Keynes's Views on Interest, Efficiency of Capital and Economic Crises : Comparing them with Islamic Financial Solutions

Shamim Ahmad Siddiqui*

Abstract

Islamic economics is perhaps the most recent addition to the list of heterodox economics. This paper has highlighted a number of areas where Keynes original ideas coincide with some of the basic principles and objectives of an Islamic economic system. For those Islamic economists who are open to look into any possibility of improving the distribution of income in the economy, can benefit from studying Keynes and his followers especially those who have remained closer to Keynes original ideas. It is also hoped that after the impact of 9/11 subsides, Islamic economics would be seen as a useful addition to the list of heterodox economics by other members of the club.

1. Introduction

The title of Keynes' book "*The General Theory of Employment, Interest and Money*" clearly suggested that his main concern was to explain what factors determine levels of employment, and among other things, how money and its opportunity cost, interest, may affect these levels. Keynes asserted that the classical theory of employment which treated all unemployment (when the economy is in equilibrium[1]) as voluntary unemployment, was a special case. In general, the economy could be in equilibrium with significant level of involuntary unemployment requiring a proactive role by the government. He repeatedly made a case for keeping interest rate low and increasing the level of overall consumption high enough to achieve or retain full employment. He further emphasized that one way to achieve a high level of consumption could be a redistribution of income in favor of low income groups of people who have higher marginal propensity to consume.

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* Associate Professor, School of Business & Quality Management, Hamdan Bin Mohammed Smart University, Dubai, UAE, S.Siddiqui@hbmeu.ac.ae, Keynes's Views on Interest, Efficiency of Capital and Economic Crises: Comparing them with Islamic Financial Solution

[1] According to the classical school, a free market economy, with flexible wages and prices, would quickly move to an equilibrium.

For Keynes, a high level of savings could be counterproductive as it would reduce aggregate demand for goods and services, decrease investments and eventually, the savings. To avoid this phenomenon income could be redistributed in favor of people with higher propensity to consume. On the other hand, private investments, another part of aggregate demand, could be hampered by high interest rates even when there is no deficiency of demand for consumption. It was, therefore, necessary to keep interest rates low enough to achieve full employment. If the two measures fail to achieve full employment, the government must increase public spending without too much concern for budget deficits.

Keynes started his book by analyzing classical model and highlighting flaws in its assumptions and its arguments. Although he occasionally digresses, by and large his approach and analysis remains under the umbrella of 'positive economics'. Reading through the *General Theory* one is reminded of great Islamic historian Ibne Khaldun who always appealed to empirical observations and based his theories on facts and evidence from history. The final chapter of *General Theory*, however, brings in a number of issues that come under normative economics. The title of the chapter, "Concluding Notes on the Social Philosophy towards which the *General Theory* might Lead", clearly indicated the normative nature of its contents.

In my view, the division among Keynes followers today could be explained by the treatment of the concluding chapter of *General Theory* given by different groups of his followers. Islamic economics and finance, as the name suggests, is primarily concerned with normative issues in economics. However, it does not necessarily dispute with the basic nature of human beings and most of the stylized facts of political economy that were synthesized and so forcefully presented and argued by Adam Smith and other classical economists.[2] This is important when we observe that Keynes himself did not differ from classical economists in realizing the power of a market economy in allocating resources efficiently. His concern was that the total volume of economic activity under a free market system may not ensure full employment. This can happen because of two reasons: interest rate being not low enough compared to marginal efficiency of capital and/or the distribution of income in a free market system may fail to generate enough demand for consumption (and consequently for new investment and employment) by not channeling adequate income to the people with higher propensity to consume.

This paper is an attempt to discuss the conclusions and recommendations made by Keynes in the last chapter of the *General Theory* and their resemblance or relevance

[2] It must be said, however, that many Islamic economists criticize Adam Smith for his alleged encouragement of selfish human behavior. For a critical review of their positions, please see Siddiqui (2000).

to an Islamic economic and financial system.

2. Summary of the Last Chapter of *General Theory*

Keynes starts Chapter 24 of *General Theory* (the last chapter) by referring to the policy implications of classical economic theory of his time - its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes. While Keynes understands the need to have a meaningful and somewhat significant inequality of income among people, he negates the idea that the high levels of the savings of the rich are necessary for continuous net investment and economic growth; the lack of adequate demand for goods and services by the rich would actually work against it.

The second important point raised was to negate the notion that sufficiently high rate of interest was necessary to keep savings high and capital to grow. Keynes emphasized that high level of savings depends on high level of investment which in turn depends on lower rates of interest rather than high.

"Interest today rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital. An intrinsic reason for such scarcity, in the sense of a genuine sacrifice which could only be called forth by the offer of a reward in the shape of interest, would not exist, in the long run, except in the event of the individual propensity to consume proving to be of such a character that net saving in conditions of full employment comes to an end before capital has become sufficiently abundant. But even so, it will still be possible for communal saving through the agency of the State to be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce.

I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution."

Keynes thus admitted the possibility of a level of voluntary private savings at zero interest rate that could be less than what might be needed to ensure full employment. A positive rate of interest could then be justified. He however, opts for other sources of savings rather than raising interest rate to attract capitalists.

Keynes saw another advantage of enhancing government role in creating full employment and capital accumulation at home through low rate of interest, redistribution of income and ensuring sufficiently large level of savings; it could reduce the need for trade war among nations to ensure higher trade surplus by supplementing domestic demand for goods for high level of employment.

In Chapter Thirteen of the *General Theory*, while Keynes rejects the classical theories of interest which are primarily based on the notion of abstinence and waiting, he gives another explanation for interest based on his liquidity preference theory:[3]

"....the rate of interest at any time, being the reward for parting with liquidity, is a measure of the unwillingness of those who possess money to part with their liquid control over it. The rate of interest is not the 'price' which brings into equilibrium the demand for resources to invest with the readiness to abstain from present consumption. It is the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash ;__...."

It is important to note that the primary concern for Keynes is that high level of interest is often an impediment to investment and concocts involuntary unemployment.[4] As far as instability of capitalism is concerned, Keynes blames the violent nature of the marginal efficiency of capital.[5]

"Now, we have been accustomed in explaining the `crisis' to lay stress on the rising tendency of the rate of interest under the influence of the increased demand for money both for trade and speculative purposes. At times this factor may certainly play an aggravating and, occasionally perhaps an initiating part. But I suggest that a more typical, and often the predominant, explanation of the crisis is, not primarily a rise in the rate of interest, but a sudden collapse in the marginal efficiency of capital."[6]

Keynes also emphasized that the services of entrepreneurs and investors can be made available at a lower cost:

" …I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalised into comparatively harmless channels

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[3] See *The General Theory*, pp. 166-67.

[4] See *The General Theory*, pp. 222, 375, 377.

[5] See *The General Theory*, p. 315.

[6] Ibid.

by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. It is better that a man should tyrannize over his bank balance than over his fellow-citizens; and whilst the former is sometimes denounced as being but a means to the latter, sometimes at least it is an alternative. But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them. …"

In Chapter 12 of *General Theory*, Keynes also criticized the level of speculation in stock markets. One wonders what he would have said about the levels of speculation that is observable in contemporary markets for stocks, commodities and foreign exchange. He wrote:

Chapter 12, Section V:

Of the maxims of orthodox finance none, surely, is more anti-social than the fetish of liquidity, the doctrine that it is a positive virtue on the part of investment institutions to concentrate their resources upon the holding of "liquid" securities. It forgets that there is no such thing as liquidity of investment for the community as a whole. The social object of skilled investment should be to defeat the dark forces of time and ignorance which envelop our future.

This battle of wits to anticipate the basis of conventional valuation a few months hence, rather than the prospective yield of an investment over a long term of years… For it is, so to speak, a game of Snap, of Old Maid, of Musical Chairs - a pastime in which he is victor who says Snap neither too soon or too late, who passes the Old Maid to his neighbor before the game is over, who secures for himself when the music stops.

Chapter 12, Footnote 5:

It is said that, when Wall Street is active, at least half of the purchases or sales of investments are entered upon with an intention on the part of the speculator to reverse them the same day. This is often true of the commodity exchanges also.

Chapter 12, Section VI

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield,

cannot be claimed as one of the outstanding triumphs of laisserz-faire capitalism – which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object. These tendencies are a scarcely avoidable outcome of our having successfully organized "liquid" investment markets. It is usually agreed that casinos should, in the public interest, be inaccessible and expensive...The introduction of a substantial Government transfer tax on all [stock market] transactions might prove the most serviceable reform available, with a view to mitigating the predominance of speculation over enterprise in the United States.

The spectacle of modern investment markets has sometimes moved me towards the conclusion that to make the purchase of an investment permanent and indissoluble, like marriage, except by reason of death or other grave cause, might be a useful remedy for our contemporary evils.

3. Some basic features of an Islamic Economic System

Islam now remains the only religion in the world with a sizable number of followers claiming a significant role of their religion in social affairs including the economy. They assert that Islam provides guidelines for all spheres of life that should (and could) be applied at anytime and anywhere. According to the Islamic belief, the Creator of the universe did not leave human beings on this earth to stray but provided guidance through his prophets starting from Adam and culminating in the holy book of Islam, the Quran, revealed to Prophet Muhammad (PBUH). All the verses of Quran were recorded, written and arranged during his life time.

Prophet Muhammad further explained the *Qur'anic* guidance through his actions and sayings and the same were collected and compiled after his death by some prominent Muslim scholars. They took extreme care in establishing the level of authenticity of each narration of his sayings and deeds. Six of these books form the second source of Islamic teachings after the *Qur'an*. The *Qur'an* and these books of *Ahadith* (plural of *hadith* meaning narration of the saying and deeds of the Prophet) form the cannon law of Islam.[7] On many issues the *Qur'an* provides general guidelines and the actions and the sayings of the Prophet offer great help in their elaboration. However, the status of the Quran, the *Qur'anic* verses are logically given higher importance if there arise any conflict between the two.[8]

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[7] See for example, El-Gamal (2006;17)

[8] In principle there could not be two views on this issue. There is always a likelihood of inaccuracy in what was actually said or done by the Prophet and what got reported and compiled after his death. In practice, however, it is not always true. For example please see Khalid Zaheer (Undated).

As time passed and new issues emerged in Muslim societies for which no direct guidance was given in the *Qur'an* or the *Ahadith*, Islamic scholars and jurists derived rulings through (1) analogy (*qiyas*) if possible or (2) contemplation (*ijtihad*), where analogy was not possible, by combining their intellect and their overall understanding of the principles and goals of Islamic teachings. These two became new additional sources of Islamic laws and rules.[9] A consensus (*ijma*) of opinion on any issue by all scholars gives it the highest credibility and close to the status of canon law. These difference of opinions gave birth to the four major *madahibs* or school of thought in Sunni Islam.[10]

The tradition of *ijtihad* was largely stopped towards the end of eleventh century for various reasons and the scholars of later generations largely based their new rulings by referring to the old rulings giving much more importance to the rulings made by scholars and jurists of their own school of thought. By and large, this trend has continued up to the present time.

As is the case in in conventional as well as in different heterodox economics, there is no single definition of Islamic economics. There are few things on which, in principles, there is almost a consensus, significant differences appear when one goes into detail or when it comes to actual implementation of those principles.

The primary goal of an Islamic economic and financial system is to follow the teachings of Islam. The manifestation of these teachings appears in the following postulates on which there are hardly any differences (at least in principles):

1. Islam allows private ownership of means of production.[11]
2. It favours determination of prices by the free interaction of market forces.
3. It imposes a flat 2.5% tax on wealth and the proceeds should primarily go to the poorest. Moreover, it commands the government of an Islamic state to further redistribute income so that wealth does not keep circulating only among the rich. The extent of this redistribution has been left open and thus provides flexibility.[12] Apart

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[9] A consensus or *Ijma* of all Islamic scholars of a time period is also recognized as a method of creating new rulings. However, in the absence of direct guidance from the *Qur'an* or the A*hadiths*, individual opinions on an issue must be formed through analogy or *ijtihad*; the consensus makes the shared opinion most forceful.

[10] The reason for the birth of *Shia* faction in Islam is related to the events of succession of the Prophet. The *Shii* Islamic *Shari'ah* is also based on the *Qur'an* and the *Sunnah* but their selection of *ahadith* is biased towards narrations made by companions thought to be sympathetic to *Shii* understanding on succession.

[11]However, in case of land, the ownership is not absolute.

[12] For example, following the observation made by Ibne Khaldun on the causes of rise and fall of empires, it is generally accepted that after the tax rate has been raised sufficiently high, any

from a regime of progressive rates of taxation, the government can take other measures (such as a capital gains tax on sale of real estate properties).

4. One of the most important and serious injunction of Islam is prohibition of *riba* and it comes from the *Qur'an*. There are several controversies about the scope of *riba* and implications of its prohibition on modern banking and finance. The great majority of Islamic scholars treat bank interest as *riba*.

5. The other two things that need to be avoided in financial transactions are *gharar* and *mysir*. *Gharar* could be thought of as looseness of the underlying commercial contract such that one or both parties are uncertain about possible outcomes or obligations. Alternatively, there could be an element of *gharar* if a contract could be read in a number of ways such that one party could deceive the other party.[13] The term *maysir* was originally applied to a pre-Islamic game of arrows in which seven participants gambled for shares of an allotted prize. The prohibition of *maysir* arises from the premise that an apparent agreement between the parties is in actuality the result of immoral inducement provided by false hopes in the parties' minds that they will profit unduly by the contract. Little consideration is given by the parties to the risk of loss.

4. How close are the Keynesian and Islamic Ideals?

Keynes' recommendations on economic policies were largely based on his scientific and critical analysis of neoclassical economics as well as the observations he made about price and wage determination. We can easily observe a number of common elements in his policy recommendations and those derived from Islamic sources. They are both against state socialism and agree on the efficiency of markets in determining prices as well as in allocating resources.

Keynes advocates redistribution of income to increase overall consumption and investment to ensure full employment. The basis of redistribution of income in Islam is obviously religious and ethical but it would lead to the same outcome. Keynes favoured redistribution of income through death taxes. However, Islam has an elaborate system of inheritance that goes in four of close blood relations of the deceased. The government has no role in disposing off the wealth left by a person.

There are other avenues for possible government role in contemporary economies under an Islamic scheme. For example, Islamic economics can suggest a heavy capital gains tax on sale of real estate referring to the fact that appreciation in their prices are due to an increase in population or higher economic activities; a source of unearned income. This can be favourably compared with Henery George's proposal

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further increase could actually reduce the total tax revenue.

[13] Bacha (1999).

who advocated for taxing away all appreciation in rent on similar grounds. Similarly, fixation of a minimum wage for workers is also possible under an Islamic system.[14]

We now turn to Keynes' views on capitalists and interest and its comparison with the Islamic position. Islam does not allow any interest charges for consumption loans (except a compensation for inflation, in my personal view). For business and commerce, capitalists under an Islamic system can only provide funds on profit and loss sharing basis. By taking the risks of the businesses, capitalists take up one of the main functions of entrepreneurs rather than an inactive party with a reward and fixed claims on business.

In case the participation of capitalists under an Islamic system does bring enough funds from the private sector, the role of the government would become very similar to that advocated by Keynes. Through its power to create money and impose taxes and fees on individuals and businesses it can undertake investment projects on its own or provide necessary funds to feasible business projects in the private sector playing an active role in the economy.

The changed role of capitalists under an Islamic system has an advantage which goes beyond what was envisioned by Keynes. A sudden and unexpected decrease in business fortunes and marginal efficiency in capital will be automatically absorbed by all capitalists, big and small, proportionately. This is what Islamic economists imagined when they proposed a banking system on the basis of profit and loss sharing rather than interest. Unfortunately the actual working of the so called contemporary Islamic banks has been unable to achieve this goal and interest has been reintroduced with new names.[15]

Some Islam economists have also suggested a 100% reserve requirement for checking and savings accounts and investing only funds available through investment accounts. Any further demand for funds could be provided by the central bank which would have its own profits and loss sharing investment accounts at each commercial bank. This would not only provide a better control of money supply but also check banks from making an over-investment.[16]

An Islamic system can also answer a possible question raised against Keynes' view on savings and interest. In Chapter 13 (part 2) Keynes's argued;

It should be obvious that the rate of interest cannot be a return to saving or waiting as such. For if a man hoards his savings in cash, he earns no interest, though he saves just as much as before. On the contrary, the mere definition of the rate of interest tells us in so many words that the rate of interest is the reward for parting with

[14] Please see Hudson, M. (2008)
[15] For a critical review of contemporary Islamic banking, please see Siddiqui (2010).
[16] For example, Khan (1986) and Siddiqui (2010).

liquidity for a specified period. For the rate of interest is, in itself, nothing more than the inverse proportion between a sum of money and what can be obtained for parting with control over the money in exchange for a debt for a stated period of time.

However, even if we agree that interest was a reward for not hoarding, how one can then argue for an economy with no incentive or reward for "not hoarding"? Under Islamic system all savings kept in the bank for over a year will be subject to a 2.5% wealth tax (or zakat; in religious term, a process of purifying one's wealth) and its proceeds must be spent mainly on poor. This gives an incentive to utilize wealth in productive and profit making activities but not without taking the downside risk of the business. This leads to another question; will it not be inappropriate to force everyone to take that risk?

This question could be answered by asking the opposite or counter question; is it appropriate to ask for fixed return from a business irrespective of the business outcome of the investment? If we look at Keynes desire for euthanasia of capitalists, it could be claimed that Keynes did not think it was "justified" on part of capitalists to demand any return for "not hoarding" if the savings that was hoarded did not require any sacrifice and would have been saved as a consequence of individual time preferences for consumption. However, why would anyone then allow his savings to be un-hoarded and give to a producer or trader as loan? Or Keynes thought all the money saved in banks allowed to be invested without depositors' permission? Who would guarantee the return of their funds?

Some Islamic economists have supported the idea of a 100% reserve requirement for savings deposits and a 0% reserve requirement for investment deposits.[17] The maximum amount of investment, however, will be restricted to the money deposited in investment accounts of different maturities. Siddiqui (2010) suggests that the central bank should keep an investment account in all commercial banks and share the profits and loss of the banks proportionately. This way, the central bank can control both the supply of money as well as total volume of investment in the economy.

In section two above, we reproduced some of the famous quotes from *General Theory* reflecting Keynes' views on stock markets of his time. One can only imagine what Keynes would have commented on the level of speculation that goes on in contemporary markets for stocks, options and other derivatives. The fifth element of an Islamic economics and financial system is about avoiding excessive speculation, unnecessary ambiguities, and excessive complexities in financial transactions. It is difficult to argue against the stated goals attached to each of these markets

[17] For example, see Mohsin Khan (1986) and Shamim Siddiqui (1994).

(allocation of resources, managing risks, etc.) and hence they are expected to be part of an Islamic economic system too. However, the rules and regulations under which they will be allowed to work will curb speculative and conniving activities.

Commercial banks are different from mutual funds and they do provide funds to many small producers to start new businesses or to expand their existing businesses. As they have to guarantee the principal and interest to their depositors, they cannot be allowed to invest beyond a limited amount in stocks and other risky assets. As profit and loss sharing banking (PALSIB) is based on the concept of non-guaranteeing a fixed and positive return to their funds providers, they would be well placed to invest a large fraction of their funds in stocks. While this may be seen positively, PLALSIB banks being involved in PLS mode of finance, too much exposure to stocks may keep the value of their assets and returns to their fund providers discouragingly unstable. This leads to another related issue in Islamic finance, the elimination of *mysir* (or gambling like transactions) in general and from the stock markets in particular.

It is often claimed that the current modus operandi of stocks markets creates an efficient and extremely liquid system. Any new information quickly adjusts the prices of stocks through continuous buying and selling of stocks. The system also allows liquidating one's position with ease and speed. The focus of participants, however, remains on making quick capital gains rather than earning through dividends. There is no denial that many of the best minds in the world try to gather and process information to make intelligent buying and selling of stocks. However, the system creates such an immense level of speculative environment and desire to outsmart others that it hardly conforms to Islamic teachings of patience and cooperation. One should also consider that stock markets are part of capital markets that are mainly responsible for financial intermediation. Stock markets, as secondary markets for shares make the underlying asset attractive and thus facilitate initial sale of stocks that provides the resources needed for business expansion by growing companies. One can argue that a market of stock that makes the stock less liquid but reduces the amount of speculation and induces people to focus on dividend payments would be better suited for Muslim communities. One can name it *dividend markets*.

The basic goal of *dividend markets* would remain the same as the conventional markets i.e., efficiently allocating the investible funds to the productive units of the economy. One of the requirements for listing in *dividend markets* could be that companies must not be violating any Islamic injunction and arrange all their financial needs through non-debt instruments. Establishment of PALSIB and *dividend markets* will thus help both of them in achieving their goals. Banks under PALSIB will be able to invest their funds in *dividend markets* earning regular

income through dividend. The requirement that both PALSIB banks and companies listed at *dividend markets* only deal in profit and loss sharing transactions could also lead to devise a mechanism for even short term financing through profit and loss sharing methods.

The idea is to bring reforms in the current working of stock markets by making dividend payments the most important variable instead of capital gains. For example, one can argue what will be lost if people are allowed to trade shares only once a week or for that matter once in a month? Similarly, companies could be restricted in their decision about retained earnings, necessarily distributing most of the profits to the shareholders in every financial period. Any new investment by a successful company could be attracted through new shares, many of which could be sold to existing shareholders or PALSIB banks.

5. Islamic Economics & Finance in Practice

Almost all countries with a Muslim majority have been following the western capitalist system establishing the same economic and financial institutions. Some of them have achieved remarkable progress because of better governance but also due to the active role played by the governments in the economy. Their governments created a good environment conducive to foreign and domestic private investment and made direct investment wherever necessary --- following Keynesian prescription. No Muslim country so far has made any serious attempt to introduce Islamic economic and financial reforms, although almost all of them have allowed Islamic banks and insurance companies to operate and compete with traditional banks.

The achievement of these financial institutions has been limited. More significantly, Islamic banks have largely avoided profit and loss sharing Islamic banking and largely confined their funding activities to debt like transactions, indeed by pouring some Islamic colours but very little change in substance.

While almost all the recommendations made by Keynes in his *General Theory* could be part of an Islamic economic and financial system, an Islamic system has the potential to go beyond that. As explained earlier, the profit and loss sharing banking system has the potential to improve distribution of income as well as absorb any unseen shock to the economy. It can curb the speculative activities in the economy and push the governments to stand behind the workers to get a fair share of income for their work.[18]

[18] For a discussion of government role in the labor market, please see Siddiqui (1996-97).

Another area where an Islamic system can contribute in improving distribution of income is land and its remuneration ---- rent. The neoclassical school's treatment of this issue is far from satisfactory from a distributive perspective.[19] Islamic economists have largely concentrated their attention on elimination of interest. However, as the school is receptive to any proposition that could improve distribution of income in the economy, proposals of taxing appreciation in land value could be seriously considered.

In this regard the work of Henry George could be the starting point that popularized the idea of taxing away all additional value of land. George's famous book Progress and Poverty (1887) vigorously rekindled the old debate about the value of land as "*unearned income*" and created a huge following. Henry George's primary concern was the vast disparity of wealth of his time. However, unlike Marx who was relatively more concerned about the exploitation of workers, George claimed that the reason for that disparity primarily emanated from ownership of land and increase in its value. He suggested that a single tax on land would be sufficient to cover all government expenditures.

A basic problem with Henry George's proposal was that he never came with any empirical evidence for possible level of tax revenue from land value tax and that it would make all other taxes unnecessary – releasing labour and capital from taking any burden of government expenditure.[20] A second problem with Henry George's philosophy, which might be the result of his first, was his failure to see any possible role of capitalists in undesirable distribution of income pattern in the economy. Michael Hudson (2008) points out that this cost George the support of a sizable fraction of the population who could have become his natural political allies.

As the main focus of Islamic economists is to look into every possibility of improving distribution of income in the economy especially in cases where efficiency is not compromised, a closer study of George's contemporary followers by Islamic economists is overdue.

6. Conclusions

Islamic economics is perhaps the most recent addition to the list of heterodox economics. This paper has highlighted a number of areas where Keynes original ideas coincide with some of the basic principles and objectives of an Islamic economic system. For those Islamic economists who are open to look into any possibility of improving the distribution of income in the economy, can benefit from

[19] Please see Siddiqui (1996).
[20] Hudson (2008).

studying Keynes and his followers especially those who have remained closer to Keynes original ideas. It is also hoped that after the impact of 9/11 subsides, Islamic economics would be seen as a useful addition to the list of heterodox economics by other members of the club.

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