بسم الله الرحمن الرحيم

An Economy Supervised by a Guardian State

In capitalism, unrestricted privatization is prescribed as the cure for both poverty and lack of development. It is precisely this position that was adopted on 10 June 2019 by the Advisor to the Prime Minister for Finance, Revenue and Economic Affairs, Dr Abdul Hafeez Shaikh, where he stated that it is a government priority, “To fix institutions,” adding that “Our institutions- power, gas, steel, PIA, railways and insurance etc., have all been hollowed out over the years,” describing them as “white elephants” whilst pointing to “foreign businesses looking for opportunities” as a way out.

In this Washington Consensus era, the World Bank and IMF continue to insist upon private sector led growth for “developing countries.” To develop the narrative, it is argued that public sector enterprises are bleeding the state treasury dry and so they must be off loaded to the private sector. It is argued that rampant corruption and inefficiencies of the state prevent it from effectively running enterprises. As a hardened World Bank man, it is not a surprise that Dr. Abdul Hafeez Shaikh would advocate privatization so strongly.

However, there are other implications of privatization. It is acknowledged by many economic studies that there are both winners and losers with privatization. After the previous drive for privatization by Dr Abdul Hafeez Shaikh in the Musharraf era, it is noteworthy that state enterprises were profitable before privatization or become immensely profitable after privatization. Post privatization profits now line the pockets of the new private owners rather than filling the emptying coffers of the state treasury. In reality, profits from successful enterprises end up in private, often foreign, hands instead of being available for the common good. The state must content itself with tax on profits instead. Not just this, the State must also heed to IMF prescriptions to provide tax concessions to big private businesses to encourage an investor friendly climate for Foreign Direct Investment (FDI). In all of this, the winners are the few rich private interests and the losers are the many, the masses mainly.

Unlike both socialism and capitalism, Islam uniquely advocates partial abolishment of private ownership meaning that the individual is prevented from owning certain properties, whilst other properties can be owned without any limit over their quantity. If the beneficial nature of a property cannot be enjoyed by the individual alone, except by depriving the public from that property, then it is natural to prevent the individual from owning that property individually, such as energy, minerals, public roads, town squares, rivers, seas, and the like. The restriction is decided by the nature of the property.

Islam uniquely excludes energy and minerals from privatization by reserving them as public property, so the winners are many. In addition, Islam’s company structures naturally limit the scale of private ownership of large scale capital intensive enterprises, allowing for a strong public sector within large scale industry, telecommunications, construction and transport. With access to larger revenues than today, the state treasury of the Khilafah State (Caliphate) would not resort to interest based loans and regressive taxation upon the poor and needy, which are both forbidden in Islam. Instead of reaching for the privatization panic button, the Khaleefah would be compelled to weed out corruption and rectify inefficiencies in State run enterprises.

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Musab Umair – Pakistan