt to the managing Mujtahid. He must first receive the donation in his own possession, and then discharge the debt with it himself. Those travelling Syeds who run short of funds during travel and claim help must not be travelling to achieve sinful purposes. If no

deserving Syed is available in a locality, the funds can be shifted to another locality, provided the shifting expenses are not incurred from the Khums collections. They must be borne by those who want to shift them.

The learned Mujtahid should take the share of the Imam in his own custody and spend it on objectives he finds necessary to achieve, using his discretion piously and carefully.

About Zakat and Issues Related to It, Imam Khumini tells us that Zakat is levied on the following nine forms of a Muslims wealth: (1) Wheat grains. (2) Oats. (3) Dates, both fresh and dried. (4) Grapes both fresh and dried. (5) Gold. (6) Silver. (7) Camels (8) Cows and buffaloes. (9) Sheep and goats. Persons who own wealth in any of these forms, over and above the minimum exempt quantities specified for each, must pay Zakat on them if he continued to own them for a period of twelve months or more. The person liable to Zakat must be a free man, sane and adult Muslim, with full freedom to manipulate his possessions as he liked. He must be free to purchase, sell, exchange and convert his wealth from anyone form to another throughout the year but during the twelfth month he must not manipulate his wealth in such a way as to reduce its value below the prescribed minimum. If he does it he would be held responsible for the consequences; but if any such eventuality happened without his intention, he would not be held responsible for it. Any minor owner of wealth who attained majority during the year will not be liable to pay Zakat for that year.

Wheat and oats will be considered ready for Zakat liability when they ripen in their ears, and are thrashed and winnowed. Grapes will become liable when they ripen on the vine and become edible. Dates will be liable when they dry up. Anybody who borrows wheat, oats, grapes or dates and retains them with him for an year will become liable to pay Zakat on them, and the lender would be free from that liability. The minimum quantity of any of the above mentioned four commodities becoming liable to payment of Zakat is 848 kilograms by weight, whether in fresh state or dried one. If they weighed above 848 kilograms while fresh, and nothing is used, sold or lent out of them till they dry up and lose weight to fall below 848 kilos, no Zakat is due on them, but it is due on what has been used, sold or lent out of them in the meantime.

In case of purchase and sale Zakat must be paid either by the seller or the buyer. The buyer should ascertain the facts and pay it if the seller had not paid. If one years Zakat is paid on any one or more of the above stated four commodities, no further Zakat for subsequent years be paid if they lie with the owner for longer periods.

The minimum mentioned above is meant for the commencement of liability to Zakat and is not the due quantity of Zakat on commodities. The levied quantity of Zakat is Ushr (one-tenth of the whole) or half Ushr (one-twentieth of the whole) in accordance with the way the land and trees are irrigated: by natural means like rain

water, spring or pool water, on the one hand and on the other by water drawn out of wells with the exertive efforts of men and animals. The cost of seeds, fertilizers, repairs of tools and implements as well as their depreciation are all allowed as deductible expanses. However, the sale proceeds of chaff and straw are to be included in the income.

If the collective value of all types of agricultural produce makes them liable to Zakat, they become liable; and it is not necessary that each species should become liable separately. However, Zakat should be paid out of each species and its quality wise segregated varieties: fresh grapes out of fresh grapes and dried ones out of the dried; inferior dates out of the inferior stuff and superior dates out of the superior ones. But if Zakat is paid in cash after just and fair valuation of all varieties it becomes acceptable.

If an indebted person dies without paying Zakat on the wealth he leaves behind. Zakat must be paid first out of the wealth he leaves behind, and the debt be cleared thereafter. Only after these two liabilities are discharged, the inheritors will get if anything remains to be inherited.

About gold Imam Khumini tells us that for its liability to Zakat two operative conditions apply. (1) The basic minimum quantity prescribed for the commencement of liability, and (2) the steps by which this liability increases with greater quantities of gold wealth in ones possession. The basic minimum quantity liable to Zakat is 20 Misqals, each Misqal being equal to 18 gram seeds in weight. The total minimum should weight not less than 360 gram seeds. On this the owner of gold must pay its fortieth part or two and a half percent by weight in Zakat. The steps by which the liability increases consist of four Misqals each. A person who owned gold more than twenty Misqals but less than 24 Misqals should continue paying Zakat on 20 only even for 21, 22 and 23 Misqals in his possession. But when the quantity he owned equalled 24 Misqals, he should pay for 24 and so on. In other words there is no additional liability on increased quantities one possessed till the increase reached four additional Misqals step by step. The quantity of Zakat is one-fortieth of the highest step to which ones gold wealth reached; no additional levy being chargeable for the part increments lying between two prescribed steps.

Likewise about silver the Imam tells us that its minimum quantity free from Zakat is less than 105 Misqals. On 105 Misqals two and a half percent of it by weight must be paid in Zakat. In case of silver the incremental steps consist of 21 Misqals each. Thus what is due on 105 Misqal suffices for upto 125 Misqals of silver one possessed. But on 126 Misqals of silver one will have to pay its two and a half percent till the owned silver reached the next step of 147 Misqals and so on.

Calculating the owned quantity of gold and silver one possessed for their liability to Zakat, by the criteria mentioned above for each, one should pay Zakat on them every year, unless any of

the two fell below the basic free minimum. The liability becomes firm if the owner continued to own gold or silver above the free limit for eleven months of an year. If it fell below the minimum during those eleven months, no liability to Zakat remained in respect of that commodity. What is paid on gold and silver by way of Zakat must be consistent with the standards of purity of the varieties one possessed. In case of impure varieties adulterated with base metals, the quantities of pure gold and silver one possessed, be worked out and Zakat paid on those pure quantities of gold and silver contents. There is no Zakat on the ornaments being used by women for their adornment.

Beside the general conditions mentioned above in respect of liability to Zakat on ones wealth, there are two specific conditions peculiar to ones wealth in the form of animals and cattle. The first is that to become exempt from Zakat the animals must have been breeding in wilderness free of cost, unfed on purchased fodder. The second is that they must not have been used by their owners in any form of service to them, their families, or for any profitable pursuit whatsoever. Zakat will become payable on all animals which are fed on purchased fodder by their owners, or which graze on leased land with wild growth of fodder, and on those animals which are used in service of their masters in any way. About those animals which become liable to Zakat the Shia Fiqah ordains as under.

The species of camel becomes subject to Zakat if their number exceeds four. On camels below five in number, no Zakat is levied. On five camels or more one goat or sheep must be given in Zakat till their number reaches ten. On ten camels two goats or sheep must be delivered. On fifteen camels three goats or sheep, on twenty camels four goats or sheep, and on twenty-five camels five goats or sheep be given in Zakat. On 26 camels or more upto 35, a one-year old camel be offered till their number reaches thirty-five. On 36 camels or more upto 45, a two years old camel be given. On 46 camels upto 60, a three year old camel, and on 61 camels upto 75, a four year old camel be given. On 76 camels upto 90, two camels each two year old be given in Zakat. On 91 camels and above upto 120, two camels, each three year old be delivered. On 121 camels or more, either count them in sets of 40' each and give for each set a two year old camel; or count them in sets of 50 s each and give for each such set a three year old camel. While making sets of 40s or 50s take care to make them so as to leave no animal outside, or those left outside should not be more than nine. For example if you own 140 camels, then give for 100 two three year old camels and for 40 a two year old one. Only she camels should be given in Zakat.

The species of cows and buffaloes are treated for Zakat as under. Less than thirty such animals, male or female, young or old are exempt from Zakat. On thirty such animals an year old calf be given in Zakat. When their number reaches forty, a two year old

female calf be given, there being no additional levy between 30 and 40. On 40 and above till their number reaches 60 give only what is due on forty. On reaching 60 since two sets of 30s can be formed, give two one year old calves. On greater numbers make sets either of 30s or of 40s, or of both so as to leave no animal behind, and if any are left unincorporated, they should not be more than nine. For example if you own 70 cows, make two sets, one of thirty and the other of forty and give in Zakat a one-year old calf and a two year old one, ignoring the left over (if any as in case of 74,) less than ten as free from Zakat, and so on.

In case of goats and sheep, no Zakat is due if their number remains less than forty. On 40 and more upto 120, one goat or sheep should be given in Zakat. On 121 upto 200, two goats or sheep become due. On 201 upto 300 three, and on 301 upto 400 give four goats or sheep. For 400 or more divide them into sets of one hundred each, and give one animal for every set. On any number between two stages nothing is due in addition till the higher stage is reached. Thus what is paid for the first 40 suffices for all till their number reaches 120, and so on.

Cows include oxen and buffaloes include bulls as well. Animals given in Zakat need not necessarily be females of the species, though females are preferred. Zakat is due on the owners of the animals and not on the animals themselves; as such if a herd is owned by two or more persons, everyone of them becomes liable to pay Zakat as soon as the numbers of animals in his share exceed the exempted minimum number. Only healthy and faultless animals should be given in Zakat. Sick and defective ones are not accepted. On animals Zakat is due for every year their ownership continues and remains above the exempted minimum number, considering each animal species separately.

Receipts of Zakat levy must be distributed among the persons belonging to one or more of the eight categories of deserving persons listed below. (1) Faqir. A person who cannot maintain himself and his family is considered a faqir; but one who owns wealth or skill to earn enough thereby for maintenance is not a faqir. (2) Miskeen. One whose plight is worse than a faqir is regarded as a Miskeen. (3) Zakat collectors. Those persons who are appointed by the Imam or his deputies for collecting, guarding, keeping account of Zakat levies, and delivering them to the Imam, his deputies and to those entitled to receive them. (4) Those non-Muslims who would feel inclined to embrace Islam, or would help the Muslims in wars against the infidels. (5) Slaves who need financial help to buy their freedom from their masters. (6) Indebted persons who need financial help to liquidate their debts. (7) In the way of Allah, i.e. on works of religious, social and national benefits like building roads, bridges, paths etc. so as to provide facilities for promotion and propagation of the cause of Islam. (8) Wayfarers who run short of funds during their travels.

It is essential that the faqirs and miskeens should receive only

as much aid as should enable them to maintain their families for one year but no more. Such faqirs who own residential houses, riding animals, necessary household effects essential to retain their self-respect, are entitled to help from Zakat, but such of them who can learn any trade must learn it to stand on their own legs, receiving help from Zakat only during the meantime. Such traders, producers and craftsmen, who find themselves running into loss, need not consume their capital and equipment to make up the deficiency. They can claim help from Zakat funds.

It is essential for those who pay Zakat to ascertain that the recipients of Zakat are Isna Ashra Shias only. Anything paid to non-Shia as Zakat would amount to wastage of wealth as the discharge of Zakat liability would not be fulfilled thereby. If, however, once Zakat is paid to a non-Shia in good faith assuming the payee to be a Shia, it need not be paid over to a Shia follower of the Twelve Imams. Zakat should not be paid to those who commit major sins. If anybody's dependents including his wife borrow from others for any legitimate cause, the guardian cannot liquidate that debt with his Zakat dues. A Syed cannot receive Zakat at all, he should subsist on Khums alone. But if that does not suffice, he may receive Zakat from others only for day to day needs.

Expression of intention to pay Zakat is essential while paying it. It is therefore essential for those who pay it, to formally remind themselves that what they are paying is Zakat imposed on them by Allah. To save the recipients from feeling inferior, such reminding oneself of his intention should not be aloud.

In case of agricultural produce and fruits it is essential to pay Zakat quickly to the deserving persons, or to set it aside awaiting for one's preferred persons to come and take it. After that the owner of produce can use the rest freely for consumption, preservation, or sale. The same procedure applies to animals, gold and silver, that is when the Zakat due on them is set aside, the rest can be freely used, sold or distributed according to the owners discretion. However to deliver the set aside Zakat to the deserving persons in safety quickly remains the owners' responsibility. Zakat should be paid in localities from where it is collected, as a priority. But it can be shifted to other places provided the shifting charges are paid by the person who decides to shift, from his own pocket, since they cannot be paid out of the Zakat funds. Any property donated as a trust for one's own progeny or for those whose maintenance is his responsibility, makes the trust liable to Zakat. To pay khums on owns wealth is one's first and prior responsibility, and to pay Zakat on ones wealth his second priority which follows in succession.

Zakat-ul-fitr. It is due on every sane adult person who is neither a slave nor a free faqir. Its due quantity is three kilograms of foodstuff or its current market value per head. Guardians of the families are responsible to pay Fitr Zakat for all their dependents and wards who are sane and free adults, both males and females. Persons who cannot maintain themselves and their dependents for

the year are not liable to pay any Fitra dues. Further it should be paid for every person, young or old, who dines on the night of Eid with his host, whether as his dependents or as mere visitors. The host is responsible to pay for them all. It should be paid to Shia faqirs who are the followers of the Twelve Imams, in the following sequence: first one's own relative faqirs, then one's neighbour faqirs, then such faqirs who are learned persons, or those the donors feel have a prior right. It should be paid before saying the Eid prayers, or before the noon of Eid day. This completes the presentation of Shia interpretation of Zakat and Khums Divine Orders as explained by their venerable leader Imam Khumini in his book referred to above.

25.10. STATISTICAL DATA ABOUT WEALTH.

To frame their economic policies and to supervise their execution effectively government authorities in every country of the world need necessary statistical data to know how much wealth is owned by different sectors of their population at any one point of time. This data is essential for computing the annual National Income and Gross National Product of the country. Similarly to effectively supervise the collection of Zakat due from the followers of Islam and to ensure its correct distribution, related statistical data is needed by the Islamic states. Such data about individuals wealth is not so difficult to collect as one might imagine. This information can be collected with the cooperation of the Agency for taking periodical census of the world's population to begin with, and revised annually by an agency to be set up in the country for that purpose.

Arrangements should be made by the state authorities of all the Muslim States with the International Census Taking Authority to collect the following additional information about their population:-

1. Individuals Census Record Number.
2. Individuals name.
3. His or Her sex.
4. His or Her Age.
5. Whether earner or non-earner.
6. Nature of wealth owned, if any
7. Value of owned wealth
8. Source of Income, if any.
9. Amount of annual income.
10. Monetary value of the annual consumption norm of an individual as approved by the state.
11. Value of actual consumption, being consumed by the individual annually.
12. Excess consumed annually.
13. Surplus saved annually.
14. Special reasons, if any, for number 12.
15. Comments, if any.

NOTE. According to our judgement the consumption of an individual must include all that is necessary for a frugal but decent living, and must exclude all wasteful expenditure censured by the Holy Quran. Consumption value of individual members of a family boarding and lodging collectively will be found if we divide the total annual consumption value of the family by the number of family members, counting two children as one adult. These figures are to be worked out ignoring all the duties and taxes which modern statecraft levies.

The International Population Census Authorities do not send their own enumerators into different countries for census. They use local people for this purpose, which the State authorities concerned provide to them. Persons to be so provided by the Muslim States can be trained before hand for collecting additional information they need for their own specific purposes. For instance some detailed statistics are required about the wealth of individuals which can make the work of supervising the collection and distribution of Zakat systematic and easy to handle. Such information consists of details about the earning members of each and every family, the nature of their occupations, the amounts they invest in their enterprises, the net additional income they produce by their agricultural, commercial and industrial activities, what they consume and what they save, and how they reinvest their savings, and what their entire wealth amounts to on a particular fixed date annually, on which they become liable to pay Zakat. All this information cannot be derived from the census statistics which are collected by the Population census Authorities, and hence it has to be collected separately and must be collected.

However from the 15 point information made available to us by the Population Census Authorities and mentioned above we might as well prepare the following data to arrive at the Gross and Net National Income and Gross National Product.

1. Total number of earning persons.
2. Their total annual earnings.
3. Total numbers of non-earning dependent persons.
4. Total number of consumers. (1+3)
5. Total income or wealth consumed
6. Permissible annual consumption under Islamic norms declared by the State.
7. Value over-consumed (5-6)
8. Surplus saved (2-5)
9. Per Capita Income.
10. Per Capita Consumption
11. Per capita savings
12. Total National Wealth at the end of this year
13. Total National Wealth at the end of last year.
14. Increase or Decrease during this year.
15. Comments, if any.

For the purpose of Zakat, National Income and Gross National

Products, the statistical data suggested above should suffice. The readers are welcome to suggest improvements and better alternatives.

25.11. IS ZAKAT A STATE REVENUE?

In early part of this chapter we learnt that the words Infaq, Sadaqat and Zakat are used indiscriminately in the Holy Quran for spending one's wealth to benefit the down-trodden and the deprived persons, in a manner which gives the impression that these words are synonyms and convey the same meanings. Verses (24) and (25) of Sura Al-Maarij tells us about the faithful that they are "those in whose wealth there is a decided and known right for the needy who ask for it, and the deprived". This 'decided and known right' points towards a definite proportion of one's wealth, which is fixed only in case of Zakat, but not in cases of Infaq and Sadaqat. Yet verse (103) of Sura Toubah commands the Holy Prophet to "Take Sadaqat out of their wealth to purify and sanctify them therewith, and pray for them". Here the word used for sanctifying them is 'Tuzakki', a derivative of the root-word 'Zaka' from which Zakat is also derived. But the word used for the contribution in this verse is that of Sadaqat instead of Zakat. Further the eight categories of persons who alone are entitled to benefit from the collections of Zakat as mentioned in the verse (60) of Sura Toobah and confirmed by Allah in that verse at the end that these categories are fixed by Allah Himself, and further confirmed by the Holy Prophet by his Sunnah, begins with word Sadaqat instead of Zakat. All these facts confirm that the words Infaq, Sadaqat and Zakat used in the Holy Quran are used as synonyms to convey the same meanings.

In the Holy Quran the Divine orders to say prayers and to pay Zakat are so frequently and simultaneously mentioned together so as to stress upon the fact that they are equally essential articles of Muslim faith. It naturally became the responsibility of the state authorities to ensure and supervise that the believers are discharging both these duties most diligently and solemnly. History of the early era of the Muslim society confirms that the Holy Prophet and his four Caliphs did attend to it through appointed officials, then called the Aamils. In fact one of the categories entitled to receive their remunerations out of Zakat revenues are these (Aamileens) Zakat collectors themselves as mentioned in verse (6) of Sura Taobah of the Holy Quran. Thus the involvement of the state authorities in supervising the collection and distribution of Zakat became an established state activity.

During the life-time of the Holy Prophet, his four caliphs and those who succeeded them to sit at the helm of state affairs, have all been collecting not only the Zakat revenues, but all types of other revenues as well; which they handled wisely or otherwise. Hence the question whether Zakat is a state revenue or not cropped up as an apt question in the minds of subsequent generations,

which opened their eyes in different atmospheres decades and centuries thereafter. Now this question lies in our lap for consideration.

Looking at every aspect of the question in its modern hue, but considering every effective factor of the issue in its true perspective, the prospects become clearer. Zakat is a liability imposed by Allah on individual Muslims primarily, who themselves become responsible to discharge it as a bounden duty. They themselves reap good harvest of their compliance and pay penalty for their default. None else stands to answer in their stead. This is an important aspect of the issue which must be kept in mind while pronouncing any judgement on it. No doubt religious leaders come forward to persuade for compliance, and state agents come forth to collect the Zakat revenues, but their roles acquire a secondary significance.

Verse (29) of Sura Faatir tells us that, "Those who recite the Book of Allah, and establish regular prayers and spend out of what we have given them, secretly and openly, hopefully strike a bargain that will never fail". From this verse we learn two things clearly. First that disbursement of Zakat is desired by Allah to take both the shapes—Secretly as well as openly—And second that by performing the stated acts the believers hopefully enter into bargains with Allah, which will benefit them.

To disburse Zakat secretly makes it a private and personal activity kept hidden from the prying eyes of the state authorities, and beyond their reach. This verse of the Holy Quran thus prevents Zakat from becoming a state revenue by allowing a chunk of it to remain out of reach of the state authorities. Further by coupling Salat and Zakat together in a bargain deal between Allah and his devotees, the Holy Quran keeps out all third parties from the deal, discouraging interference from the state.

In modern times most of the states run their economy by deficit financing and remain ever short of funds. This provokes them to quickly pounce upon and grab every source of income they come across. They fix their own priorities for spending, regardless of the nature and specific purpose of the incoming revenues. If such state authorities are given a free hand to collect and disburse Zakat revenues, they are very likely to misuse them. Instances of their abuse can easily be observed in some Muslim countries. Such being the prevalent conditions in many Muslim countries, we would strongly advocate to spare Zakat from entering the pail of state revenues.



FINANCING THE STATECRAFT

26.1. A MULTI-FACET PROBLEM.

Some economic problems are simple, others are complicated by their own nature, while there are some which have been complicated by our own economic advisers. The issue of money and finance is such which has been complicated by the wisdom and folly of our economic wizards. That states need a lot of funds to discharge their duties and responsibilities towards their public is self evident, and from where this finance can possibly come is no mystery, but by introducing a complex system of taxation our economic planners make living costly and miserable for both the tax payers and the non tax payers alike.

Primary responsibility of every conscientious state is to create and maintain a peaceful atmosphere in the country to enable every person pursue his private, social, religious, political and economic activities without any external stress and strain. To maintain law and order for all so as to enable them produce more and more wealth for their own welfare, for the welfare of other citizens of their country, and to finance the state authorities is a primary responsibility of every conscious state. One of the major hindrances in this achievement is the thoughtless taxation process and its ruthless execution by the state agencies. Instances of thoughtless taxation are many and imposition of import and export duties on many commodities can provide good examples. While imposing such duties revenues for the state receive prior consideration and the influence of tax on the quantities flowing into or out of the country receive less attention. To quote an instance import of gold is taxed on the assumption that gold is an avoidable luxury and that goldsmiths are rich enough to afford payment of import duty on it. But the fact that gold in possession of the middle class people promotes capital formation within the country, and the fact that more gold within the country by itself enhances the local as well as foreign worth of indigenous currency, and the fact that in case

of adverse balance of payment position this gold becomes a perfect source of relief for the country are entirely ignored.

Again imports and exports of certain commodities are taxed to control and limit their quantities flowing into or out of the country, but what is ignored is the fact that through smuggling imports continue to flood the black market and exports continue to drain valuable goods out of the country depriving it of foreign exchange. The only benefit the state authorities derive from it is some increase in their tax revenues. Instances of such duties can easily be quoted from every item of imports and exports the state authorities permit free or with nominal duties under license but which flood the market with smuggled imports or leave the country through smuggling.

What is smuggling? It is international trading in contraband goods and such licensed goods by persons who do not hold any license or permit from the state authorities to import and export them. According to this definition of smuggling the effective factor which makes imports and exports permitted or prohibited is the import and export policy of the state, compliance with which makes the trading permitted and non-compliance prohibited. When smugglers are caught, their goods are confiscated and sold within the country by the state and the sale proceeds become state revenues. Thus all smuggled goods of utility are consumed within the country, the public buys and uses them and the state fills its coffers with the income by violating free trade.

This brings home the fact that to call smuggling a crime or an innocent act becomes a debatable issue under Islamic economic system, since no permissive or prohibitive orders exist about it in the Holy Quran or Sunnah of the Holy Prophet; but smuggling thrives in our modern world claiming a considerable percentage of our international trade. We think that what has been said so far should be sufficient to illustrate the fact that 'financing the statecraft' is a multi-facet problem. Let us now start to discuss it earnestly.

26.2. FIXING STATE PRIORITIES.

Statecraft is the art of conducting affairs of the state, and of doing all that is necessary to be done in the best interest of the state and its citizens. Evidently there are so many things required to be done for this purpose that our first step should be to fix priorities between various activities to be undertaken with a view to derive maximum benefit in shortest possible time with the minimum possible expense of wealth. We have already given our first priority to maintenance of law and order in the country so as to keep people busy earning wealth by existing means. Before hastening to allot our second priority to any field of action, we must note that our first priority was an acceptance of status quo, but our subsequent priorities will be chosen by our selves, and we are most likely to bring about changes in the fields of our choice. That

people react adversely towards suggested changes must, therefore, be always kept in mind. We have inherited a bureaucracy already running the state affairs in a way of their choice and any abrupt change therein is bound to produce reaction. All intended changes will have first to be carefully planned and their possible repercussions considered beforehand to enable us be prepared to face them successfully.

For various well considered reasons our second priority should go to the field of education. Educating the masses to learn how to read and write in the dialect of their own area used as medium of written instructions, is most essential to enable them understand and appreciate the intended changes in various fields of life. In our schools and colleges science and technology should have priority. In fact almost every student should be taught science and technology with a view to produce scientists, research scholars and technicians instead of poets, dramatists and literary persons. Need of the hour is that we ourselves should be able to manipulate our natural resources and convert them into goods of utility, to usher in an era of prosperity for all in our country. Only proper education and training in technology can enable us to do so.

As a consequence our third priority would be to develop our own economy to enable us earn more and more wealth to satisfy our private, social and state needs of finance. No country can defend itself properly without being able to manufacture weapons of defence themselves; and natural resources technical know how and plenty of wealth in the form of gold and foreign exchange, all unite with a will to do for achieving that goal. That is why our third priority goes to our economic development. Doubtlessly our fourth priority goes to defence of our country, without forgetting that during the meantime the bureaucracy we inherited has been actively engaged in defending the country to the best of their ability. Rivalry between the two super powers of the world has pushed them into a competition for inventing more and more deadly weapons of offence and defence. Use of atomic energy and poisonous chemicals by both of them in the manufacture of war weapons and their ruthless use has made self defence a vexatious problem for the third world countries to tackle. To become camp-followers of one or the other invites more trouble than to remain neutral. And neutrality without means to uphold and retain it is equally disastrous. In such a perilous situation only men with exceptional wit and wisdom and strategic skill at the helm of affairs can save their countries. We are unable to advise any effective remedy.

Dispensation of quick and real justice in disputes; sanitation in cities, towns and villages; development of rails, roads and water ways; medical care for all; free franchise and establishment of local governing bodies for development of democratic political set up; establishment of modern mass-contact media of radio and television; and publication of newspapers and periodicals for free

expression of public views, are some other important responsibilities of modern states, each demanding equal attention. We leave it for our readers to fix their order of priorities, and attend to the urgent issue of taxation for procuring finance for statecraft.

26.3. REVENUES OF THE FIRST ISLAMIC STATE.

A modern Muslim state is Muslim first and modern afterwards. As such it considers necessary to look back in history and learn what types of taxes were collected in the First Islamic State set up by the Holy Prophet and his four Caliphs. For this purpose we render below translation of an extract from an urdu book "Al-Faruq" written by Allama Shibli Numani on the life of the second Caliph, Hazrat Umar, (may God bless his soul).

"At the beginning no regular system of state revenues existed in the Islamic state. At a very early stage when Khyber was conquered, the defeated Jews requested that as they knew cultivation better, their agricultural lands should be allowed to remain in their possession on the basis of crop-sharing. The Holy Prophet allowed it, but on the lands of those who accepted Islam Ushr (one-tenth of produce, a form of Zakat) was levied. During the regime of Hazrat Abu Bakr some parts of Iraq were conquered but Khiraj as a regular levy was not imposed, only a lump sum was accepted from the defeated residents.

By 16 Hijrah when Hazrat Umar, the second Caliph had annexed the Arab part of Iraq on one side and on the other he had defeated the Romans at Yarmuk, he attended to the issue of land revenues. At this stage he had to face strong opposition from the army commanders who claimed that as a reward of their toil and sweat all conquered lands be distributed among them as their 'Jagirs' and all residents living therein be made their serfs and slaves. At the conquest of Iraq Caliph Umar ordered Saad bin Waqqas to take census of the people of that area for comparing their numbers with the army personnel. On comparison he observed that if the wish of the army personnel is accepted, three local citizens would become bonded slaves of each warrior. On realizing this the Caliph made up his mind to let the land remain in possession of their local owners who would abide as free citizens of the Islamic State.

But some companions of the Holy Prophet like Hazrat Abdul Rahman bin Ouf supported the army demand, and Hazrat Bilal was so insistent that Hazrat Umar had to pray for deliverance from Bilal. Hazrat Umar asked them that if the conquered lands were distributed as they wished, wherefrom would they meet the expenses needed for maintenance of law and order in the expanding state and for the upkeep of an ever-ready army to defend the state against foreign attacks. But Hazrat Abdul Rahman bin Ouf was insistent on the point that the booty belonged to the swords that won it, how could the new generations claim any share in it for nothing.

As Hazrat Umar's administration was democratic and decisions were made by majority of votes of the representatives a public meeting was held in which all senior companions of the Holy Prophet from the Muhajirs and Ansars took part. Five repre-

representatives of the Ows tribe of Ansars and five of the Khizraj tribe were present. Hazrat Ali, Hazrat Uthman and Hazrat Talha supported the views of Hazrat Umar. The session continued for many days without reaching any decision. Then Hazrat Umar happened to remember a verse of the Holy Quran and quoted it, which fitted the occasion and turned out to be a decisive one. The verse begins with the words, "Booty belongs to those havenots who were turned out of their lands and were deprived of their belongings...." and ends with the words, "...and to those who came after them". Hazrat Umar argued on the authority of this verse that in conquests and booties the subsequent generations also have a right, and so if they are distributed entirely among the present warriors, nothing would remain for the posterity to have. Hazrat Umar stood up to deliver a forceful speech, as a result of which a principle was formulated on the authority of this verse of the Holy Quran that the conquered lands do not belong to the conquering warriors, they belonged to the Islamic state and that the previous possessors of those lands would not be ousted. After the formulation of this principle Hazrat Umar started maintaining Land Record, wherein due regard was given to the norms and customs of the concerned countries. All lands were measured and land revenue rates were fixed on the basis of their produce. The Caliph was very anxious to ensure that no Zimi (a non-Muslim being under protection of Islam) is dealt with harshly. He would often call revenue collectors and order them to be just with the Zimmies. Those who were landlords and area governors were known as Merzaban and Dehqans in Persian language. They were all kept on their posts and positions without any change and all their rights and authorities were preserved. (The author of the book says that) So far as we know Hazrat Umar did not prepare fresh Land Record of any other Province except Iraq. Whatever record was inherited was retained and followed. Even the languages in which these records were kept were not changed. That is to say that the official record of Iraq and Iran was retained in Persian, of Syria in Roman and of Egypt in Qibti languages, and all clerks and officers working on various posts were retained in service being Persians, Greek and Qibties. And Hazrat Umar only corrected whatever mistakes he observed in old procedure.

Before the advent of Islam the oppressive feudal system was in force in every country whereby the tillers of land went under the control of the buyers of land as chattels and serfs. It made serfdom perpetual, which Hazrat Umar eradicated. The Romans left the land soon after their defeat and those few who remained behind were ordered to surrender lands to the tillers. He gave the tillers all lands which belonged to Roman officials. He enforced an order whereby no Muslim could buy land for cultivation at all. This order remained in force for a long time. When a Muslim, Lais bin Saad purchased some land in Egypt, religious leaders like Imam Maalik, Naafih bin Yazeed bin Luhyah objected to it strongly and therefore all Army Commanders were ordered to proclaim that since stipends had already been fixed for all Arabs, no Arab should indulge in agricultural activities. This preserved cultivation for tillers and spread prosperity for all.

Hazrat Umar proclaimed that all barren lands would become the property of those who developed and cultivated them in three

years. But if anybody failed to develop the allotted land within that period, he will have to surrender it. This promoted agricultural development enormously. Hazrat Umar introduced means of irrigation by digging canals and water courses, building dams for preserving rain and river waters for irrigation and he established a permanent irrigation department for that purpose.

Hazrat Umar collected Khiraj from the lands which belonged to non-Muslims, and he collected Ushr from the lands belonging to Muslims. Besides Khiraj and Ushr other means of State revenues were Zakat and Usher (ten percent import and export tax on trading merchandise), Jizyah and Khums on war booty".

(AL-FARUQ by ALLAMA SHIBLI NUMANI. An Extract from its pages 27 to 40).

The above quotation gives a clear picture of the means of state revenues introduced in early era of the Islamic State. the pattern so developed remained almost a permanent feature of the Muslim kingdoms that followed in their footsteps.

Expansion of territories and conquests demanded plenty of horses, explosives, war weapons, sail-boats and ships with oars. Therefore related industries developed, due to reasons of security, only under the state patronage and control. Private enterprise had neither the initiative nor the capital to indulge therein. Private enterprise confined itself to cottage industries, transportation and trade. As a consequence whatever wealth flowed into the Muslim Kingdoms came through foreign trade, plunder and spoils of war. Since no industrial development worth its name took place, no new avenues opened for state revenues to swell through taxation. This state of affairs continued to stagnate for centuries. So much so that even today we find books written by Muslim Scholars on the topic of state revenues discussing only the two varieties of Khiraj and Ushri lands, Zakat and import-export tax on merchandise but nothing more.

26.4. VARIOUS MEANS OF FINANCING.

Countries developing under the sphere of influence of Capitalism inherit a team of bureaucrats at the helm of their state affairs, who are trained to initiate their development plans and execute them on the pattern of capitalistic way of development, which depends on borrowed finance. Loans bearing interest being forbidden to us by the Holy Quran, we find ourselves in a fix, and forced by circumstances to think out other alternatives. That we need finance to run our state the Islamic way is clear, and that we cannot borrow without paying interest is also equally clear. So the natural outcome is that either there should be some source of borrowing without interest or that we should solve our problems without borrowed finance. If those at the helm of state affairs are sincere in their wish to Islamize their state economy, they can resort to borrowing free of interest, and they can also develop their economy without borrowing. The only essential requisite is the exercise of will to act the way Allah wants us to act. If they so intend

they may proceed as follows:-

(a) All countries following the Income-tax system have on their record the names and addresses of those who pay income and wealth taxes to the state. An interest-free loan be floated by the state and all the above mentioned assessed be told to compulsorily contribute to this loan upto a certain percentage of their wealth. They are very likely to respond encouragingly like the rest of the general public appealed to. When the old outstanding interest bearing loans reach their maturity dates, they should also be repaid with these newly issued interest free loans.

(b) Three Development Corporations should be formed separately for Agriculture, Mining and Industries. Public should be invited to contribute to their entire share capital, without the state contributing any cash. The state should only guaranty their healthy management and profitability. The management of each corporation should vest in a Board of Directors chosen on the basis of their expertise in the line as well as their social integrity. Landlords, bankers, merchants, industrialists and the general public, all should take part in buying these shares.

(c) For the stability of ones national currency and for effectively enhancing its exchange value in the foreign exchange market, return to gold standard is essential. Return to gold standard is quite possible for individual countries which realize the blessings gold import brings with it, and the calamity gold export entails. We have already explained how to resurrect the gold standard. To briefly remind it, import of gold should be allowed freely without imposing any import duty on it. Only record of all such imports be maintained by the state and imports by the goldsmiths should be scrupulously traced upto its sale in bullion form or conversion into ornaments for sale to the public. No purchase or sales tax be levied on gold and ornaments. However export of gold should be strictly prohibited and effectively stopped by the anti-smuggling squads. Simultaneously it should be announced that after the lapse of a period, say six months or an year, a certain percentage of all state taxes, say twenty percent or so, would be accepted only in the form of gold Deposit all the gold thus received into the Currency Reserve Chests with-drawing inferior deposits of equal value for spending. In this way a country can instal gold standard of its currency in a few years. This procedure will lay no burden on the state or the public, but will raise the purchasing power of one's national currency within the country making life cheaper for all to live, and will also raise its foreign exchange value, thereby helping the balance of payment position of the country to improve. As a consequence the quantum of finance previously required for the management of statecraft would be reduced appreciably, with no cost to the state.

(d) Co-operative movement has helped the middle class population a good deal. With state patronage cottage industries can be set up by craftsmen and artisans to produce articles of common

use like household utensils, wooden furniture for homes, steel furniture for offices, suit cases, handbags, shoes, scissors, knives, baskets from wicker or plastic fibre and a good many other things of utility for the public.

Development of cottage industries on the pattern of co-operatives can go a long way to usher in an industrial era without borrowing finance or importing technical know-how. An essential requirement of every middle-class citizen of the developing countries is a bicycle. Instead of importing them, let the artisans manufacture them locally. A bicycle factory can be managed by any semi-educated and experienced businessman of good repute. Let the country have hundreds and thousands of bicycles to tour around and to move about freely within short distances between one's residence and place of work.

(e) To inculcate the habit of saving for mutual help we can persuade workers engaged in various enterprises, clerks employed in various offices, and housewives living in the same localities to form among themselves mutual help committees, and to spare a little money every month for contribution to these committees. These monthly collections will form a considerable amount for individuals, chosen out of the contributors by lottery, to help them satisfy their timely needs without borrowing from elsewhere. Such activities will train our citizens in forming the habit of self-reliance, which will become a good foundation for further national development. How to achieve our ends without any finance or with the least amount of it is our basic problem, and in spite of what has been said above, we feel we will have to become a lot more clever and ingenious to enable us reach our goal. May be we can learn from the animals. Let us observe the honey bee and the ants to learn how to become ingenious.

26.5. LEARN FROM ANTS AND BEES.

About ants the New Caxton Encyclopedia tells us the following in its first volume, page 256:-

*The ants, like the bees, assume three forms male, fertile female or 'queen' and infertile female or worker. The workers may be further modified to fit the tasks they perform, those with large heads and the powerful jaws needed for fighting being distinguished as 'soldiers'. Other worker tasks include the construction and care of the nest, rearing the young, collecting and storing food, attending to domestic food production, and feeding those which like some of the soldiers are unable to feed themselves.

The nests are made of many different materials, including wood, leaves and soil, and their structure and dimensions vary enormously. The more complex nests are composed of several layers of chambers with connecting tunnels. They have store-rooms for food, 'stables' for housing greenfly and other insects, nurseries for rearing the larvae, and 'gardens' where fungi are cultivated. Some nests rise above the ground in large mounds, while others are entirely underground and may extend over several square meters.

The nuptial flights generally take place in the spring or summer, the queen receiving and storing enough sperms in her seminal receptacle to keep her fertilized for the rest of her life, which may last ten or fifteen years. Copulation is achieved on the wings. Afterwards the male dies and the female wrenches her own wings off. On finding a suitable site she founds a new colony and begins at once to lay eggs from which the legless larvae are shortly hatched. These are fed and cared for at first by the queen and then by her offspring workers. The larva under goes several metamorphoses before changing into a pupa, from which the perfect insect finally emerges.

The behaviour of the different species of ants varies greatly. Some species of ants, such as the Red Wood ant are common in the coniferous forests of Europe and live entirely by hunting, attacking and eating insects and sometimes creatures larger than themselves such as centipedes. Other species feed on vegetable matter, and still others on sugary substances, such as the 'honeydew' secreted by aphids. The common Yellow Lawn ants keep a herd of aphids much as farmers keep cows, feeding them on grass roots under ground where special 'stables' are provided for them, and bringing them up under guard to graze during the night.

The ants of the South American genus 'Atta' are called Leaf-cutting or Parasol ants because they cut the leaves of tree and carry away the pieces by holding them over their heads like parasols. They bring the leaves to special chambers in the nest where they shed them up finely and mix them with saliva. On the 'compost' a fungus is cultivated from spores brought originally by the queen as her 'dowry' when she founded the nest. The fungus would, if allowed to mature, produce a mushroom 15 cm high, but it is never allowed to grow more than a few centimeters above the bed.

There are several species of slave-making ant, including the Blood-red ant of Britain, north Eurasia and North America. These ants raid the nests of other species, carrying off the larvae and pupae to rear as slaves in their own nests. The operation is performed with considerable strategy and military precision, after several days of scouting and the marking out of routes.

The Harvesting ants rob the corn-field, taking enough grain to feed nests of 50,000 or more individuals through the scare season. They store the grain in carefully drained granaries. If it becomes damp after exceptionally heavy rain, the stock is brought up on the first fine day, spread out in the sun to dry, and finally returned to store".

The above quotation from page 256 of the first volume of the New Caxton Encyclopedia gives us an admirable account of the ingenuity displayed by ants in solving their tricky problems of life, and of the courage and determination with which they handle them. No doubt their example infuses in us courage and determination to learn from them how to acquire ingenuity for solving our own life problems. Let us now see what the honeybees have to teach us. Honeybee is described on pages 300 and 302 of the second volume of the New Caxton Encyclopedia as under:-

"Contrary to general opinion, the great majority of bees are not social in their habits, and a single female of the so-called 'solitary'

bees builds her nest, lays eggs and provides food for her young entirely on her own. Their nests are mostly made either in the soil, in hollow stems or in holes in wood the preference varying from one species to another. Although some types of solitary bees nest in close proximity to each other, only the bumble bees and honeybees have well developed social habits.

Like the bumble bee the honey bee colony contains a single fertile female ('queen'), males ('drones') and sterile females ('workers'). There are however several thousand workers, and the colony as a whole survives the winter. The queen bee, which is larger than the others has relatively short wings, and a long abdomen equipped with a sting. She lays large numbers of eggs, upto 2000 or 3000 a day at the height of the season, which she deposits in the comb. The drones are thickset and hairy, smaller than the queen, but larger than the workers; fed by the workers for the first few days of their lives, they later help themselves from the honey cells. At the approach of winter, when there are no more young queens to be mated and supplies of nectar are beginning to run short, the drones are driven from the hive to starve, or if they refuse to go, are killed by the workers. A drone which has mated with a queen dies of injuries sustained during copulation.

Worker bees are small, and their back legs contain pollen 'basket' in which their pollen loads are held by a series of stiff hairs.....Worker bees have many tasks to perform. In the first part of their lives they clean cells, build combs out of wax, feed the larvae, keep the brood warmed to the right temperature, ventilate the hive by beating their wings at the entrances, and guard the hive. In the second part of their lives, when about two to three weeks old, they become foragers and visit flowers to collect pollen and nectar. They collect nectar in an organ of the digestive system known as the crop or honey-sac, where the nectar is mixed with saliva and converted into honey. The honey is regurgitated into the cells of the hive, each of which is sealed as soon as it is full. The honey may either be stored as a reserve of food or used, together with pollen to feed the larvae. The bees act as foster-mothers, and in addition to feeding larvae with pollen and honey they also supply a special food produced by glands in their heads. Larvae destined to become queens are fed glandular foods of different composition and amount from those fed to worker larvae. Queen larvae are deliberately reared when the colony is preparing to swarm or when their old queen is failing or has died. For this purpose they make about half a dozen specially large cells and the queen carefully inspects each cell in turn, and then turns round and lays an egg in it. In about 16 days the first 'princess' emerges, and her first act is to try to visit the cells of the other princesses and sting them to death.

By this time the old queen, if still alive, has left the hive alongwith perhaps 30,000 workers, about half the number in the hive and a few drones. Wherever she alights on the branch of a tree, a lamp post, or even a door-jamb the workers pack closely round her and form a 'swarm' about as big as a large football. A fortunate bee-keeper may then collect the swarm in a basket or 'skep' and use it to start another hive. The surviving princess at the old hive goes off on a marriage flight within a few days. Drones are attracted

to her in the air by her scent and she usually mates with more than one. After copulation on the wings, the drone falls away and soon dies, and the princess returns to the hive as its new queen. Foraging bees perform special dances in the hive to indicate a find of pollen or nectar. These dances are interpreted by the workers who then fly off to the source. The direction finding depends on the bees special sensitivity to polarized light, the light reflected from the sky being polarized in different directions according to the position of the sun.

When performing a direction indicating dance a bee gives each of those workers that are being attentive a small drop of the nectar it has collected, so that they learn the taste and smell of the nectar as well as its direction and distance.

Similar transfer of food from one bee to another frequently occurs in the hive and any 'social' hormones and other substances in the food are also passed around among the bees and so help every bee to be aware of the conditions of its colony and to bind the colony together as a single unit. Thus it seems that social hormones produced by the queen are distributed among the worker bees in the food, and not only stop them rearing other queens most of the time, but also stop them developing their vestigial ovaries and laying eggs.

Many activities of bees might suggest a high degree of intelligence, but modern research has shown that this is not so. There is no evidence of intelligence in bees, and their marvelously complicated activities are governed entirely by instinct and learning"

THE NEW CAXTON ENCYCLOPEDIA, Volume 2, Pages 300 and 302 LONDON.

It will not be unreasonable to say that what bees could achieve by use of their instinct and learning, can surely be excelled by the human species, possessing both instinct and intelligence, if they learn to intelligently learn from the behaviour of the honey bees, and try hard to excel them.

26.6. MAN POWER: THE BUILDING BLOCKS OF NATIONS.

With their uniform behaviour the ants and the bees both reveal to us the only secret of success. They teach us that work, work and more work is the sole producer of desired results. They bring home to us that the more workers are there to perform, the more work is done, and thus the desired goal can be reached much more quickly. They teach us to realize that manpower constitutes the building blocks of nations. They bring home to us that the Malthusian fear can be made self destructive by ingenious use of the population for productive work. They demonstrate that man-management can work wonders, and they establish that achievements need no finance.

In developing countries people go about a begging for work. And bureaucrats who lack wisdom enough to help them become self-engaged without finance, are the ones who sit at the helm of affairs of such countries. With lot of work to be done and lot of

unemployed asking for employment, there can only be a stupid bureaucracy that cannot be stirred to action. May be we are right in passing such a judgement, yet may be we have been too hasty in announcing it so abruptly. The bureaucrats might have their own reasons to be so hesitant. We must first convince them about the truth of what we say. So long as they themselves do not realize that man-power constitutes a potential power which can be beneficially used for national development, they cannot be prompted to take any action. To help them realize it we must establish that our claim is not an empty slogan, it is an historically confirmed truth. We give below a few instances in support of our stand.

26.6.1. BUILDERS OF EGYPTIAN PYRAMIDS.

They were all gangs of man-power working in teams by thousands to hew stones from rocks, to cut them into blocks of uniform size for use in building construction. In ancient Egypt the pyramids were used as tombs, at first reserved for the Pharaohs and later extended to private citizens. It was particularly common between the third and the eighteenth dynasties (2650 B.C. to 1320 B.C.), but there are examples of pyramids on a smaller scale as tombs for private citizens at Thebes during the New Kingdom, and as the burial places of the Nubian Kings.

About eighty examples of Egyptian pyramids are known. The earliest were the terraced ones or step pyramids, of which the most famous example is the tomb of Zoser at Saqqara, dating from about 2700 B.C. The true pyramidal form was not attained until the beginning of the fourth dynasty with one of the three pyramids of Snefru, over 94 m high, 6 km south of Saqqara.

The largest and most famous pyramids are those of Giza, built by Khufu, Khafra and Menkure, all pharaohs of the fourth dynasty (2600-2480 B.C). The largest of these, that of Kufu, was 234 m square and 147m high, and built of huge blocks of limestone fitted together with great accuracy. It was also originally faced with limestone blocks, but these have now disappeared. Ten years were spent in preparing the site, which covers five hectares, and twenty years in building it, according to what Herodotus was told 2000 years later. It was constructed of 2,300,000 blocks, each of an average weight of two and a half tons, all of which had to be placed in position without benefit of pulley or crane, or scaffolding or any power other than that of muscles. The interior which can only be reached through a very complicated system of passages which were sealed after the burial of the king, houses the burial chamber with the sarcophagus. On the east side of the pyramid there is a funeral temple which was entered by means of a partially covered flight of stairs which leads downwards into a temple, called an approach temple, where the boat bearing the coffin was brought during the funeral.

The other Egyptian pyramids were built along the same lines although none of them reached such gigantic proportions. Some

built less carefully and with more perishable materials are now reduced to shapeless heaps of rubble. This has been the fate, in particular, of the pyramids of the Middle Kingdom. On the other hand the Nubian pyramids, particularly those of Meroe (600 B.C.—300 A.D.) are in good state of preservation.

26.6.2. ARMIES OF ALEXANDER, THE GREAT.

Alexander the Great of Macedonia used his man-power for a different purpose. He was the son of Philip, the second of Macedon. Born in 356 B.C. he lived upto 323 B.C. His biographers tell us that from adolescence he had a deep and lasting love for the heroic poems of Homer, and in particular for the Iliad. In 343 B.C. Philip invited Aristotle to the Macedonian court as his tutor. The philosopher's influence was not really decisive in the philosophical and cultural development of the young prince, though Alexander retained a profound respect for Aristotle and for the world of culture in general.

Alexander came to the throne when he was twenty years old, after the murder of his father in 336 B.C. Acting with firmness and energy he continued his father's work, inspite of difficulties caused by rivals to the throne. He availed himself of the sound military organization created by Philip, and of able generals such as Antipater and Parmenion, to consolidate his power and to suppress the revolt of the Greeks who expected on the death of Philip to be able to free themselves from Macadonian domination. He marched against Thebes, which was in revolt, and destroyed it.

In the spring of 334 he proclaimed the expedition to Asia in accordance with his father's plan to seek revenge for the Greek world against the Persians. Leaving Antipater incharge in Macedonia, Alexander crossed the Hellespont into Asia with an army of 40,000 men. The Persian king, though possessing vast and powerful resources and wealth, lacked any military organization and any sound central authority. With the help of Parmenion Alexander gained his victory over the Persians at the river Granicus, near the site of Troy. This victory opened the way into Asia and won the support of the Greek cities on the coast to which he guaranteed liberty and independence.

In the following spring he defeated Darius at the battle of Issus. Seeking to secure safety for his ships and needing further supplies for the army, Alexander now invaded Egypt, and thus also cut Persia off from any contact with the Mediterranean Sea. Conquering all the delta of the Nile, Alexander founded a new capital city which he called Alexandria. It was destined to become the leading centre of Greek commerce and culture.

In 331 Alexander rejected the peace proposals put forward by Darius, and renewed the campaign in Asia. On the plain not far from the ruins of Nineveh he again vanquished the Persians at the battle of Gaugamela on September 20th, 331 and took Babylon.

With the fall of Persepolis and the death of Darius the Greek

revenge on the Persians was now certainly complete, but Alexander's ambition led him to assume the Persian monarchy in his own person. He adopted Persian court ceremonial and initiated a policy of conciliation, favouring local cults and traditions, keeping in office the satraps and encouraging marriages between Greeks and Persians. Such actions caused restlessness and discontent in his Greek army, which distrusted these orientalizing trends. Alexander himself was aware of the unrest, and executed some of his valuable lieutenants such as Parmenion and his son Philotas. He also captured Bessus, Darius's successor, and had him condemned to death as a traitor by a high Persian court. Conquering Bactria, Alexander celebrated his marriage with Roxana, daughter of its prince, as if to signify the fusion of Greece and Asia.

Alexander seems to have become more and more fascinated by the idea of a universal empire. Now he advanced to the conquest of India in spite of the vast difficulties arising from the climate, the mountains, and the immense distances. Complete victory over Porus on the river Hydaspes (Jehlum) gave Alexander control of the northern Punjab and of the banks of the river Indus. But disease and discontent spread among his troops, and the strain of the long military campaign stopped him from marching on to the river Ganges.

In 326 B.C. he decided to return to Persia and spent two years doing so. At Susa he worked on his plans for the organization of his empire. Within a few months, however, while planning in Babylon on expedition against Arabia, he caught a violent fever and died at the age of thirty two.

From the time that Alexander cut the Gordian knot in Phrygia and was welcomed as a god in Egypt, the figure of Alexander assumed mystical and legendary proportions and he passed into history as the arch-type of the would be world conqueror.

Modern historians have tried to penetrate the accretion of myth and put Alexander's work on a firmer historical basis. While recognizing the boldness of his ideas, his fascinating personality, and his skill as a general, historians have given more attention to the behaviour of his friends and rivals. Alexander's aspirations for universal monarchy and a fusion between vanquished and vanquishers, could not be fulfilled, and came to an end with his sudden death and the ensuing struggles between his generals. Yet Alexander caused Greek civilization to expand widely beyond its earlier restricted environments, and the 'Hellenistic' age which followed him led on to the Roman Empire.

26.6.3. BUILDERS OF THE ROMAN EMPIRE.

We have seen two different purposes for which two different countries, Egypt and Greece, used their manpower: the first for peaceful-building construction and the second for conquests and destruction. Let us now see what the builders of Roman Empire have to teach us. Julius Caesar provides a good sample for study.

Born in 100 B.C. and assassinated in 44 B.C., Julius Caesar proved himself to be a great general owing his success to speed, adaptability and a superb control over his troops.

By birth he belonged to the old and patrician Julian family, descended by myth from Aeneas and Venus. The family were traditional supporters of the Senate, and Julius Caesar was the first to join the party of the 'populares' under the influence of Gaius Marius who had married his aunt Julia. Thus as a young man he found himself in conflict with the dictator Sulla, and showed the tenacity of purpose that was to characterize all his actions. He refused Sulla's order to divorce Cornelia, the daughter of Cinna and was just saved from death or exile only by the intervention of some friends. He then took part in some military campaign in the East, at the siege of Mytilene in 81 B.C. and against the Cilician pirates under Servilius Isauricus in 78 B.C. On his return to Rome he made his first entry into public life with the unsuccessful prosecution for corruption of two senatorial figures, Dolabella in 77 and Gaius Antonius in 76. The consulship of Pompey and Crassus in 70 completed the overthrow of the Sullan system and opened the way for the entry of Julius Caesar on the traditional public career of a Roman politician.

He was quaestor in Further Spain under Antistius Vetus in 68 B.C. and in 67 and 66 he supported the Gabinian and Manilian laws which granted Pompey long commands against the pirates and against Mithridates in the East. He partly wished to curry favour with Pompey, but he also hoped to make use of Pompey's absence from Rome to extend his own influence. For the next five years every thing that he did was directed to this end, but he was careful not to commit himself to a course that he could not reverse: He was aedile in 65 B.C.; he then borrowed enough money from Crassus to be able to put on lavish entertainment for the people of Rome. Strong rumours linked him with the revolutionary designs of Catilina in 65 and 63, but he was careful to see that there was no real evidence. He was elected pontifex maximus in 63 and almost openly opposed both Pompey and the Senate, but he was thwarted by Cicero, the consul of the year. As Urban Proctor in 62 he gained further popular support and served his year as Praetor once again in Spain with minor successes to his credit. On his return in 60 he gave up the chance of a triumph and formed an alliance with Pompey and Crassus which is known as the First Triumvirate. This was destined to change the whole character of Rome, but Caesar's main aim was to ensure for himself the consulship for 59.

As consul he practically ignored his colleague Marcus Bibulus and governed by himself. His legislation for his two important rivals and partners was balanced by a law of the tribune Vatinius which gave him the provinces of Cisalpine Gaul and Illyria with four legions for five years. The Senate grudgingly added Transalpine Gaul and another legion. This command was to be extended for a

further five years after a conference at Luca in 56 B.C. Caesar readily understood that the prestige of great military success and the support of an army, which could be secured by the loyalty of the legions that served under him for a long time were vital to the high political aims he held. While he was away affairs in Rome were managed for him by tribunes and subordinates, chief among whom was the notorious ruffian Clodius.

Eight years of hard warfare in 58 B.C.-51 B.C saw Gaul conquered and brought under Roman rule. By 50 B.C Caesar had been successful in imposing a centralized provincial administration on the conquered territory and had consolidated the authority of Rome on its frontiers. For this purpose he fought against the German tribes on both sides of the Rhine, and made two expeditions to Britain in 55 and 54. His objective in invading Britain was to suppress the tribes who had helped the Gauls in previous years.

Meantime the Triumvirate in Rome which had worked perfectly for Caesar was shattered by two deaths—of his daughter Julia, who was Pompey's wife, in 54; and of Crassus in 53. These two persons had been the only links between Caesar and Pompey, two men who were far apart in character and political aims though each fancied himself as the sole master of Rome. It was Pompey who eventually forced Caesar to a decision, either to relinquish his Gallic command or to give up the idea of a second consulate. The rights of the case are hard to establish, but Caesar thought that his conciliatory offers were being spurned and that he was being victimized. When the Senate ordered him to lay down his command he refused and crossed the river Rubicon with troops under arms in January 49 B.C. The Rubicon was the northern frontier of Italy, and his famous remarks: 'the die is cast' showed how aware he was of the gravity of the step he was taking. This was civil war.

Caesar marched on Rome, which he found deserted by Pompey; he chased Pompey as far as Briandisi, and then hurried back to Spain to meet and defeat some of Pompey's supporters at Lerida. He then crossed to Emirus where he suffered a minor reverse at Dyrrhacium; but he met and defeated Pompey's full army at Pharsala in Greece in 48 B.C Pompey fled to Egypt where he was killed by an agent of King Ptolemy. Caesar followed and involved himself in native politics, championing Cleopatra against her brother Ptolemy. In 47 he left to defeat Pharnaces at Zela after a lightning campaign, and then in 46 and 45 he wiped out the remains of the Pompeian adherents at the battle of Thapsus in Africa and Munda in Spain.

Julius Caesar was now in sole charge of Rome. Honours had been heaped upon him, consulships, dictatorships, triumphs, and special titles were showered upon him. Coins bore his head; he wore the cloak and laurel wreath of a triumphant general all the time; many of the lesser magistrates were appointed directly by him. All this culminated in his being made dictator for life, and though he refused to be made king he seems to have consented to

being worshipped as a divine superman. These absolutist tendencies finally stimulated a reaction among those of the old republican spirit, and led to a conspiracy headed by Brutus and Cassius. This culminated in his assassination on the Ides of March, 15th March 44 B.C.

A good many more examples can be cited from history to show how daring persons misused the man-power of their countries to quench their thirst for power and conquests. The Mongolian hordes over-ran the Asian countries from China in the East to Turkey and Russia in the West, spreading death and destruction everywhere. They ruled over different countries for centuries like the Romans. But abuse of man-power is a moral crime by whomsoever committed. The only lesson we learn from these instances is that manpower can also be abused and those who abused their man-power had the knack of developing their own faculties for man management to a great extent. Let us, therefore, now divert our attention to the art of man-management, to learn how it can be constructively applied.

26.7. MAN-MANAGEMENT WORKS WONDERS.

One of the evidence provided by antiquity in this regard is the construction of the Great China Wall which was built as a huge rampart hundreds of miles long in mountainous ranges of China, high enough to defy climbing and wide enough to enable on its top double track of horse chariots to run as guards. This wall was built between 221 B.C. and 206 B.C. by Shih Huang Ti, the first emperor of united China of the Chin Dynasty. He united the whole of China under a single administration, giving the country the name by which it is now known in the West. Millions of people must have been engaged in erecting such a vast and gigantic structure more than two thousand years ago, which retains considerable traces of its existence even today. Such man-management displayed by a Chinese monarch so long ago can surely provoke us to develop that faculty in ourselves today.

We find another example of peaceful display of man-management in early spread of the Christian faith throughout the pagan Europe fast at the heels of Roman conquests. In this connection Saint Peter and Saint Paul deserve some mention. The New Caxton Encyclopedia in its 15th volume on page 200 and 201 tells us the following about Saint Peter:-

*Peter, Saint. One of the twelve Apostles, venerated as one of the major figures of Christianity (first century A.D.). Peter's original name was Simon; it was changed by Jesus to Cephas (rock). A native of Bethsaida, he began life as a fisherman at Capernaum, and it was there that Jesus came and summoned him, together with his brother Andrew, to follow him and preach the Gospel.

The earliest Christian tradition established Peter's primacy among the Apostles on the grounds that he was the first to acknowledge the Messianic mission of Christ, who then regarded him as the foundation stone of the Church and entrusted him with the keys

of the kingdom of Heaven; that he was the first to whom Jesus appeared after his death; that he was the first of the disciples to perform a miracle; and was the first to admit a Gentile to the Church. Although other evidence in the Gospels represented him as a weak person who did not hesitate to disown Jesus, he certainly became the leader of the Christian Community in Jerusalem and exercised an uncontested authority over it which was subsequently reaffirmed by granting him the title of first Bishop of Rome and founder of the Papacy itself.

Imprisoned by Herod Agrippa and freed apparently by a miracle, Peter agreed with Paul that he should devote himself to spreading the faith amongst the Hebrews. Taking on a vast programme of missionary activity, he visited Samaria, Antioch, and possibly Corinth as well. He is also considered to have founded the Church in Rome, to which he made two journeys: the first between 41 and 43 A.D., the second in the year of his martyrdom, the date of which is variously ascribed to 58, 64, 65, 67 and 80 A.D. The joint feast of St. Peter and St. Paul is celebrated on June 29th."

About Saint Paul the New Caxton Encyclopedia tells us the following on pages 137 and 138 of its 15th volume:-

"PAUL, SAINT. Christian apostle (3 A.D. to 64 or 67 A.D.) Born to a Jewish family in Tarsus in Asia Minor, about 15 km from the Mediterranean Sea, it was of importance later that he was privileged to be born a Roman citizen. It is also significant that his home town was a Greek town; he spoke and wrote Greek, and he was aware that his Jewish back ground set him apart from the majority of the citizens. But he was little affected by Greek literature. Then called Saul, he was brought up as a Jew on strict Pharisaic principles and continued his education at Jerusalem, being taught by the rabbi Gamaliel. After the crucifixion of Jesus about 29 A.D. Saul was zealous in his attempts to suppress the new sect of 'Christians'. On his root out Christians Damascus about 33 A.D., he saw vision was 'converted', and devoted the rest of his life (after three years of meditation in retirement) to being an 'apostle' i.e. a messenger and missionary of the new faith.

On the first 15 years of his life after conversion there is practically no information. Then he becomes known to us through his letters or Epistles, and also through Luke's Acts of the Apostles, which recounted his missionary journeys upto his first arrival in Rome. In 46 A.D. Saul set out on the first of these journeys with Barnabas; in its course he visited Cyprus, where he changed his name to Paul. His second journey began about 49, first to Asia Minor and then to Thessaloniki, Philippi, Athens and Corinth in Greece. The third journey, about 53, took him again to Asia Minor, where he stayed for a year in Ephesus and wrote the Epistle to the Corinthians and to the Romans. Returning to Jerusalem, he was taken into protective custody by the Romans to evade fanatical Jewish hostility. Tried at Caesarea, he was left for two years in prison. Tried again before Festus, he appealed in his right as a Roman citizen to Caesar. Sent under guard to Rome, he was ship wrecked on his way at Malta. In Rome he was under house arrest for two years. Then, presumably acquitted, he may have set off again on missionary travels to Asia Minor and possibly Spain. Probably arrested in Ephesus, he was sent a second time to Rome.

There according to tradition, he was executed by beheading, probably in 67 A.D.

Paul's Epistles were written (with one exception) to communities that were already Christian, though most of them had probably heard the Christian Gospel from Paul himself. All the Epistles were written before any Gospel, and it may well be that it was Paul's talking about the Incarnation and Resurrection of Jesus that led to a demand for more information about the historical Jesus that was met by the writing of the Gospels. But Paul wrote primarily as a friend and Pastor; he was little concerned with justifying Christianity to the unconverted and he was not interested in constructing a philosophy or theology.

There is a certain paradox, explainable to some extent by his upbringing, that Paul, a Jew, became the 'apostle of the Gentiles'. But in doing so he retained his pride of race, and his uncompromising belief in monotheism in the midst of an easy-going polytheism. He fervently believed that the Old Testament was the valid basis of the New Testament.

Paul's basic thought was that Christ was a way to Salvation, a 'saving' or 'deliverance'. Deliverance was from evil spirits or the fear of them, from a too rigorous observance of the Jewish 'law', and from Sin. For Paul Sin was a hostile force that attacked all men, and the Crucifixion of Jesus was an act of sacrifice that atoned for the original sin of Adam, and thus secured 'salvation' for all who 'believed'.

It is generally regarded today by those who reject the Church's traditional view of Christianity that Paul, rather than Jesus, bears the responsibility for an excessive obsession with Sin, and also for his derogatory view of the contribution to the social community by women."

Our objective in reproducing the above two quotations is to bring to light the final shape which the Christian faith adopted under the teachings of Saint Paul. Gradual adoption of this faith by the pagan population of Europe and the Middle East under the Roman rule attracted the attention of central authorities at Rome. They realized that if they patronized this docile faith, and financially helped in spreading it, they could convert the politically restless pagans into submissive and contented citizens, within a few decades. This idea gave birth to Roman Catholic Church at Rome with its subordinate branches spreading in every city, town and village of Europe. Churches were therefore built everywhere and fertile lands were donated by the State to these Churches for providing permanent sources of income for their upkeep and preaching Christianity to all. The anticipated results materialized.

Our only aim in recording this historical phenomenon is to establish our claim that man-management works wonders, if it is wisely planned and gracefully conducted. But to really learn the practical wisdom of man-management for the uplift of our own country we must turn to a recent historical marvel, to pay homage to the great Chinese leader, Mao Tse-tung, who used only his manpower and natural resources so skillfully to raise his down

trodden nation from the swamps of slavery to the pinnacle of freedom and glory. The New Caxton Encyclopedia, in its 13th volume tells us on page 20 the following:-

"Mao Tse-tung, Chinese revolutionary leader and Chairman of Red China (1893-1976). The son of a relatively rich peasant in Hunan, Mao Tse-tung graduated from the normal school in Changsha in 1918. While working in Shanghai as a laundryman he came into contact with a Marxist study group, and in 1921 became one of the 13 founding members the Chinese Communist Party. Until 1927 he worked in the propaganda department of Chiang Kai-shek's Kuomintang government in Canton and Hunan. When Chiang Kai-shek turned against the Communists, Mao took to the hills with his associates and organized a band of guerillas. By 1930 this had been transformed by Mao together with Chu Teh and Chou En-lai into the Kiangsi Red Army and in 1931 there was proclaimed the first Chinese Soviet Republic. Attack by Chiang Kai-shek started the 'Long March' to the north, of 90,000 men and women, who covered 4,500 km in a year; it was during the 'Long March' that Mao's primacy in the Communist Party became accepted. In 1937 a precarious truce was arranged between Kuomintang and Communists, which lasted until 1946; Mao's objective was the expulsion of the Japanese, but little was accomplished by either party.

When the civil war restarted in earnest Chiang Kai-shek and his supporters were driven out of China to Formosa, and on October 1st, 1949 the Chinese People's Republic was proclaimed in Peking. Mao Tse-tung was Head of State, but he had no use for the ostentation or ceremonies of other heads, and in 1959 he abandoned even the title. Until his death he was known simply as the Chairman (of the central committee of the Chinese Communist Party). He saw himself above all as a teacher, giving confidence to Red China, and encouraging constant struggle towards achieving revolutionary objectives and eradicating corruption. He sought, both before and after securing power, to persuade rather than force as many Chinese as possible to accept communist rule and he was singularly successful in winning sympathy from the educated and even the capitalist classes. But his absolute dedication to the need for perpetual struggle had later a tendency to be counter-productive....Internationally also his contempt and repugnance for the theories and practice of Russian Communism, which began about 1959 and grew more intense, somewhat offset the world recognition of his regime. The final humiliation of Chiang Kai-shek and the Kuomintang came at last when Red China was admitted to the United Nations and to a permanent seat on its Security Council in October 1971".

About the degree of industrial development achieved by China under Mao Tse-tung, the same Encyclopedia tells us under 'China', in its fifth volume on page 53 that:-

"The desire to compete, even overhaul the western states, became very apparent during the 1960s when Chinas Communist leadership determined to join the nuclear powers. In October 1964 an atomic bomb was set off, showing that the country, helped by several Chinese scientists who had formerly worked on nuclear

weapons in the United States, had caught up to an astonishing extent".

Thus China by her own example demonstrated to all countries of the world that they, too, can achieve with their own manpower and natural resources what the West had achieved, provided the country's leadership sincerely decided to do so, and spared no sacrifice to achieve it.

26.8. ONLY SELF-HELP ENSURES SUCCESS.

Economic and political progress of every country demands a sincere and exertive leadership, which is zealously anxious to lift up its country and is also exertive enough to achieve it. This is the first and foremost requisite of success. The second requisite is an inherent aptitude in that leadership to get maximum output from the natural resources and manpower of the country with the minimum use of the scanty financial resources in the shortest possible time. The third requisite is to devise ways and means for producing the desired results.

The first and the second requisites are the gifts of God, bestowed by Him on a good many people in every country in their embryonic stage. Some of them recognize these nascent potentials in them and try to develop them for display, but in others they are nipped in the bud either by cruel circumstances, or by stifling education in young age. Those who are lucky enough to develop them with confidence reach a crossroad, a critical turning point in their lives to choose between constructive and destructive fields of action. Unfortunately Alexander the Great chose the destructive field to die as a youth of 32, while Mao Tse-tung chose the constructive field to bring renown to his country. Budding leaders of the developing countries can learn a good deal from history before choosing to exert for their personal glory, or for the glory of their nations.

It is only about the third requisite for success that writers like us can make any suggestive contribution, and we will not shirk from this duty. Economics being the art and science of producing wealth and distributing it, a measuring scale is necessary to gauge progress, and only money provides this measure. To ensure the stability of one's national monetary unit for ever, it must consist of some thing having its own intrinsic worth like gold or silver, commanding its own demand in international money market. We have already explained how the purchasing power of one's monetary unit can be stabilized for ever by reverting to gold standard without any financial sacrifice.

Both defensive and offensive steps will have to be taken simultaneously in other fields as well. Preservation of wealth being produced in the country is a national necessity. Effective control of all imports and exports is, therefore, essential for more than one reasons. Apart from other valid reasons it is particularly essential for cultivating the habit of frugal living in persons owning wealth

and in those who ape them without owning enough wealth. How much necessary it is for national survival demands a detailed explanation.

Training people to become frugal and thrifty for sake of providing finance for all round development may be a very hard task to perform, yet it is the most essential step to be taken. And the most effective method for it is to deprive all citizens, without any exception, from all non-essential, wasteful and luxurious imported materials of every kind. Ban import of all such goods and simultaneously call in lists of all such goods already in possession of the citizens, and get them checked up by the police department, without giving them any authority to confiscate. The citizens should then be told to consume the non-durable materials within a period of two years or so and use the durable ones for a longer period, without any sale or transfer to others.

Traders and importers should also be ordered to declare their imported materials of this kind, which they should be told to sell or export within a specified period, while rendering the names and addresses of the indigenous and foreign buyers. The indigenous buyers should be told to consume the non-durable household effects like clothes etc in two years, and the durable household effects like cars, refrigerators, air conditioners, deep-freezers, washing machines, dish-washers and the like for longer periods, but not to sell or transfer them at all.

Having thus procured the lists of all the indigenous owners and users of such imported materials, our next step should be to effectively seal our borders against smuggled imports of the like as well as against unauthorized exports. Total ban of official imports without any exception should be rigidly observed. Indigenous traders should be warned not to buy, hoard or trade in smuggled goods on penalty of rigorous imprisonment. With these steps, effectively taken the public will realize that there was no alternative left for them except to use the locally manufactured goods. After the lapse of the grace period of two years or more, a country-wide search for banned imported materials with the traders, its confiscation and imprisonment of the smugglers and the traders would ensure development of frugal habits for all, and will also expose the financial resources of the smugglers and the traders to make it easier for the state to divert them towards financing the statecraft more effectively. With effective sealing of borders against smuggling, the unauthorized exports will also be automatically controlled and stopped to save the draining out of our produce.

This explains our justification to take such drastic steps as suggested above for training our well-to-do people, our bureaucrats and our general public to acquire the habit of thrift and to save whatever they can for the uplift of their country and their own offspring.

There are a good many other steps which shrewd bureaucrats can take in the conduct of progressive statecraft, some of which

we suggest below. For a plan of action divide the rural area of your country into many small sectors or circles of say five kilometers radius each taking scattered villages as their centres. Pick up enough devoted young men living in each circle, who are prepared to volunteer their services free for a part of the day every day for the rural uplift work in their own villages and around, under the guidance of a headman. Appoint headmen from the urban areas, each being trained in rural uplift work, to guide the volunteers, take work from them, and to inspect their progress. These headmen must be paid employees of the state, who should each be given a good bicycle free of cost, to move about freely in the area allotted to them for rural uplift. They should report progress periodically to the Rural uplift Department situated in the capital. A list of works to be executed by the village volunteers under the guidance of the headman is given below.

(1) To provide a permanent and hygienic sanitary system to their own village, and for this purpose to pave drains for outflow of waste water from each and every house of the village into a bigger drain in the lane. To pave lanes with brick-work around all the blocks of houses and to provide drains in the lanes. The landlord should provide all construction material including bricks, wood, glass-panes, hinges, screw, bolts, nuts, paint etc free for the welfare of his cultivators. But where no landlord exists and only small landholders own the land, cultivating it themselves, they should collect funds from among themselves, without expecting any financial aid from the state.

The working teams should prepare mortar for paving bricks themselves with a mixture of lime, water and small pieces of bricks, grinding them together in a circular groove with a rotating heavy grinding stone into a thick sticky paste for joining the bricks in masonry. All lanes and streets in the village will have to be paved with brick-work laying waste water drains in the centre running all along so as to let waste water flow out of the habitation into soak-pits or ditches prepared to receive the filth.

(2) To construct buildings of a primary school for village children, a hospital or nursing home for the sick, a post office, a mosque and an assembly hall for the village elders to hold seasonal functions, to hear disputes and administer justice. All these buildings can be constructed by a number of combined teams of village folk who know how to build their houses themselves. For the purchase of construction materials the funds will have to be provided by the landlord or collected through mutual contributions as mentioned under item (1) above. The headman will control and supervise the construction. All young and able-bodied villagers will contribute their labour free in teams working in shifts of four or six hours each daily by turn.

(3) Another big work to be executed by the villagers under the guidance of their headman is to link their village with the nearest macadamized road or highway running across the country. To do

it they will have to level the dirt tracks and widen it with earth dug from either side. Then it is to be pressed with a road-roller borrowed from the Public Works Department. The road-roller should be used for many days to ensure that the earth is well pressed to sustain the brick work track to be constructed over it in a pair of parallel lines. Now pave a double line of bricks, each 18 inches wide and four and a half inches thick, bound in mortar running parallel to each other with a distance apart equal to the distance between the two coaxial wheels of a cart, car, jeep or truck. These parallel brick work tracks should run as far as need be for linking the village to the nearest road or highway. The space between these two parallel tracks should now be filled with earth upto the top level of the brickwork, and also on both sides for about three feet each. The earth should be dug out of the fields running along on both sides of this un-macadamized road, which would suffice to provide a good link between the village and the rest of the country on self-help basis, without any burden on the state. It will, no doubt, take an year or two to construct it, but the link it would provide between civilization and the isolated village would be worth its while.

(4) Now the education department should take charge of the school building and post teachers to impart education to the children. The health department should post its medial staff, and provide medicines and equipment for the hospital, to serve the invalid and sick villagers. The postal department should send a resident post master, and the Pesh Imam of the mosque should persuade young men and old to come for regular prayers.

The headman, the school teacher and the postmaster should devote some time daily for adult education of the village folk. They should open an evening class for teaching those villagers who desire to learn reading, writing and arithmetic for their own enlightenment.

We have recorded above some suggestions which can help the rural population perform some preliminary exercises to step forward towards enlightenment, without putting any financial burden on the state exchequer. With all their advantages they are only preparatory steps to get ready for receiving further education and vocational training to enable oneself earn more and save more for national uplift. Vocational training centres cannot be set up in a developing country by private endeavours. They demand initiative from the state authorities. They need state patronage and management with state finance. Thus it becomes the responsibility of statecraft, like so many other responsibilities, all demanding a lot of financial resources to discharge them. This makes taxation inevitable.

26.9. TAXATION AS THE LAST RESORT.

Primary purpose of imposing any tax is to create source of revenues for the state to defray necessary expenditure. But fiscal policies have also evolved many secondary purposes besides. For

instance heavy import duties are imposed on such imported goods which are also manufactured within the country, to protect indigenous production against foreign competition. Heavy import duties are also imposed on some luxury and semi-luxury goods, to discourage their use by citizens of moderate means on the one hand and on the other to receive a big chunk of wealth from the affluents who buy and use them. Import of commodities which are injurious for public health is usually banned, but when they are discovered to have been fraudulently imported, they are either confiscated or subjected to heavy import duty. All these functions performed by the state taxation department, prompt us to review the taxation structure in vogue in developing countries and to offer our views on the topic.

Canons of taxation laid down by Adam Smith more than two centuries ago are respected and followed still. They expect the tax system to be such as to demand equality of sacrifice from different strata of society, rich and poor alike. Hence they should be progressive in direct taxation. Further their imposition should be clear to all those who are likely to become liable to it. The timing for their collection should be so adjusted as to make it convenient for everybody to pay when due. And lastly it should be economic to collect individual varieties of taxes so far as their cost of collection is concerned. The system of tax collection should be so managed as to cost the state the minimum possible money cost, and minimum botheration to the tax payers.

From the view point of their imposition the taxes fall into two categories: Direct and Indirect. Direct taxes such as income tax, corporation tax, capital gains tax and taxes on gifts and legacies are paid direct by the person or body from whom they are due. Indirect taxes such as value added (V.A.T) like sales tax and almost all customs and excise duties are not paid directly to the government by the persons purchasing the goods or services as the tax is incorporated in the price. While direct taxes are levied on the incomes or wealth of individuals and firms and their payment is a direct transaction between the tax payer and the state, indirect taxes are levied on specific goods or services, which are paid by the producer, or the distributor to the state but the burden of the tax is shifted to the consumer in the form of an addition to the selling price.

Incidence of tax has its own importance. Incidence means the final resting place of a tax. It is on the man who ultimately bears the money burden of the tax. The impact of the tax is on the person who pays it in the first instance and the incidence is on the one who finally bears it. If Public Finance is to serve as an instrument of social justice, we must follow each tax to find who bears it ultimately to ensure that the tax has been levied properly. This question arises only in indirect taxes where the impact and the incidence differ. The disadvantages of indirect taxes are that they are uncertain and their yield cannot be accurately estimated. They

are regressive. As rich and poor pay alike at the same rate, their burden on the poor becomes great. They do not develop any civic consciousness in the tax payer. Their cost of collection becomes high when we take into consideration the costs of custom duty staff and of the anti-smuggling squads. The producer, the wholesaler and the retailer all in their turn inflate the tax by a profit margin on it for themselves, thus forcing the consumer to pay much more than what reaches the state exchequer. .

The study of incidence of taxes becomes all the more necessary since governments use Public Finance as an instrument of social justice. For that purpose they have to favour some classes of society at the expense of some others. Further more they have to encourage certain industries or to develop them in certain areas to equalize progress for all.

Our discourse about taxation leads us to conclude that to provide the state with enough financial means taxation becomes inevitable; that the imposition of tax should be so managed as to make its incidence equitable for the rich and the poor alike. It should be simple in its composition to be easily comprehended by all, and be straight forward in its application to favour none, to unduly burden none, and to remain convenient for the tax payers. Keeping these conditions in view we feel that as far as possible direct taxation should be resorted to avoiding indirect taxation to the utmost. This is all we had to recommend; and with it we close this last chapter of this book.



PARTING WORDS OF WINNOWER WISDOM

We have observed in this book that economics, a topic dealing with the production and distribution of wealth, received different interpretations and treatment by Capitalism, Socialism and Islam. Primary reason for this has been the conceptual difference of the founders of these three economic systems and their champions about the origin of this Universe, and of human life in it. This resulted in difference of opinions about the appropriate role the human race should play in this Universe, while spreading about in different parts of the Globe.

Internecine wars led to grab for power and international dominance by the better equipped nations over the weak ones, resulting in the exploitation of natural resources of the different regions of the globe by nations who were foreign to those lands, in the past two centuries or so. It resulted in economic and political subjugation and oppression.

Capitalism, the oldest economic system of the three, begins with advocating freedom for every individual enterprise in a competitive free market; but ends in international monopolies, combines and cartels, defying its own basic principles. By making self interest of the individual its foundation stone, it hastens to develop group interests which culminate in the sanctity of national interests. National interests of the industrially developed countries confronted one another to test their mettle in the two World Wars, which crippled both the victor and the defeated nations alike.

The protagonists of Socialism soon realized that they could not eradicate capitalism by declamation contests, logical debates and pamphleteering propaganda at all. They must eradicate all the capitalists to bring death to the cult of capitalism. For this purpose they incited the labouring classes working in the industrial factories and the agricultural farms to arise, unite, and wage war against the capitalists, to snatch all means of production from

them, and thereby to establish their own dictatorship. These exhortations could work no wonders, but they fixed a goal for the labouring classes and trained them to get ready for a bloody revolution.

At the tail end of the First World War Lenin quickly availed of the golden opportunity that the war-shattered country of Russia offered him. With the cessation of hostilities, he was sure that no outside power would intervene if he took charge of the country to restore law and order. He took charge of the ruling power and established the First Socialist Republic in Russia in October 1917.

The first twelve chapters of this book exhaustively deal with a critical analysis of Capitalism. The next six chapters i.e. from chapter 13 to chapter 18 deal with an equally exhaustive critical analysis of Socialism. The last twelve chapters, from 19 to 30 carry out a critical analysis of Islam and its teachings in general, but in particular the Islamic Economic Ideology as it stands in theory, and had been practiced thirteen centuries ago.

We pointed out above that the conceptual differences about the origin of the Universe and human role in the affairs of life gave birth to differences in the display of human social behaviour. Since capitalist approach was based on secular power and pelf, it regarded religion and morality as non-economic topics, which had nothing to do with wealth producing activities of man. It chose the immoral and unreligious way of life in worldly affairs, to indulge in worshipping the deity of wealth. And Socialism became quite outspoken to declare religion as the opium of mankind. It remained offensively devoted throughout to eradicate the concept of God from human mind, and to preach that divinity in any form was fetish. Socialist attitude towards moral values is most immoral, and to achieve its objective by dint of brute force is the only Socialist morality.

Against this back ground, if Islam presents the One and Only God as the Creator and Sustainer of all that exists, the ungodly free-thinker regards it a novelty. To dispel this misconception with sound and solid evidences from the natural phenomena of the Universe, some chapters dealing with the Islamic part of the book have become somewhat long. The readers, particularly the non-Muslim readers, are humbly requested to read them over again with candid and serene contemplation and meditate upon them to assimilate the conviction they are intended to convey.

A good deal of research work consuming a time period of over a decade of years was conducted to dig out the Islamic Economic Ideology and to present it in its pristine glory, and yet to make it feasible for adoption in our modern context. To err is human, and to forgive Divine. May Allah pardon and accept this humble service. Aameen.



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Research conducted for rediscovering the Economic Order, elaborated in this book, was inspired by the speech of Quaid-i-Azam, delivered on the opening ceremony of the State Bank of Pakistan at Karachi on 1st July 1948. Last portion of this speech is reproduced below for public attention:-

“I shall watch with keenness the work of your Research Organization in evolving banking practices compatible with Islamic ideals of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is now facing the world. It has failed to do justice between man and man and to eradicate friction from the international field. On the contrary, it was largely responsible for the two world wars in the last half century. The Western world, inspite of its advantages of mechanization and industrial efficiency is today in a worse mess than ever before in history. The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind.

May the State Bank of Pakistan prosper and fulfil the high ideals which have been set as its goal.”

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