

Press Release

## The Khilafah Alone Can Solve the Continuous Crisis of Financial Shortages in the Economy of Pakistan

Successive Pakistani governments have consistently faced the challenge of fiscal deficits. It means the state is continuously short of resources to spend on the people. This shortage of resources faced by the state is the direct consequence of the economic governance structures implemented in the country. Pakistan's ruling elite implements the capitalist economic model in the country. Capitalism celebrates freedom of ownership. It believes that the economic resources of the country must be at the disposal of the private sector. It believes the government must have minimum interference in the running of the economy, except acting as a strong regulator of the private sector. This approach towards economic management deprives the state of direct supervision of the country's resources. Instead, they are owned by the private sector. To generate revenue for state's expenditures, the state relies on taxing the private sector. In addition, it finances the fiscal deficit by interest-based loans, which throws Pakistan into a debt trap.

The private sector naturally views the taxation of its wealth as the state taking from its resources. It views the state's taxation efforts as predatory. This tension gives rise to an adversarial politics of taxation. The state and those it wants to tax clash with each other for maximum financial gains. The tension and political pressure generated by such politics often inhibits the state's ability to generate enough taxes to meet its revenue needs. The state then resorts to taking interest-based loans from financial institutions, capital markets and the general public. Interest-based loans are a drag on the economy, especially when they are used to finance the state's non-development expenditures. As interest payment rise on the debt, the state has no way to repay that interest, except for increasing taxation and taking even more interest based debt. Thus, the state is locked in severe, continuous financial crisis. Capitalism's economic management gives us the problem of a poor and resource starved state and a rich private sector.

Islam has a radically different approach towards economic management. Islam does not give dominant control of the critical resources of the economy to the private sector. Islam divides the country's resources in to three different ownerships: public, private and state ownership. The state supervises the resources under public and state ownership, while the private sector controls the resources under private ownership. Islam also allows the state to tax private ownership. However, it restricts the state's ability to tax private wealth by allowing the Khaleefah to collect Shariah mandated taxes from the private sector only. The Khaleefah has no right to levy any

tax on the Ummah, if the Shariah has not levied that tax. Islam prohibits all forms of interest-based financing, both for the state and private sector. No interest-based transactions or interest-bearing financial instruments are allowed in Islam.

Moreover, in capitalism, capital and investment are allocated in the economy through market forces. However, in Islam, capital and investment move in the economy through partnership contracts and the state itself. There are no banks, stock markets and capital markets in Islam. Thus, the private sector cannot raise capital through interest-based loans, issuing stocks in the stock market and issuing bonds through capital markets. This makes it difficult for the private sector to raise huge amounts of capital. Thus, in an Islamic economy the capital-intensive industries like telecommunications, air travel, arms manufacture, cement and the fertilizer industry are all financed by the state. The state makes investment in capital-intensive industries. The revenues from such industry go in to the state's coffers. The state in Islam is thus rich.

The wealth generated by the public property, such as revenues generated from sale of oil, gas and mineral resources, are all at the state's disposal to spend on the needs of the public. The state owns the revenue generated by large-scale capital-intensive industries. It collects the Shariah mandated taxes like Ushr, Kharaj and Zakah from the private sector. The state's revenue is not wasted in massive interest payments, which happens in the financing model of capitalism. The state thus has ample resources to spend on the people. The Khilafah (Caliphate) will implement Shariah rulings related to the economy. It will unlock the massive economic potential of Muslim lands. It will be rich state with a lightly taxed private sector. It will bring widespread economic prosperity, as was the case historically. Implementation of Islam's economic system made the Indian Subcontinent one of the richest regions of the world.

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