

# THE FUNCTIONS OF STATE IN DETERMINING ECONOMIC POLICIES IN ISLAMIC TRADITION

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## ABSTRACT

In this study we aim to analyze ‘the functions of state in determining economic policies in Islamic tradition’ To achieve this aim, firstly the role and basic functions of state in Islamic tradition will be examined, then the need for government in modern economies will be discussed. In this frame, the main functions of the state are to maintain justice and prevent unfairness, protect the security of individual’s life and property as well as to protect the law and order, and provide business ethics, put the market mechanism into practice, regulate economic life and put some rules in that sense, drive and manage public goods, execute public services, maintain social security, and force people to do some work when necessary.

**Keywords:** Islamic Economics, Islamic Finance, State And Market.

## İSLAM GELENEĞİNDE İKTİSAT POLİTİKALARININ BELİRLENMESİNDE DEVLETİN İŞLEVLERİ

### ÖZ

Bu çalışmada ‘İslam geleneğinde iktisat politikalarının belirlenmesinde devletin işlevleri’nin analiz edilmesini amaçlıyoruz. Bu amaca ulaşmak için önce İslam geleneğinde devletin temel rolü ve işlevleri incelenecek, ardından modern ekonomilerde hükümete olan ihtiyaç tartışılacaktır. Bu çerçevede, devletin temel işlevleri şunlardır: Adaleti sağlamak ve haksızlığa mani olmak, kanun ve nizamı korumak, fertlerin can ve mal emniyetini korumak, iş ahlakını sağlamak, piyasa mekanizmasını bütün fertlerin menfaatine yönelik çalıştırmak, iktisadi hayatı düzenlemek ve kurallar koymak, kamu mallarının sevk ve idaresini yapmak, kamu hizmetlerini yürütmek, sosyal güvenliği sağlamak ve gerektiğinde fertleri belli işlerin yapılmasına zorlamak.

**Anahtar Kavramalar:** İslam Ekonomisi, İslami Finans, Devlet ve Piyasa.

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Makalenin kabul tarihi: Ocak 2011

## INTRODUCTION

Every nation faces the following fundamental economic problems: Which goods will be produced? How and how much can these goods be produced? For whom these goods will be produced? The answers to these questions will give information about the economic model of that society. If all these decisions are taken by the government or an authoritarian power for the name of the government, this is called *command economy*; but if these decisions are taken depending on the market mechanism and the price determined by that mechanism, then this is called *market economy*.

On the other hand, economics mention three major decision making agencies; household, firm and government (state). The first two are microeconomic decision makers and the main actors of the private economy. The household represents consumers, and the firm represents producers. In other words, the former represents the demand side, the latter represents the supply side of the economy. The market price is mainly determined according to the balance of the power of these two parties. Both sides make an effort to maximize their situation in the market; one pursues to maximize its utility and the other its profit. Only then it can be claimed that there is an efficiency that market price has led to in the economy concerning the resource use and distribution. On the other hand, government is a macroeconomic decision maker, and a major actor and a decision authority of the public economy. It is not easy and mostly even impossible for the government to pursue optimization and efficiency in its economic activities.

The problem here is whether the market should be left alone in executing economic activities or the government should completely undertake or guide the market. In other words, the question is whether a pure liberal market economy fitting into *laissez-faire* ideology or a socialist economy or a mixed economy should be preferred. Most of the applications in history and modern economic theories can almost be fitted into one of these three classifications.

What about Islamic economic thinking and applications? Does it suggest a market-oriented economic model and policy which take the individual and his/her all economic activities into account or a state-oriented economic model and policy which take government into account? The answer to this question is not that easy and clear. Because of the large scope of the question, we will try to answer this question in a further study. In this study, we aim to answer only the question of 'the functions of state (government) in determining economic policies in Islamic thinking, and the position of market'. The study will continue as follows: Firstly, the role and basic functions of government in Islamic tradition will be examined; then, the need for government and the position of market in modern economies will be discussed.

## I. THE ROLE AND FUNCTIONS OF STATE IN ISLAMIC TRADITION

When the literature is investigated, it will be seen that Islamic scholars (*ulema*) stress the following functions of the state/government (Chapra, 1977: 96-116; Al-Mubarak, 1978: 144-171; Khan ve Mirakhor, 1992: 11):

- Maintaining justice and preventing unfairness.
- Protecting the security of individual's life and property as well as the law and order.
- Proving that business ethics are applied.
- Putting the market mechanism into practice that will be for all individuals' interest.
- Regulating economic life and putting some rules in that sense.
- Driving and managing public goods.
- Executing public services.
- Maintaining social security.
- Forcing people in doing some work when necessary.

### A. MAINTAINING JUSTICE AND PREVENTING UNFAIRNESS

Justice is almost a main pillar and purpose of existence because Islam is available for removing oppression and dominating justice everywhere. In fact, justice is the main element that keeps a state in existence for a long time. According to the famous Islamic thinker Suhreverdi, "property does not disappear by disbelief but oppression". In other words, "property can persist by disbelief but not oppression". Ibn Taymiyyah says "Allah helps an equitable state even it is totally composed of unbelievers, but if it is an unjust state, Allah does not help that state even if it totally consists of Muslims ..." (Kozak, 1999: 254). It is said in a hadith that "three things are saviors and another three are destroyers. Saviors are just to both friends and enemies, afraid of Allah in both open and secret circumstances, and economical in both poverty and richness..." (Mawardi, 1978: 177-79). In one of the recommendations of the Great Caliph Omer just prior to his death he said: "...I recommend to the kaliph after me in accordance with the treaties and specifications that all the rights of dhimmies of the Prophet must be given completely, you must fight for the sake of the safety of their lives and property if it is necessary, you must not burden over their capacities ..." (Abu Yusuf, 1973: 203). For that reason, according to the respected Islamic thinkers like Ibn Khaldun and Gazali, the main duty of the government is to maintain stability and sustain it against excessiveness and oppressions.

There are lots of verses and hadiths related to the issue. The following verses are of them: “Allah doth command you to render back your trusts to those to whom they are due; and when ye judge between man and man, that ye judge with justice ...” (Ali, 1989: 203; 4/58). “O ye who believe! stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: That is next to piety and fear Allah...” (Ali, 1989: 248; 5/8). “(They are fond of) listening to falsehood, of devouring anything forbidden. If they do come to thee, either judge between them or decline to interfere. If thou decline, they cannot hurt thee in the last. If thou judge, judge in equity between them. For Allah loveth those who judge in equity” (Ali, 1989: 260; 5/42).

According to the famous Islamic thinker Ibn Khaldun, oppression is to seize one’s property, to cut a worker’s wage etc, and it does not matter whoever does this whether it is a government or a private person. In this sense, he believes that those who collect unfair taxes, violate people’s property or confiscate others’ property are the oppressives. “Since all these activities cease the prosperity of the country, the loss and damages belong to the state. Because, if the state is a statue and a figure, these are the materials of that figure, and each of these oppressions decrease the job and working abilities and the power of the exposers. Know that, here it is the reason and wisdom why the legislator forbids oppression. This stems from the fact that oppression removes the prosperity of the world and destroys the world (Khaldun, 1986: 80).

Ibn Khaldun ties the existence of Sharia to the state, the existence of the state to the statesmen who will manage it, the existence of these civil servants and soldiers to possession and money, the existence of possession and money to the restructure of the country, and finally the existence of the restructure of the country to justice. Justice is a measure set up among the creatures of Allah, and Allah has brought an administrator (statesman, government authority) on the head of this measure. This administrator (government) does not judge people’s private property and their private enterprises, because these properties are run more efficiently, create more employment and pay more taxes to the state in the hands of individuals (private sector). If the government confiscates these properties, gives them as a gift to its supporters, and these people can use these places inappropriately, they do not respect their public improvements and care (they do not renew their technological endowments), and they do not pay their taxes regularly. Therefore, it is gone far away from economic efficiency and appears to be a great extravagance of resources. According to Ibn Khaldun, government does never oppress to tribute (*harach*) and taxpayers<sup>1</sup>. Otherwise, these people (or firms) abandon their home country, migrate to other countries; consequently, those places are ruined, the government’s sources of income

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<sup>1</sup> In this meaning, regarding the justice in tax policy that Islamic states follow see: Abu Yusuf, 1973: 221.

decrease, difficulties in public finance can be exercised, and other countries waiting for an opportunity covet the territory of Islam. (Khaldun, 1986: 78). Moreover, these people and firms invest in those countries they migrated instead of investing in their own country, provide employment and pay their taxes to those states.

#### **B. SAFEGUARDING THE SECURITY OF INDIVIDUAL'S LIFE AND PROPERTY AS WELL AS PROTECTING THE LAW AND ORDER**

The Prophet said in his last address (hutbah) to his ummah "your properties and lives are holy as this *hadj* day". In another hadith it is said that "violation of a muslim's life, property and wealth are forbidden for another muslim". This hadith especially describes the role of government, saying; "a woman travelling from Hira to Kabah herself must be in a safe condition that there will be no one else that she fears but Allah during her journey" (Chapra, 1977: 97). It is narrated that the Caliph Omer put a commercial caravan up at the Prophet's Masjid<sup>2</sup> and turned of duty until morning time with Abdurrahman b. Avf in case of a theft event. Moreover, the Great Kaliph's oversensitiveness on the security of life and property of the ummah even in the long distance Islamic cities has become on everybody's tongue for centuries and also become the subject matter of poems<sup>3</sup>. The statement of Omer has become very well-known: "If a mule's foot stumbles in Iraq, I see myself responsible in the presence of Allah on the Day of Judgement as 'why did not you widen its road?" (Al-Kardawi, 1975: 153).

#### **C. PROVING THAT BUSINESS ETHIC WILL BE APPLIED (THE HISBE ORGANIZATION)**

In Islamic tradition, generally government intervention is not preferred as long as the things done are appropriate according to basic Islamic rules, because the essential substance in business life is to recognize the freedom of enterprise. In the event of disrespectfulness to basic ethical rules, the government can interfere in the market after completing the required supervisions within the rules under a certain institutional framework. *Hisbe* organization is the institution that is responsible for the regulation of markets and price controls (*narh* applications). This organization had succeeded in protecting its existence from the early times of Islam towards the late times of Ottomans. Some of the

<sup>2</sup> In another narration it is said that the caravan had spent the night at another place outside the city (Shibli, 1974/4: 450).

<sup>3</sup> For instance, Mehmet Akif Ersoy, the poet of Turkish National Anthem, says in his famous poem *Old Woman and Omer* (Kocakarı ile Ömer) in *Safahat*:

.....  
If a wolf eats a sheep around the border of Dicle,  
The justice of Allah comes and asks that from Omer  
..... (Ersoy, 1977: 97-98).

muhtesibs, who are responsible for market controls for the name of organization, control whether the jobs are being done perfectly or imperfectly, some control whether the craftsmen are straightforward and reliable persons or not, and some others control whether the jobs are being done well or badly<sup>4</sup>.

### 1. The Early Times Hisbe Practices

Market controls or *narh* practices are the policies that have been put into practice in almost all Islamic periods since the period of Prophet. The purpose is totally to protect consumers' *rights*, because the rulers have a sacred duty which burden them the responsibility for controlling all the rights of the citizens. Actually the Hisbe in these kinds of societies is an organization that has been found to realize "fulfilling the good and forbidding the bad" within the framework of collective duty (*wajib or fard 'ala'l-kifayah*<sup>5</sup>) referring to this famous Qur'anic verse "Let there arise out of you a band of people inviting to all that is good, enjoying what is right, and forbidding what is wrong; they are the ones to attain felicity" (Ali, 1989: 154; 3/104). The functions of these organizations theoretically were as follows (Kallek, 1997: 177; Abu-Saud, 1989: 270):

- i. The rights of God; include more worship and other religious activities.
- ii. The rights of man; include activities pertaining to the pursuance and control of works in the market and doing more public (civil) works such as roads, water, mosque and defence works.
- iii. Rights combining both; including activities pertaining to more cleaning and public works (infrastructure) services.

In practice, the Hisbe Organization was basically interested in the realization of the second and the third types of services; i.e., market activities and municipality works.

On the other hand, Ibn Taymiyyah collects the economic functions of muhtesib under the following four major titles (Islahi, 1988: 189-190):

- Maintaining the needs.
- Controlling the industrial sector.
- Controlling the service sector.
- Controlling the commercial sector (in general, controlling the markets –weights and measurements, as well as the quality and prices of the products).

<sup>4</sup> Ibn Taymiyyah says that the *muhtesib* is also responsible for controlling the people's prayers whether they fulfil them regularly or not, and whether the imams and muezzins fulfil their duties properly (Taymiyyah, 2001: 27).

<sup>5</sup> *Wajib or fard 'ala'l-kifayah* is a collective obligation which means that "if a few competent persons fulfil the obligation, it is considered to be sufficient for its fulfilment. The rest of the Muslims who do not discharge it are exonerated from it" (Hasan, 1993: 62).

When we look at the executive persons of the Hisbe organization which is responsible for the government's intervention in the market in the history of Islam, we can gather them in three main groups:

- The Prophet,
- The Caliphs,
- The other muhtesibs (commanders, governors, police officers, etc).

As is seen, the first muhtesib in Islamic history was the Prophet himself. There are lots of examples that Prophet used to make regular market controls such as the ones that he warned the one who put the wet wheat at the bottom of the sack and the dry ones at the top of the sack, then he said: "The one who misleads us is not of us" (Davudoğlu, 1977/C1: 406-7). Also he used to warn middlemen (brokers) not to swear and use empty word much gently (Kallek, 1997: 178). These examples fit into a market inefficiency situation caused by an *adverse selection* problem due to *asymmetric information* by the words of modern economics. Islam clearly refuses these problems since they place an unnecessary cost on the buyers and leads to an unfair competition.

Latter on the Prophet was either himself personally involved in controlling the markets or commissioned qualified people (man and women) who were connected with the issue, like Omar the Great (Just) -as the regulator of Madinah, and Sa'd Ibnu'l-As -as the regulator of Makkah.

The Hisbe practices continued during the period of Four Caliphs. The Caliphs put the Hisbe principles into practice against illegal constructions, unfair competitions, black marketeers, low-quality commodity trade, misuse of mounts and violation of consumers' rights. In later times, the governors were also kept responsible for the regulation and supervision of markets such as the governor of Damask Muawiyah b. Abu Sufyan and Abu Musa al Eshari (Cunbur, 1999: 30; Kallek, 1997: 179-188; Erdem, 2009: 84).

## 2. The Ottoman Period Hisbe Practices

During the Ottoman period, controlling the markets was performed by means of both the interior rules of the akhi organizations and the state's Hisbe Organization (Tabakoğlu, 1986: 169). Moreover, *narh* applications became official as "narh regulations" (*narh nizamnameleri*) or "narh laws" (*narh kanunnameleri*). For example, it has been recorded in a document which regulates the issues relating to the occupations of guild and artisans, and is supposed to belong to a time before 1630 that: "... and the ones who are false witnesses, and who are giving false documents, and who are acting in accordance with that must be punished after all these are proved by the kadi (judge)" (Erdem, 2009: 85).

The tasks of regulators who were in charge of market supervision during the Ottomans period were to determine whether the goods sold by traders were

suitable for the already determined standards, and to control the prices whether they were correct or not and finally to check whether measurements and weights were strictly observed.

Furthermore, the supervisors also served as executive officers of the judges; i.e., they pursued legal and ethical rules set by the state and religion in commercial life and punished the ones who did not obey to the rules. In the first periods of the Ottomans, *Akhies* fulfilled the functions of those supervisors. Interestingly, some researchers argue that the old Turks also had officers resembling the supervisorship (*muhtesiplik*) known as “*tudun*” (Cunbur, 1999: 30-31).

*Akhi Evran*, the founder of *akhizm*, and his follower *akhi* leaders used to go to the market to make regular controls occasionally and supervise whether the quality and standard of goods and services had changed and whether the rights of costumers had been violated. When *Akhi Evran* went to the market to make his regular supervisions, if he decided that the quality of the shoes that he saw was of poor, he used to throw them to the roof of the shoemaker’s to punish the shoemaker by displaying his product in the bazaar. That was called “the shoes being thrown to the roof” (*pabucun dama atılması*), which is still a saying used among Turkish people as a well-known aphorism, and it was the name of the system of the quality control in the time of the *akhies*.

On the one hand, the *akhi* organizations tried to prevent unfair competition and monopolistic tendencies among the producers, and on the other hand, they made regulations pertaining to the protection of consumer rights. For this reason, in maintaining raw materials that the guild needed, the “allocation policy” (*tahsis politikası*) was followed. With this method, the guild did not have raw material troubles and monopolism, and speculation or hoarding (*ihiti-kar*) was prevented on a large scale (Solak, 1996: 90).

During the time when *akhizm* was very influential, some standardization laws were prepared and brought into force. These laws were prepared between 1502 and 1507, during the time of Bayezid II (1481-1512), containing more than 100 articles (clauses) for the three Ottoman cities, known as “the Laws of Municipality (*İhtisab Kanunnameleri*) for Bursa, Istanbul and Edirne”. These laws were accepted as the first laws not only as standardization laws, but also as municipality laws, laws of customer rights, environmental and food regulations. As regards their importance, we will list only some of them as examples to give an idea in the following [the capital letters indicate the city where the law is applied for (B represents Bursa, İ İstanbul and E Edirne), and the numbers show the law numbers] (Akgündüz ve Öztürk, 1999: 126-27):

- i. “The foods, beverages, clothes and grains in the market must be controlled, and if any defect is met by chance, the mayor (*muhtesip*) will punish those people (İ-45).



- ii. Bread must be healthy and clean (Ī-4). Bakers must produce, depending on the price already determined, and bread must not be uncooked nor less than the required amount used. Each baker must have enough flour for two months, at least for a month. Actions to the contrary will be punished... (Ī-21).
- iii. Millers must be carefully controlled for; they should not keep chickens in case they harm people's flour and wheat. Wheat should not be ground large... (E-196).
- iv. Cooks must cook foods in clean conditions; i.e., the pots (dishes) must be cleaned in clean water. It is forbidden to use animal fat (which is extracted from animal's stomach linings)... (E-7).
- v. Care must be taken in using the bushel, the Turkish yard (*arşın*)<sup>6</sup> and drachma; any negligence will be punished (Ī-38).
- vi. Do not put water in vinegar and yoghurt; any actions to the contrary must be punished and displayed to the public (Ī-40).
- vii. Grocers, sellers of medicinal herbs or perfumes (*attarlar*), drapers and skullcap-sellers (*takyeciler*) should not sell the goods for more than the decided prices... (Ī-24).
- viii. Doctors must be supervised; they must be taken into professional examination, and surgeons must also be supervised; they must be perfect in their skills (E-195). The mayor has the right to supervise doctors, sellers of medicinal herbs or perfumes and surgeons (Ī-66).
- ix. Public bathrooms workers (*hamamcılar*) must be supervised .... Their razors should be sharp; i.e., he should not harm anybody with his razor, and the attendant should keep the cups clean .... (Ī-46).
- x. Dyers must also be supervised; let them not paint artificially; otherwise, they must be punished (Ī-33).
- xi. Thread-makers' thread must be identical to cotton thread, and the lining must be processed in the city, not ever be less than eight yards; otherwise, they must be punished (Ī-42).
- xii. Judges (*kadi*) must inspect, observe and take care of each craft from month to month. Whoever sells under the officially fixed price (*narh*), let the mayor punish him (Ī-70).
- xii. Crew of beggars should not be allowed to walk in the mosques (E-198).
- xiv. Do not let porters employ horses without horseshoes or carry more than what they are able to transport (B-74). Horses whose feet are

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<sup>6</sup> Approximately 1 cm.

unsuitable should never be employed, and the feet and packsaddles of horses, mules and donkeys have to be taken care of, and they should not carry heavy loads because they are dumb creatures... (E-58).

- xv. Finally, whoever God creates outside the ones mentioned above, the mayor must mind all of them (İ-73).

Let them know that, whoever opposes and becomes stubborn deserves being scolded and its consequences”.

These laws (regulations) were also “the registers of officially fixed prices” (*narh defterleri*) since the prices of the goods mentioned took part in the regulations along with the contents and qualities. As understood from these laws, we witness that the Ottomans set a series of regulations pertaining to quality and standardization particularly in the big cities approximately five centuries ago in a manner that lights the way for today.

Here we must touch upon another important application during the Ottoman period namely “flavour/taste keeping” (*çaşni tutma*). This application comes on the agenda when the need to redetermine a good’s price appeared. In these circumstances, the price and content that the relevant product had to contain were considered in detail in order not to reduce the required standard and quality of that product. This practice was put on the agenda especially in situations when the value of “commodity money”<sup>7</sup> changed (called ‘*sikke tashihi*’ or ‘*tağşiş*’).

#### **D. PUTTING THE MARKET MECHANISM INTO PRACTICE THAT WILL BE FOR ALL INDIVIDUALS’ INTEREST**

As in other societies, the purpose of economic policies that will be practiced in Islamic societies is to increase well-being of the society continuously by maintaining price stability, full employment, sustainable economic growth, favourable balance of payment and just income distribution. To serve this purpose, the Prophet suggests the market mechanism and market price be determined by supply and demand. In other words, it could be said that to achieve such a market price Islam aims to maintain some required conditions such as preventing monopoly, black market and speculation, forbidding the hoarding, removing price controls and trade restrictions, and carrying on a firm monetary system (Yusuf, 1977: 40).

#### **E. REGULATING ECONOMIC LIFE AND PUTTING SOME RULES IN THAT SENSE**

According to Islamic law, the government can make some regulations in economic life in the situations known as *masalih mursal* where there is no

<sup>7</sup> “Commodity money” is the name of a monetary system used in a country where physical goods such as gold and silver are used as the medium of exchange.

evidence (*nass*) and set free in Qur'an and Sunnah. These are known as *mubah* (the permissible)<sup>8</sup> generally contains some regulations beneficial for the society.

#### F. DRIVING AND MANAGING PUBLIC GOODS

These are the money collected by *Bayt al-Mal* (the Treasury), the money collected as obligatory alms *zakah* from stockbreeding and agriculture, the empty treasury lands, the lands left by their owners, the newly conquered lands and so on.

#### G. EXECUTING PUBLIC SERVICES

The intention from public services here is to plan social infrastructure investments in some fields such as education and health by the government alongside with some basic physical infrastructure investments such as in roads, bridges, dams, water canals, electricity, telephones and internet lines to increase the welfare level of the society, and also to undertake them as needed. Most of the statesmen used to commend their appointed governors to give importance to public improvements in their cities. For instance, Caliph Ali says in his letter to the governor of Egypt Ashtar an-Nahai that: "Let your desire to improve the earth be greater than your desire to collect *kharaj* (land tax) from it" (Al-Mubarak, 1978: 169).

The Caliph Omar also gave great importance to public works; so that he had many canals, roads, buildings and new cities built. As a matter of fact, the Canal of Abu Musa, the Canal of Ma'kal, the Canal of Sa'd and the Canal of Amir al-Muminiyn were built in his period. The building of these canals aimed to develop agriculture in the country, to make it possible that commercial goods could reach other cities in a faster and cheaper way and thus, to prevent economic crises by establishing a transportation system that renders goods possible to be traded freely within the country. He had the roads and bridges built by the local people not directly by the state. It is known that the construction and improvements of some buildings and connections of some roads and bridges were the liability of the local citizens in newly conquered cities as a part of their peace agreement<sup>9</sup> (Ra'ana, 1987: 125-30; Shibli, 1974/4: 377-82).

#### H. MAINTAINING SOCIAL SECURITY AND PREVENTING THE POVERTY

We can clearly state that Islam primarily suggests private property, market mechanism and thus free competition as an economic model, but it absolutely brings liabilities for the state to provide circumstances for citizens, having

<sup>8</sup> According to Imam al-Haramayn, "*mubah* is an act about which the lawgiver has given an option between performing and omitting without any demand or forcible prevention" (Hasan, 1993, p. 135).

<sup>9</sup> We can interpret it that Caliph Omar gave a special importance in local governments' role in the cities' improvements and the development of civilization as well as the participation of people in these works.

already done their best in struggling with poverty and who notwithstanding fell into the clutches of this problem, to live off. Essentially, an economic rationality based on the market mechanism shows that general economic stability cannot be carried on while some part of the society is quarrelling with the problem of poverty. According to the famous Islamic thinker Yusuf al-Kardawi, these are the ways which Islam suggests in solving the problem of poverty (Al-Kardawi, 1975):

- Individual's working.
- His relatives' protection.
- Zakah<sup>10</sup>.
- The government aid.
- Other wajib (obligatory) rights other than zakah<sup>11</sup>.
- Free sadaqats (alms) and individual ihsan (beneficence)<sup>12</sup>.

It appears that the essential substance is that the individual eats his own of great effort's earning as stated in the verse: "That man can have nothing but what he strives for" (Ali, 1991: 1382; 53/39). Indolence, laziness and begging are always being criticized. The hand that gives is superior to the one that takes. However, Islam preaches that people who work or make effort to work but cannot continue their living should not be left to their own devices. The way to get rid of this problem is that firstly rich relatives should take the responsibility to help these people and then other people should do their social responsibilities through their *zakahs* and finally the government must produce policies to solve this problem.

It should be noted here that the government encourages the richness not the poverty in Islamic tradition. But in case that poverty occurred and the problem could not be solved by the Muslims privately, the government must begin to act to solve the problem using the general budget of the state (*bayt al-mal*) which belongs to everybody in Islamic tradition, thus, it is thought as a last resort for the needy. However, it should be kept in mind that the state budget is not valid only for the poor but also for everybody whatsoever the situation of the person is, he takes a portion from the budget on the basis of his right and need (Al-Kardawi, 1975: 149). In addition to this, it is obligatory for the

<sup>10</sup> In this matter see: Abu Yusuf, 1973: 94-95; Al-Kardawi, ?: 88-146; and the verses listed in Asad, 1999: 1373.

<sup>11</sup> Some of these rights are as follows: The rights neighbors, killing an animal as a sacrifice in the Feast of the Sacrifice, expiation (*kaffarah*) of oath, expiation of *zihar* (calling by an infidel his wife to be like the back of his mother), the sacrificial animal devoted or given as a gift to be sacrificed in Kaaba (*hady*), right of product during the time of reaping, and so on. Also see: Al-Kardawi, ?: 157-170; and the verses listed in Asad, 1999: 1366.

<sup>12</sup> In this matter see: Al-Kardawi, ?: 171-182; and the verses listed in Asad, 1999: 1344, especially these verses: 2/261-86 (Asad, 1999: 80-86).

government to set apart a certain amount to the poor from certain income categories such as *ganimah*<sup>13</sup> (booty) and *fay*<sup>14</sup> (“property abandoned by the enemy or taken from him without a formal war”).

Moreover, the Muslim scholars and thinkers stress that the state needs to develop sustainable policies towards the problem of poverty besides the solutions discussed above. The most important one is to care for the citizens who had already served for the state, but then became aged and needy of a periodic income and insurance. All the citizens -Muslim or non-Muslims- can take advantage of these rights because maintaining the necessary economic facilities towards the citizens’ happiness and dignity is accepted among the duties of the state in Islamic tradition. The following hadith of Prophet confirms this idea: “Be careful that all of you are shepherds, you are all responsible for your herds (family). Therefore, the *imam* (the government or state or the head of it) who is at the ruling position is a shepherd and is responsible for his herd (people/citizens) ...” (Asad, 1985: 87). Again it is narrated that He says: “The state is the supporter of whoever has no support”, and “if someone is left hungry in a society, the protection of Allah goes away from that society” (Al-Mubarak, 1978: 179).

During the ruling time of Caliph Abu Bakr, it is known that Khalid Bin Valid made a peace agreement with the Hira Christians in Irak and those people were made insured against poverty, illness and oldness through the Muslims’ *bayt al-mal*. He wrote to those people as: “The *jizyah* (poll-tax) of every person who is not able to work or has become broken down because of illness, injure, disability, and become poor in spite of being rich previously is dropped. As long as they dwell in Medinah and in another town or city which is accepted as an Islamic land (*dar al-Islam*), the money (*nafaqah*) is paid for them and their families from the *bayt al-mal* (Abu Yusuf, 1973: 232).

#### **J. FORCING PEOPLE TO DO SOME WORK WHEN NECESSARY**

In general, Islamic scholars accept that government can force some people to do any work when nobody could do it better than them. Government intervention can be inevitable especially in the cases of war and severe natural disaster to meet the peoples’ urgent needs. The state can interfere in the market with two institutions: *Hisba* and judgment agency.

<sup>13</sup> See this verse about *fay*: “And know that out of all the booty that ye may acquire (in war), a fifth share is assigned to Allah –and to the Messenger, and to near relatives, orphans, the needy, and the wayfarer ...” (Ali, 1991: 424; 8/41).

<sup>14</sup> See this verse about *fay*: “What Allah has bestowed on His Messenger (and taken away) from the people of the townships –belongs to Allah- to His Messenger and to kindred and orphans, the needy and the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you... (Some part is due) to the indigent Muhajirs, those who were expelled from their homes and their property ...” (Ali, 1991: 1444; 59/7-8).

## II. THE NEED FOR GOVERNMENT IN MODERN ECONOMIES

It must be stated that the need for state in any system cannot disappear; it has roles at least in domestic and foreign security, education and public health. Moreover, some economists argue that government should interfere in the market in situations where the market mechanism is not efficient enough in distributing the wealth and income to the masses (*market failure*). It is a fact that if the priority in economic life is to maintain the welfare of individual and society, and if this welfare basically stems from economic efficiency, there is no doubt about how the visible hand (state) instead of the invisible hand (market) obtains it, except when required. It is widely accepted that the level of efficiency of economic decision units decreases from micro levels to macro levels; i.e., as the spaces of authority of the decision units expand, their efficiency weakens because their spaces of uncertainty expand. In other words, the individual can naturally take decisions more efficiently than the firm, and the firm can do the same, better than the state because the state has nothing to do with any efficiency problem to produce and sell more, higher quality goods and services at a lower cost.

Especially during the last 40 years, some new international problems (costs) and threats have become a reality along with the new opportunities that the changing economies have brought into light. These costs and threats may be listed as follows (Demir, 2003: 77-85):

- The global threats that affect all nations such as mafia, terror, arm trade, narcotic trade, organ trade, drug trade which threatens health, contagious diseases, internet crimes and perverted beliefs and ideologies like Satanism that threatens the young.
- Global pollution like air, water, earth, noise and spectra pollutions.
- Global famine, starvation and crisis.
- Global immigration movements.

In these situations, the institution that maintains economic and social stability will be the state. Therefore, the state should develop policies which help increase citizens' welfare level by reaching some sub-targets such as a sustainable growth, high employment, price stability and sharing the income according to proper and justice measurements.

As a result of these policies, the state creates the situation where the citizens can live together, it carries out the jobs at a lower cost that individuals can do themselves expensively, and it can produce goods and services in the status of *public goods* (Demir, 2003: 29-39) because in the sectors where *free-riding* is so widespread, since private sectors do not want to attempt enough, the state can carry out these activities at a lower social cost. Therefore, state and market are not considered as actors substituting each other but considered as actors com-

plementing each other at micro and macro levels from the point of view of maintaining the well-being of the society.

Today an efficient state is expected to have the following features (Demir, 2003: 102-131):

- Realizing the respective representation of common identity in a society which is composed of different ethnic and religious groups.
- Not defining itself as an absolute ruling power but a limited dominant one.
- Maintaining the security and justice among the citizens.
- Maintaining the trust in governmental institutions and institutionalize transparency and accountability in these institutions.
- Establishing the coordination between institutions.
- Establishing the economic freedom as much as possible.
- Maintaining the resources and income effectively.
- Forming a strong national currency and protecting the value of it.
- Maintaining the political stability.

### **CONCLUSION**

Firstly we should state as (Yayla, 1977: 4) indicates that although Islam can essentially compete with the modern legal, social and economic institutional structures, it can never be claimed that it has the same meaning with today's market economy or liberal democracy. Furthermore, it is not true to say that the understanding of modern market economy stems from any religion. Therefore, Islam in principle is a religion; so its mission is not to establish a certain economic or political regime but mostly to set general rules that make people present in this world or in the hereafter concerning their individual and social relations.

In this study, the question of 'what the functions of state or government in determining economic policies in Islamic tradition are' has been tried to be answered. It is true that there are relative differences of opinion among the Islamic scholars on state and market relations but the theoretical part of the issue is essentially based on the holiness of property, necessity of competition and being the most appropriate price of the market price. It is clear that in Islamic tradition as long as the economic decision units behave temperately, gain and consume legitimately, abstain from stinginess and extravagance; the free exchange will make both individuals and societies prosperous. On the other hand, the state or government will continue as an upper institution that orders what is right and forbids what is wrong on behalf of its citizens; i.e., as a protector of their religion, flesh, property, intelligence and generation. In this frame, the main func-

tions of the state in Islamic tradition is to maintain justice, prevent unfairness, protect the security of individuals' life and property as well as to protect the law and order, and provide business ethics to be applied, put the market mechanism into practice for the interests of all individuals, regulate economic life and put some rules in that sense, drive and manage public goods, execute public services, maintain social security, and force people to do some work when necessary.

In spite of being a contested issue among the Islamic scholars and economists, the historical-traditional accumulation mainly represents the idea of state control. In fact, although the market process and economic freedom have theoretically the priority over state control, the idea of state control has dominated the historical accumulation through the impacts of extraordinary conditions such as wars and shortage, and the pre-Islamic local state traditions. In addition to this, because of the respect in statesmen, the state has generally become a consecrated apparatus. This is a controversial issue about how much of this is based on the *book* and *sunnah*. Instead of dynamically analyzing the decisions of the Prophet and the early theorists (*fuqaha*) and practitioners on state and market relationship considering the necessities of their times, some scholars and statesmen in Islamic tradition have preferred the idea of authoritarian holy state to freedom of enterprise, economic development and exchange.

Despite everything, the state has a role in Islamic societies in fulfilling the good and forbidding the bad. Therefore, it is seen as an inevitable necessity that government must follow an economic policy agreeable for the society's basic moral values because there are five fundamental elements that must be preserved and respected: The religion, flesh, property, intelligence and generation. There is a need for power to protect all these values and give society the impression of being trustworthy; that power is the state! So the need for state in Islamic tradition stems from quite fundamental reasons.

We should keep it in mind that as (Mannan, 1989: 299) states that individuals do not exist for society and state, but state and society exist for individuals in the life of societies. The individual uses the rights of competition, cooperation and exchange within the framework of the most fundamental freedoms of enterprise given to him; the state, on the other hand, arranges the necessary legal, economic and moral regulations which do not coincide these freedoms with the social benefits. Consequently, the regulations and freedom of enterprise must not be in conflict with or substitute each other; instead, must be complementing each other because neither can the freedom be maintained in the places where the security does not exist nor can the security be fully maintained in the places where the freedom is absent.



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