MARKET AND PRICES

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Introduction

The subject of this chapter is common yet essential to any economic study because it deals with an issue important to understanding both microeconomic and macroeconomic theories. Many people wrote on this subject, and one finds a chapter on market and prices in almost every elementary and intermediate textbook on economics. This chapter is written in such a way as to present the Islamic point of view within a stream of human knowledge developed by learned men and women throughout history in all societies.

In other words, I intended to incorporate the Islamic perspective within a common body of human knowledge instead of giving it a distinctive color. In following this approach, I put more emphasis on points commonly shared by Islamic and other cultures than on the points of differences. At the same time, I tried to show those elements that characterize the Islamic system and to explore its integrity and wholesomeness. The chapter is therefore written in a simple and commonly style to make a smooth presentation of the market system in Islamic perspective. It addresses the students of economics in a common and simple language as a chapter in an intermediate book. Throughout the chapter, the reader is not presumed to have studied much economics and the basic ideas about the market are introduced in their simplest forms. The few new ideas, such as the point that market in the Islamic system is basically the same market known in a free market system, are introduced smoothly without even underlining them.

This chapter comes in four sections. Section One deals with the institution of the market in general as it developed in the history of Muslim society during the time of the Prophet (Pbuh). Section Two delineates the functions of the market. It analyzes the functions of price setting, income distribution and resources allocation. Section Three discusses the performance of the market and the objections of its critics. It expounds on the issues of conditions of ideal price setting, the market signal and its nature and non-marketable goods and services. Section Four explores the characteristics of the market functioning in the Islamic economic system. This section discusses the issues of economic freedom, spirit of cooperation, rules of fair business and the role of the state in the market.

Obviously market forces are those of supply and demand. This chapter does not intend to deal with market forces as this is a subject other chapters of this book.

SECTION ONE

THE MARKET INSTITUTION -- ISLAMIC REFORM

Historical Perspective

...And the Prophet (Pbuh) entered Madinah in the year zero of Hijrah... and he went to see the market... This was the beginning of Islamic civilization, the birth of the Islamic state and the establishment of the Islamic system, economic, social, political, etc. Let us examine the structure of the market of Madinah and find out what the Prophet (Pbuh) did with it.

The market of Madinah was a place in which farmers, traders and craftsmen displayed their merchandise to purchasers at certain prices. Negotiation and bargaining might be carried out between suppliers and buyers and finally, sales were concluded at agreed prices. Thus, exchange of goods from hands to hands is the main thing that is done in a market.

This simple and plain fundamentality existed in many markets before Islam and was also retained in Islam. In that market, like in many other markets, the actors are free to sell and buy, to stand in the market or to withdraw from it and to bid the price that pleases them. However, it should be noted that this plain and full freedom of movement and transactions may sometimes be theoretical only, i.e., the activity in the market may be subjected to either of two kinds of coercion, from within and from without.

Forces within the market may be manifested by sellers or buyers who have a large share of the market to the extent that enables them to extract more gains by imposing the price they desire on the other party. This economic power game in the market may reach its maximum in which one party controls all the supply (or demand) in a market. On the other hand, rulers, governments, or sometimes armed gangs may exercise a control on the market from without by imposing certain fees and taxes on individual dealers and/or transactions. Such fees will be reflected as an additional burden on transactors and goods and services exchanged.

<u>Islamic Foundations of the Market</u>

The principal and far reaching Islamic addition to the basic fundamentality of the market is three folds: first, Islam reorganized the market with a strong commitment to freedom, and eliminated outside forces and taxes on transactions. Second, it established a strong moral basis for the market relationships and third, it elaborated a detailed legal framework to regulate those relationships.

In the first place, the Prophet noticed that the market which existed in Madinah was overloaded with taxes and fees imposed by those who held authorities and power. Thus the Prophet declared that there will be no fees nor taxes on all the actors in the market. People are left completely free to enter (and exit from) the market. Moreover, Islam also prohibited monopolistic practices and introduced new rules to keep such practices checked and to maintain a reasonable flow of information reaching all people in the market as much as possible by preventing certain forms of holding information and abusing the ignorance of others such as concluding transactions before new comers reach the market itself and observe its conditions.

Secondly, Islam emphasized private ownership as the real foundation of market transactions.The principle of private ownership is made a cornerstone in the Islamic economic system. It is established by God as an unequivocal right of persons. This right derives its strength from the eternal *Shari'ah* itself not from a government or any temporal authority. Private property is earned by means of work, intrinsic growth of already owned property, inheritance, gift and voluntary giving, and by exchange (Abbadi: *Al-Milkiyyah fi al Shari'ah al Islamiyyah*: Property in Islamic *Shari'ah*). Private ownership is protected against aggression by other individuals as well as by government. It cannot be confiscated or taken by force. The Prophet (Pbuh) even declared that one may fight to protect one's property and the Islamic law is geared toward protecting the right of private ownership and determining its areas, limits and relationships with public ownership. This is the sacred foundation of market relationships in the Islamic economic system.

Thirdly, the recognition of exchange as the main process to obtain other persons' properties necessitates its regulation. Consequently, exchange relationships are elaborately regulated in the *Shari'ah* with the objectives of promoting exchange and enhancing individuals to enter in exchange relationships. Actually, exchange relationships increase the utility of material things and allow for better performance of the economic activities (Zarqa: Qawa'id al Mubadalat fi al Fiqh al Islami: Rules of Exchanges in Islamic Jurisprudence).

Law of Exchange

A major part of Islamic law is devoted to regulating exchanges and relationships in the market. The main features of these regulations and rules may be summarized in the following points (Zarqa: ibid):

1. Exchange must always be founded on acceptance and free will. People enter exchanges by their free choice as they are fully authorized and empowered over their own properties. Furthermore obstacles that hinder the free choice are prohibited and

removed. These include abuse of ignorance of market conditions, cheating, coercion, etc.

2. Clarity and accuracy in exchange positions of parties, exchangeable items and contractual conditions so that potentialities of dispute, misinterpretation and misrepresentation are minimized. All this relates to an underlying idea that exchange must be based on full satisfaction of parties involved so that no ill feeling, hatred, or dissatisfaction are caused.

3. Exchange must always be based on justice and equity between exchangeable items. Justice may often be revealed by mutual satisfaction of parties. However, their are cases in which justice and equity in exchange may not be fulfilled even with free will. In those cases an objective standard of equity is established. For instance, interest in prohibited although it may be given willingly because it has no material counterpart.

4. Once concluded, transactions must be stable and exchange conditions must be fulfilled so that people can establish their plans and expectations on sable ground.

Reform of the Market Institution: The Morality/Legality Mix

Within the first few years, the Prophet (Pbuh) noticed that the market of Madinah was not placed in a most convenient locale that suited the new socio-economic structure of the society. Moreover, it was dominated by Jews, who had, by then, began to be antagonistic to the newly founded society and state, and the rules of fair play were not always observed by the sellers, buyers and intermediaries in the market. So the Prophet (Pbuh) decided to undertake certain reforms.

He searched for a better locale outside the Jewish quarters to rid the market of any alien domination or dependence. He thought that an area in the vicinity of the homes of the indigenous residents of Madinah, who were called *al Ansar* and their orchards would better suit the new and growing economy of the nascent nation.

After he found a suitable place for the new market, the Prophet (Pbuh) personally dedicated it. He ordained that no entry fees or any sort of taxes or restrictions may be imposed on sellers, merchants or buyers, or on their merchandise. Additionally, he formally decreed certain rules of fair business that include:

I. The general principle on which market transactions are based is that of exchange, i.e., one takes something and gives something equivalent in its place. Taking what is unearned by exchange is not permitted nor tolerated as this is a sort of taking others' property without reason or justification. Any transactions that violate this principle are not considered legal.
This includes lending on interest because interest is taken without anything in exchange , abusing the ignorance of the other party and transacting with him at exorbitant prices, relationships that do not fairly distribute the elements of risk and uncertainty such as selling fruits before they are ripe, etc.

II. Honesty and truthfulness must underline all business transactions. This means the prohibition of cheating, deceiving and all kinds of misleading information or wrong propaganda, such as swearing that the merchandise is of high quality or high cost, having phony buyers to bid higher prices, etc.,

III. Measurement must always be exact, whether by weight, volume, or other mean,

IV. Fulfillment of contracts is to be enforced by the power of law,

V. Distortions of the rules of fair play of the market forces is not permitted and should always be checked. Therefore, monopoly is prohibited. So is receiving incoming caravans and concluding transactions with them before they arrive into the market or even acting on their behalf in transacting with retailers and other parties in the marketplace. Furthermore, producers and merchants are encouraged to bring their output to the market,

VI. The state does not interfere in setting up prices leaving them to the fair play of market forces.

All these rules of fair business practice in the market are derived from and supported by verses of the Qur'an and statements in the Sunnah. So much so that they are considered general principles and make the backbone of *Fiqh al Mu'amalat*, on whose basis the whole legal code of business transactions is founded. They also underlie the market organization in the Islamic economic system.

What is important to the present chapter is the fact that the market institution, which itself is not an invention of the Islamic system, was preserved, its spirit enhanced and its performance improved. This was done without creating any special arrangement that may inject any peculiarity in the market structure or that makes this institution uniquely Islamic and applicable only under certain assumptions that are distinctly and exclusively Islamic.

In other words, the reform of business practices introduced by the Islamic system only makes the market behave better in the sense that, after this reform, it can function more efficiently and can perform with more stability, and maximum satisfaction can be attained by all actors in the market.

Since all these principles and rules are completely consistent with human rationality and common sense, this sort of reform could be adopted by any reformist leadership. It could be implemented under any set of assumptions, provided that the market institution itself is preserved. Nothing in this reform can be rejected by rational people, even those who do not accept Islam as a religion. The kind of reform of the market brought about by the Prophet (Pbuh) stands on its own merits and it can be argued on grounds of its own virtues because it is consistent with human nature and rationale.

To sum up, the market institution is essentially kept in the Islamic system as it was before Islam, but is improved by legislation which limits and checks distortive elements from within and from without, and regulates exchange relationships in a way that enhances and protects them, and by increasing the inner, personal, law-abiding commitment of the parties who act in it. I believe that this assertion is necessary because there are Muslims today who like to nourish a feeling that Islam overhauled this institution and incorporated drastic and basic changes that are categorically derived from Islamic economic system and differ from general common sense.

SECTION TWO
MARKET FUNCTIONS

What does the market do? Though the answer is obvious and very simple, it has been the center of deep study. Does it set prices? Clear quantities? Does it allocate resources? Or does it do all these functions together?

Price-setting function

Prices that are accepted by buyers and sellers allow transactions to be concluded and quantities to change hands. Buyers enter the market with certain purchase plans. These plans are based on their desires that are made effective by the buyers's acceptance to pay for them certain part of their resources. The cumulative total of purchase plans of all buyers of one commodity is the market demand for that commodity. Market demand is usually characterized by a negative relationship between the quantity of the good and its price.

On the other hand, sellers of goods enter the market with their own plans too. They already knew how much this commodity cost them and they have certain ideas about the increment they like above cost in order to compensate for the efforts. If we assume that sellers or producers are rational and wise they would make all effort not to waist any resources in the process of production. This rationality assumption implies that under the same conditions of technology and means of productions, producers cannot increase their output without incurring additional cost per unit of output.

The cumulative total of sale plans of all sellers in the market is the market supply. Market supply is characterized by a positive relationship between price and quantity offered for sale because and increase in the quantity offered requires additional per-unit cost.

When buyers and sellers meet in the market, there will be a price at which both buyers and sellers are willing to exchange the same quantity. As the number of people who use a certain commodity increases, there will be more demand for it in the market and this puts an upward pressure on its price.

Ibn Taymiyyah talks about the quality/price relationship in his book _al Hisbah_. He recognized the effect of the increase in demand on prices. He also recognized the effect of an increase in supply that puts a downward pressure on the market prices as more *rizq* or goods in the market results in reduction of their prices.

This function of the market as a price setter also appears in the sayings of the Prophet (Pbuh). It is reported that certain prices went up in Madinah and some people complained and asked him to fix those prices. He (Pbuh) refused on the ground that such a rise was from God and any interference in fixing prices, when they move up or down because of natural reasons, may result in injustice to either the suppliers or the consumers.

It must be noticed that the function of price setting is a very dynamic one. Prices keep changing in the market with continuous changes in the elements that affect supply and demand.

Furthermore, prices are sensitive to changes in expectations about market conditions in the future. Therefore, not only real future changes affect present prices, but also news and rumors, be they true or false, influence current prices.

All these changes make talking about a price that clears the market almost theoretical and merely ideal, since there might be a number of prices, as many as the number of transactions concluded in the market. Consequently, it is always better to relate prices to certain points of time or to certain transactions and define prices in terms of those times or transactions.

Finally, it is worth noticing that, fuqaha' [Muslim scholars] recognize the price-setting function of market. In their judicial discussions, they refer very often to "price of the equivalent." This is the market price of goods equivalent to the goods that are subject of a dispute. They use "price of the equivalent" as the price that reveals the true value of disputed items.

Income distribution function

The main role of the market is, undoubtedly, that of setting prices at which quantities of available goods change hands. This function enables the market to perform a number of derived functions. The first of these derived functions is the market's role in the distribution of income among different participants.

Two kinds of demand exist in the market. A demand for goods and services that can be directly consumed or used by the buyers or consumers and a demand for services that can only be used in the process of producing consumption goods and services.

Sellers, who receive money in exchange for the goods they sell, often use it to pay for services of labor and land in the process of producing the goods they sell. In the market of these services, producers are purchasers of labor hours and land years. Amounts paid by producers in the markets of labor and land are in fact the incomes of the owners of these factors of production. These incomes are determined by prices in these markets.

Moreover, Producers of consumption goods also buy raw materials for their industries from other sellers and producers at prices that usually cover a profit margin that is kept by the seller, exactly similar to the case in the consumers' goods market.

Therefore, prices set in the market for consumption and intermediate goods and services determine the incomes (profits) of all sellers or producers in the society.

Consequently, the market determines incomes all persons ultimately receive, either for services sold directly to consumers or for services supplied to producers, such as laborer's wages, rentals received by landowners and profits earned by sellers, producers and other businessmen.

If we imagine that each commodity or service which enters the market for sale has its own separate market, a market that is characterized by its own demand and supply, a market price for that commodity or service will be reached. The total of all the prices determines the income of all participants in the markets whether they contribute labor, land, managerial skills or capital.

Here again you find that the Islamic economic system emphasizes the role of the market in determining the rewards of participants in making goods and services available in the market, i.e., those who supply the factors of production.

This is obvious in the practice of the Prophet (Pbuh) in letting market forces of demand and supply behave in their random manner without government interference. It is also apparent in his explanation of the reason for which he did not like to interfere with market prices that is "to let people be given *rizk* by God from each other." The same is affirmed by Ibn Taymiyyah and other scholars through their emphasis on the role of the market in determining the earnings of the owners of factors of production.

Market- determined prices are recognized as a true expression of the values of the factors of production for purposes of settling disputes in courts. From court's point of view the market price of labor is called the "wage of the equivalent." This is a market-determined wage of labor that has specifications similar to those of the labor which is subject of a suit in court. Fuqaha' and judges use this wage for valuating labor in court disputes.

One must remember in this regard that deciding the rewards of participants in the market is something, and determining the whole income distribution in the society is something else. We would be committing a serious mistake in thinking that the whole operation of distributing income to all individuals in the society is done by prices alone.

To look at this point in a very simple way, let us observe that there are many people who do not earn any income in the market because they have no factors of production to offer. There are young children who cannot or do not supply any service to the market. There are also housewives who spend all their time working for the family and they are not paid for these valuable services. There are also persons who do not work either because of certain handicap or because they do not find any job to do.

Lastly, there are persons who do not have any land or capital to offer for rent or sale in market.

All such people get income not through the market but by other means. Income in society is distributed by means of exchange as well as by means of unilateral action without exchange. This latter form of income distribution is usually called transfer payments.

Through transfer payments, income shifts from one hand to another without any exchange. Examples of transfer payments include the head of a household bringing food and clothes to members of his family, charitable donations given to the poor at the door of a mosque and taxes collected from the rich to provide for the schooling of poor children.

Transfer payments may be voluntary, such as contributions to charitable organizations, or they may be obligatory such as taxes and *Zakah* given by the rich to the poor. In summary, the market determines that part of income that is earned in a process of exchange and not the part that is acquired through transfer payments.

Economic systems that accommodate the institution of the market may differ in the extent of the income distribution role they assign to the market. Classical capitalists used to argue that the market alone is sufficient to do all income distribution. They assigned a value to the outcome of the market distribution process as a fair distribution because it allows everybody to get the result of his efforts.

Islamic economists usually argue that although the market distribution of income is accommodated, it must not be left alone to do all income distribution in the society for two main reasons: first, the distributive results of the market are not necessarily in line with the principles of justice and human dignity, and secondly, the market tends to deviate from proper observance of the rules of fair practice.

Therefore, the Islamic economic system adds another distribution mechanism that is *zakah* and other obligatory expenditures. This mechanism aims at the maintenance of certain level of income to every person. Moreover, this mechanism is an indigenous institution in the Islamic economic system whose purpose is to continuously amend the distributive outcome of the market process by taking from the rich and giving to the poor. This institution is a permanent one and is given a religious status and backing that implants it in the consciousness of Muslims as well as in the Islamic legal and ethical code.

On the other hand, the Islamic economic system mends the market process by injecting a semi-judicial governmental department whose responsibility is similar to that of the ombudsman in some European traditions. This department is called *al Hisbah* and it acts as a quasi judicial controller of the activities of participants in the market, in order to see to it that the ethical and moral principles of fair practice are always observed.

Resource allocation function

This function is also derived from the price setting role since market prices give signals to producers about the status of demand in the market. Although the information contained in the market prices pertains only to the past as they tell about what actually happened in the market, it represents an essential element in building the producers' expectations about future trend and hence contributes to their decision how much of the resources they will allocate for the production of each good and service.

Furthermore, the markets of the factors of productions, such as labor and land, not only set price tags on these factors but also determine the factor's quantities that are going to be employed by producers. These quantities are nothing but the amounts of resources utilized or allocated for producing each kind of goods and services.

Naturally, demand in the factor markets is made by producers and is, therefore, affected by the future demand they expect for their output. Therefore, the choice of what to produce is done in the market by a process of a continuous interaction between the forces of supply and demand in all markets.

In principle, the Prophet (Pbuh) did not restrict or object to this function of the market. There are certain hints to the effect that he did not always view the allocation of resources done by the market forces as the most desired one from the point of view of serving the national interests.

Hence, we find in the Sunnah several incidences in which the Prophet (Pbuh) urged for allocating certain resources for some uses that would have not been fulfilled had they been left to the market forces. This sort of allocation by government action may sometimes take the form of a voluntary submission on the part of individuals to the desire of the government. Alternatively, it may take the form of a direct government allocative decision.

There are many examples in the Sunnah about the voluntary reallocation of resources by individuals after the Prophet (Pbuh) had expressed the desire of the state to achieve certain objectives in the public interest. These include the construction of mosques in Madinah, the allocation of water wells and fountains for free public drinking, voluntary charitable contributions to support the poor and needy in the city, allocation of resources to learn foreign languages, voluntary contribution to the armament and military operations, and donations to support the public administration. Objective wise, this somewhat voluntary reallocation of resources can be classified into four categories. They are allocations: for national security interests, for public services including public administration, for religious usage and for philanthropic purposes.

Allocation of resources by direct state action is achieved by three major instruments: public and state property, *zakah* and other financial obligations, and forced reallocation of resources. Public property may sometimes be designated for the state to use at its own discretion or it may be assigned for the use of the public.

These two kinds of public property, in addition to private ownership, were known since the time of the Prophet (Pbuh). He devoted certain property for public use. This applied mainly to agricultural and pasture land. There are cases in which the principle of public property was applied to water fountains and to surface mines too.

The concept of state property means that something is owned by the state for its own use or as a source of treasury revenue without being dedicated for the use of the public. In this case, the public is not allowed to interfere with this property except by way of the political decision-making.

This principle of state public property was especially applied to agricultural land in newly conquered areas. It was also applied to lands turned over to the state by private owners in Madinah and many scholars and jurists believe its coverage extends to underground minerals and major sources of energy such as waterfalls.

During the time of the second Khalifah, 'Umar, revenue from agricultural land owned by the state made up the major source of the state treasury. The allocation of resources that stem from state property is left totally to the state.

The second instrument of non market resource allocation is that of *zakah* and other financial obligations. Although *zakah* mainly transfers income from the rich to the poor, it has certain allocative impacts through its effect on demand as well as through the state's role in its collection and distribution. Other financial obligations are also means of resource allocation since they transfer resources.

As far as the third instrument of resource allocation is concerned it seemed that it was rarely invoked during the time of the Prophet (Pbuh). While preparing for the battle of Hunain, the Prophet (Pbuh) needed some shields and he took them from a person called Safwan. The person asked whether that was a confiscation of his property by coercion and the Prophet answered negatively, assuring Safwan that it was merely a guaranteed loan. This may be the only example of reallocation of private resources by means of direct decision making.

On the other hand, jurists and scholars of ***Shari'ah*** believe that if an area needed certain crafts or professions and none of the people were satisfying these community needs, the state has the right to obligate suitable persons to learn and practice the needed crafts for fair remuneration even if that were against the free will of those persons until the need of the community is fulfilled (see: Ibn Taymiyyah, *Al Hisbah*).

SECTION THREE
MARKET PERFORMANCE

Since the beginning of human civilization, the principle of exchange has been accepted as a major and essential means of obtaining goods and services that one desires. It is a general observation of all human beings that they value exchange as a fair method of redistribution of resources to meet their diversified wants.

It is also observed that people have diversified desires and wants. What is wanted by someone may not be even considered by someone else or may be wanted to lower or higher degree than by the first one. This idea is even referred to in the Qur'an (43:32).

Exchange may occur by the free will of transactors or it may be forced on either one or on both of them. Free exchange only occur in a market.

Therefore the market institution is as old as human civilization itself. In this institution people give and take, and through this exchange of goods and services resources are distributed among people as well as throughout the production processes of different goods and services. The performance of the market in achieving free exchange cannot be denied.

However, three major criticisms are addressed to the market: 1) Conditions required for setting prices that represents a free interaction of the forces of demand and supply are very ideal and unrealistic, 2) the market responds only to money power and disregards all those voices that are not supported by dollar power, and 3) there are a few goods that are unmarketable in a sense that the market fails in pricing these goods because the principle of exclusion through price cannot be applied.

1. Conditions of ideal pricing

If the market of a given commodity consists of a very large or infinite number of producers and consumers; each of them is very small in terms of his/her quantity supplied or demanded; any one of them is free to enter or exit the market; the product or commodity offered by all the producers is exactly the same and no differences what so ever exist between the output of any producer and that of any other producer; and all relevant information about the commodity is readily and freely (without any cost) available to all producers and consumers alike, the pricing environment would be ideal.

If all these conditions were fulfilled, so that none of the transactors could affect the market price by an action or a decision regarding his/her quantity offered (or demanded) and/or the desired price, the market-set price will result out of an (explicit or implicit) auction process that clears (i,e, make all possible matchings between suppliers and buyers of) the market. In this situation every transactor will have to adjust his/her own decision to make it compatible with the market-set price and quantity exchanged.

Prices, in this case, are not influenced by any dealer and we say that all producers and consumers are price takers; none is a price maker or giver. The above mentioned conditions are called conditions of **free or perfect competition**. The price faced by every producer and every consumer, under perfect competition is shown in Figure 1. This figure indicates that any

Price

P

Quantity

Figure 1: Price under perfect competition
(for individual economic agent)

producer may sell any quantity ofthe commodity at the given price without affecting it whatsoever, and the same applies to any consumer, who can buy any quantity without affecting the parket price.

We notice in Figure 1 that for a given single producer, the personal supply curve which is drown on the basis of the producer's cost analysis becomes only relevant for selecting the quantity supplied, as he/she is faced with unlimited demand at the market price along with unlimited supply from the competitors at that same price. The same thing also applied to any single consumer. Hence, for producers operating under perfect competition the price line may be seen as the demand curve fore the single producer's commodity; and form the point of view of the consumers' the price line represents the supply curve of the commodity, any single consumer can determine the quantity demanded by applying his/her demand durve to figure 1.

It must be noted, however, that if we look at the industry as a whole, we find a different picture. For the industry of a certain commodity, the market demand consists of the total demands of all the consumers, and the market supply also consists of the total supplies of all producers. The market price is set at the intersection between total supply of a commodity and its total demand, under the conditions of perfect competition as shown in Figure 2.

Price

D

S

Quantity

Figure 2: parket price for the whole industry

Classical proponents of the free enterprise system (capitalism) assert that, under the above mentioned conditions:

- prices will be set at their lowest possible level that is itself the most beneficial to consumers and the most efficient to the society,
- only the most efficient technology will be able to survive and stay in the market,
- maximum utilization of resources will be guaranteed through the division of labor, and
- factors of production will be fairly rewarded according to their respective marginal productivity.

Obviously, these conditions are very idealistic and unrealistic. They can only be fulfilled in theory, not in practice. In reality, the product of any producer is different from that of other producers, information is very often not available, incomplete, and costly in terms of both time and money, and producers and consumers do not always have a free hand with regard to the entry and exit from the market, nor is their size usually very small or atomic with respect to the market.

Consequently, the free enterprise system could not withstand the attacks of reformist economists who challenged the applicability of its assumptions about the conditions of exit and entry, size and power of transactors, similarity of output and lately availability of information and its acclaimed cost-free nature. Such encounters came as early as the thirties of the current century, with Chamberlain's theory of monopolistic competition, and continued with the expansion of research on the role of information in economics during the last three decades.

2. Nature of the market signal

Since the demand for a certain commodity in the market is made not by all those who need it and desire to acquire it but only by those who can pay for it, the market signal given to producers in the market represents the part of demand that is supported by means of payment.

Consequently, producers would like to produce those goods and services that can profitably be sold in the market, no matter whether they are the most needed goods and services from the point of view of all the society, especially the usually poor masses.

For instance, take the case of those who are unemployed. They have a potential demand for consumer goods and services but cannot fulfill their demand because they do not have sufficient means of payment in exchange for these goods and services. This means that the demand of the unemployed is an inactive or a notional demand that can become active if they can sell their labor.

On the other hand, producers of goods and services have a notional demand for the labor services of the unemployed if they can be assured that the extra quantity of output that will be produced by these services can be sold in the market.

As long as the notional demand for consumer goods and services and the notional demand for labor remain inactive or unsupported by a dollar power, producers do not receive any market signal about the need for more goods and services and they do not have any desire to increase their output by employing more labor.

Moreover, the market signal itself may not reveal the best interests of the whole community together. As the demand in the market represents those who can pay for it, producers tend to allocate resources toward the production of those goods and services that bring them the highest return on their investments.

Consequently, goods and services whose return is low, because those who need them do not have big economic power, will not attract sufficient resources. Therefore, the result of market evaluation may sometimes be socially imbalance and it gives little response to the desires of the majority of people.

Furthermore, since the real life circumstances of the market lack the fulfillment of the ideal conditions of perfect competition and are such that the respective bargaining powers of sellers and buyers have important effect on the outcome of the deal, especially in determining its price, the economic power of transactors plays a great role in dictating conditions favorable to the strongest party.

Consequently, critics of the free enterprise system accuse it of handing the economic power to the owner of the means of production, i.e., the capitalist, who tends to drive the wage rate toward an extremely low or subsistence level barely sufficient to maintain the laborer in order to reap the highest possible rate of profit. The result of this process, it is claimed, is a continuous decline of the share of the working class in total income and an accumulation of income, and consequently wealth, in a few hands only.

These difficulties faced by the free enterprise system because it overestimates the role assigned to the market, raise questions about the validity of the system itself and led, as time went by, to two major shifts in economic thought and practices. The first is the Marxist revolution in Russia and its subsequent seventy years of sufferance for hundreds of millions of people, and the second is the interventionist movement that introduced mixed economies in all free democracies of First World countries.

The success of the Marxists in grabbing political power in Russia in 1917 put to historical test the ideas of the communist dream of Karl Marx and Friedreich Engels. The answers to the three basic questions in economics, what to produce? For whom? And how? are now given by the central planning board, called the Gosplan. This central authority determines the allocation of resources in the whole society, assigns wages and salaries and sets prices of all goods and services.

The central planning system has given more economic weight to bureaucracy that not only claims the right of determining social priorities and preferences but has also huge amounts of information and claimed wisdom that, together, allow it to make decisions for the whole society!.

This resulted in setbacks, especially in the sectors of agriculture and consumer goods, in addition to immense sacrifices in terms of human freedom, dignity and even lives. Finally, it ended up in square one again after the quick and sweeping fall of the totalitarian governments in eastern Europe.

On the other hand, appeals for government intervention in economic decision making are not new in capitalist societies. They date from the middle of the nineteenth century. As early as the third decade of the nineteen century, intellectuals and economists have been calling for state action in the area of employee/ employer relations.

The interventionist movement received more blood from the Anti-Trust Act of 1913 in the United States but it had to wait until after the Great Depression for J. M. Keynes to show that, left alone, the market cannot assure a state of full employment.

The welfare movement took off in England when London was under the bombardment of German planes during the second World War. It had been founded on the memories of the miseries caused in the thirties by the effect of mass unemployment that resulted from the Great Depression. It calls for state action in the areas of training, rehabilitation, search for jobs and opportunities, conventional and vocational education, housing, direct assistance, etc.

3. Non-marketable goods

Certain goods and services cannot be marketable for certain reasons. The main reason for non-marketability is the inability or inconvenience of the application of the exclusion principle on some goods and services.

Take, for example, the maintenance of peace and order in a society. The nature of this service is such that, in most cases, if peace and order is maintained say because one consumer purchased it, then all people in the neighborhood benefit from it.

Therefore, no discrimination between those who pay and those who do not pay can be made since the service obtained by one consumer is not rival to that taken by others, i.e., the presence of a price does not exclude those who do not pay from getting the service.

Sometimes the principle of exclusion can be applied but it may be inconvenient to do so either because of the cost involved or because it may defeat the objective of the project. For instance, a toll on the entrance to a privately built mosque can be imposed, but this foils the objective for which the mosque was built.

A public park in the neighborhood may have a user's price in the form of entrance fee, but it may be very costly to assess and collect prices from all the park's users because the main benefit of the park is its general effect on the ecological environment of the area. To price the units of this service obtained by individual consumers and to collect such prices become too costly at the present level of technology.

Additionally, there is the case of political choice, where certain goods and services , though may be subjected to the market mechanism, are considered so important or valuable that their provision is taken by the government by virtue of political choice, although these goods may be subjected to the market mechanism,. National basic education may be a good example, especially in those countries that place high value on nationalistic principles.

The provision of these kinds of goods and services calls usually for financing from fiscal sources through the collection of taxes. The presence of such goods and services, which are usually called social or public goods, marks a failure of the market process in performing the tasks of setting prices, distributing real income (i.e., amount of real goods and services consumed by individuals) and in allocating resources. The decision of what, how, and for whom to produce social goods is itself of a political nature and it should follow a political process of decision-making.

SECTION FOUR
CHARACTERISTICS OF MARKET FUNCTIONING IN THE ISLAMIC ECONOMIC SYSTEM

Market performance was never ideal throughout time and space, but the market critics were never able to suggest any substitute with fewer damaging effects and consequences. As long as man believes in human dignity, freedom of choice and exchange as a fair means of resource redistribution, the marketplace remains superior to any other humanly possible alternative.

However, to reduce its deficiency, two things may be required: Market functioning needs certain adjustments, and the outcome of the market process should not be considered necessarily final and ultimate.

The Islamic system's prescription to improve the market performance consists of three major points that may be considered the characteristics of the market from the Islamic point of view. To these, I may add the principle of economic freedom because it is often overlooked in the contemporary Islamic literature.

Hence, this section will deal with the issues of economic freedom, spirit of cooperation, moral and legal rules of fair business practice and the role of the state with regard to the operation of the market.

1. Economic freedom

Economic freedom in the Islamic economic system is part of the general freedom of choice that is entrenched in the Islamic way of life. People are free even to select their religion and because of this liberty they are held responsible for their action both in this worldly life and in the hereafter.

Freedom of decision and selection among ideas, beliefs, and course of actions makes the foundation of religion in Islam on whose basis God sent Heavenly guidance. Otherwise He could have created the human race in a form similar to that of the angels who, by their own nature, cannot disobey God's orders.

Human beings are given the opportunity to choose between right and wrong, both of which are made accessible, to decide their own path in life and to take the actions they deem appropriate. God sent His Messengers to point out the track that is most acceptable to the Lord; this track itself is the most beneficial and rewarding to human beings in this life and in the after life. This is the essence of the doctrine of Islam.

The **Qur'an** also narrates stories of ancient Messengers whose ideas were rejected by the people to whom these Messengers had been sent. Very often, those Messengers were also persecuted and many of them were even killed. All this means, inter alia, that people were even given the freedom to disobey God, carry out the actions they like, be they good or bad, to the utmost of their capabilities, and to bear the results of their own stands and actions. Messengers are sent by God to show people what is right, good and useful, i.e., the permissible, and what is bad, wrong and harmful, i.e., the prohibited, and people are urged and encouraged to do the right and avoid the wrong. They are judged by God in accordance with just scales and rewarded or punished for what they have done.

Limitations on individual liberty are denounced in the ***Qur'an***. Such limitations include granting any political, religious or social authority the right to control the minds and ideas of human beings, glorifying ancestors to the extent that allows their footsteps to be unquestionably obeyed, accepting traditions without subjecting them to one's own judgement and scrutinization, allowing friendship and family relations to dominate one's creed and deed, etc.

The doctrine of accountability and reckoning in Islam is based on the axiom of freedom of choice. As human beings are individually free, they are also accountable on individual basis. Unless intrinsically related to each other, choices are also judged on a one by one basis.

Every person will be reckoned alone on the Day of Judgment. This applies to Prophets and their dearest relatives as well as to anybody else. In no way one can atone for his/her misdeeds except by seeking God's forgiveness and doing good deeds.

Also Islam does not recognize any concept of original sin as no one can be held responsible for another's mistakes. Consequently, baptism does not make sense in the Muslim mind nor can a doctrine of a chosen people be tolerated.

Moreover, every individual has a direct relationship with God. There are no intermediaries. The Prophet (Pbuh) is himself a mere Messenger or a vehicle through whom God's guidance has been revealed to mankind.

Forgiveness must be asked directly from God and no one has the least authority to decide or decree on His behalf. Confession before any religious body is against the spirit of Islam. Additionally, every individual has the full right to directly consult the sources of Islam, the ***Qur'an*** and the ***Sunnah***. He or she can exercise this right on his or her own without any outside interference.

This is a cornerstone in the carrying out of one's responsibility to God. Learning is a rational process and cannot be acquired through spiritual and/or ritual practices or meditation. On the other hand, teaching religion is a scientific procedure that does not carry in its fold any suggestion of special privilege or authority for the learned.

Lastly, Islam was completed with the end of the revelation to the Prophet Muhammad (Pbuh) that was marked by his death in the first part of year eleven of Hijrah. No one can add, omit or change even one single statement. Every deduction from, interpretation or application of a text of the ***Qur'an*** and ***Sunnah*** is considered as a mere personal understanding in which people may differ and none can claim authority to impose his own understanding on others.

Economic freedom is only one aspect of the overall freedom of choice Islam propagates and promotes. Throughout the history of Muslim society, economic freedom has been guaranteed by the traditions of the society as well as by its legal system.

The Prophet (Pbuh) refused to fix prices even when they rose very high. His refusal was based on the principle of fair-dealing in business that does not allow forcing producers to sell their goods at lower than the market price since changes in prices are caused by real factors of supply and demand without any monopolistic or monophonic forces.

Furthermore, the Prophet (pbuh) was keen to minimize the information gap in the market when he rejected the idea of receiving farmer-producers before they reach the marketplace and become familiar with what is going on there. He was very forceful in dealing with cheating and monopoly, to the extent that he equated them with the worst sins and disbelief.

After the Prophet (pbuh) and throughout many centuries of Islamic history, Muslim society has preserved this cherished principle of freedom. The idea of supervising moral behavior of the market was introduced by the Prophet himself.

During the early centuries of the Islamic era, various thinkers wrote books on the role and duties of the market supervisor, *al Muhtasib*. The theme that prevails all these writings is the preservation of freedom in the market and the elimination of monopolistic elements.

The principle of freedom was carried by many Muslim jurists to an extent that even threatened the system by depriving the government of its right to interfere in case of monopoly. This indeed, compelled Ibn Taymiyyah to write his book *Al Hisbah*, to show that individual economic freedom must be limited in such cases, even if such limitations may sometimes include pricing of goods and services.

With this background and to express his definition of economic freedom, Ibn Taymiyyah could confidently make a strongly worded statement that individuals are fully authorized to keep their property and to dispose of it the way they like, and that no one, including the state, has any right to take all or part of it without their free agreement, except in some clearly specified cases in which they are obliged to give it up in due process of law and with complete and fair compensation.

Abu al A'la al Maududi states that in the view of Islam, it is the individual who is more important than the community, society or nation. The individual, he argues, is not meant to serve society, it is society that should ultimately serve the individual. No community or nation is responsible before Allah as a group but each member is responsible before Him individually. The ultimate reason behind the existence of the social system is the individual's welfare and
happiness, and not that of the society.

Therefore the true measure of a good social system is the extent to which it helps its individual members develop their personalities and improve their personal abilities and capabilities.

Based on this, Islam disapproves of any type of social organization and any social welfare scheme if it suppresses individuals and ties them very strongly to the social regime, so that their independent personalities perish, and the majority of them become like mere machines or tools in the hands of a few others.

In **The Economic Enterprise in Islam**, M. N. Siddiqi points out that Islam relies upon the market mechanism up to a very great extent. Some implications of the doctrine of economic freedom in Islam in relation to the market are found in Ibn Taymiyyah's al Hisbah. These can be reformulated in the following:

1. People are free to enter and to leave the market.

2. An adequate level of information about market forces and commodities is necessary. Ibn Taymiyyah investigated contracts in which one of the parties did not comply with this condition, upon which he gives the other party the option to revise the contract. He also saw it as the responsibility of the government (al Muhtasib) to rectify such situation.

3. Monopolistic elements should be eliminated from the market. Ibn Taymiyyah does not permit coalitions of professional men, whether they were groups of sellers or buyers. He allows the *Muhtasib* to interfere and determine the price of the equivalent whenever monopolistic elements exist in the market.

4. Within this freedom, he recognizes the effects of increasing demand or declining supply on prices. He approved the resulting increase in prices since forcing people to sell at a given price is compulsion without any right, and although the seller should not be forced to give up profit, at the same time he should not be allowed to hurt others.

5. Any deviation from the honest practice of economic freedom such as false oaths, incorrect weights and measures, and ill will is criticized by the Islamic writers, along with production and trade in commodities that are condemned as bad for health or moral reasons according to the ***Qur'anic*** norm, such as alcoholic beverages, drugs, prostitution, gambling, etc.

2. Spirit of cooperation

The Islamic economy is a free one, but its freedom is expressed more in terms of cooperation than in terms of rivalry and competition. Islamic moral values teach persons that while working for their own interests and welfare they should also realize that other peoples' well-being is an integral part of their own welfare.

Cooperation is a general theme of the social organization of Islam. Individualism, altruism and social awareness are so inextricably interwoven that working for the welfare of others is the most promising way of extending one's usefulness and of pleasing Allah.

Thus Islam teaches its followers to consider doing good to society equal to serving God and urges them to do their utmost to benefit others. This teaching is to be found throughout the Qur'an and is expressed in the life of Prophet Muhammad (pbuh).

The principle of brotherhood is very much emphasized in the **Qur'an** and **Sunnah**, to the extent that many Companions of the Prophet shared their personal properties with their brothers in Islam.

The consciousness and care for relatives in an extended type of family is also another example of the social orientation of Islam, especially since doing good to such relatives is not only urged but also made obligatory and regulated by Islamic law.

Good care of one's neighbors is very much stressed in both the **Qur'an** and **Sunnah**; in this we have another example of social care which Islam inculcates.

Lastly, consciousness, concern and preparedness to serve and sacrifice, if need arises, for the benefit of the whole society is very strongly emphasized.

Islamic teachings and verses of the Qur'an in particular, repeatedly emphasize the value of cooperation and collective work. Cooperation for the purpose of doing good is a command of God mentioned in the Qur'an [5:3]. Whether with respect to spiritual matters, economic affairs or social activity, the Prophet (pbuh), emphasized cooperation among Muslims as the foundation of the Islamic society and the secret of its high performance.

He says, "You find the Believers in respect to their mutual love, mercy and compassion as one single body, that if a part of it is in pain, all the body falls ill with restlessness and fever" (Reported by Muslim).

Sometimes cooperation may require the redistribution of income and property; the Prophet urges such redistribution by praising *al Ash'ariyin* (an arabian clan), saying , "When *al Ash'ariyin* have any shortage of food while travelling to a battle, or when they are in a town and their food runs down, they collect all they have in one place and divide it equally among themselves. They are my own (group) and I am theirs." (Reported by al Bukhari and Muslim]).

Additionally, to strengthen the social orientation of Muslims, Islam introduced the concept of collective obligations that carry individual responsibility and accountability. In Islamic jurisprudence this is called ***Fard al Kifayah***.

The concept emphasizes the need of the society and makes persons individually responsible as long as these needs are not met. ***Fard al Kifayah*** means that, regarding actions that are necessary to the welfare of the community and can be done by individuals, doing what is needed is considered as a personal and individual obligation on each capable person until the social needs are satisfied. ***Fard al Kifayah*** calls for conscious efforts for the achievement of desired social ends.

3. Rules of fair business

Several rules of fair practice are introduced by Islam in the market. These rules aim at observing the principle of fair deal and interaction.

These rules are ethical in nature, but the Islamic system, by virtue of its being a comprehensive way of life, integrates its moral and ethical principles with its legal and economic system. Therefore these rules, on one hand, derive religious support from the tenets of religion in the hearts of the faithful and depend on legal backing and the control of the judiciary on the other.

The rules of fair business in Islam are many. They are usually given in detail in the Fiqh literature and occupy a large portion of it. Therefore, a brief summary would not do full justice to them. However, I shall point out the most important rules among them:

I. People should not "eat" their property among themselves in vanity:

This is a very general and comprehensive rule. It is mentioned in several verses of the Qur'an such as 2:188,4:29, 4:10 and 9:34. It indicates that property can change hands only by one of the following four means: law such as inheritance, exchange and mutuality such as sale, loan and grant. One of these four means depends on the power of law enforcement while the other three: exchange, loan and grant need mutual consent.

Moreover, the conditions of the these three methods of acquisition have to satisfy the requirements of justice which means that incompatibility with those requirements invalidates the transaction even if it were concluded by mutual consent.

Requirements of justice include that there should be equivalence in the obligations of the two parties in an exchange and equivalence is defined either by law or, within the law, by mutual consent.

By this rule, interest on lending is prohibited, though this prohibition is expressed in several other verses and sayings. Also prohibited by this rule are bribery, talking people out of their money, gambling, contractual damage penalties that exceed actual damage, cheating in weight and measure, conditions that give one party more than what may be justified by mutuality, etc.

II. Equal access to information for all parties:

There are several sayings that make equal access to information a moral and legal obligation. These include prohibition of cheating about the quality of the merchandize such as by hiding the bad aspect and showing only the good one. Also included, prohibition of having someone make untrue high bids on the price, prohibition of receiving newcomers and concluding contracts with them before they reach the market, prohibition of acting as an agent for newcomers to the market before they arrive and get to know, by their means, the prevailing circumstances.

They also include prohibition of concluding sales on non owned, non possessed or non existing merchandize except in case of commodities that can be exactly described and under strict conditions, prohibition of abusing the ignorance of the consumer or the seller, prohibition of providing erroneous evidence such as abstention from milking a cow for sometime before it is offered for sale to pretend that it gives a lot of milk, etc.

Equal access to information is not equal to perfect information, since the latter requires that information be available and free whereas the former only requires that information pertinent to a specific transaction be available on equal footing to concerned parties regardless of whether it is actually obtained.

Consequently, equal access to information seems a realistic assumption that can be enforced by law which can affect the validity of consent parties in concluding their transactions. The Prophet (pbuh) justified his commandment that old timers in a market must not act on behalf of newcomers by saying "Let people give *rizq* [income] to each other."

III. The prohibition of monopoly:

Controlling quantities for controlling prices is not allowed in the Islamic economic system in general. There are several Sayings by the Prophet Muhammad (pbuh) to this effect. For instance, he said: "Whoever practices monopoly to raise the price for Muslims is a sinner," (reported by al Hakim and al Bayhaqi); "No one practices monopoly but a sinner," (reported by Muslim); and "Whoever practices monopoly of foodstuff for fourty nights, has disavowed God and God disavows him," (reported by Ahmad). Many jurists generalize this principle to all commodities that commonly exist in the society. This means that Muslim jurists usually tolerate some degree of monopolistic elements if they are related to goods of least importance to the Islamic society, or if they are applied to true differences between products.

Fuqaha' recognize the difference between a person who holds a commodity and waits until its price increases, as in the case of storing seasonal products for off season sale, and a person who holds it for the purpose of causing an increase in its price. The former may be providing a service for which he/she deserves a compensation, whereas the latter is hurting the consumers. The action of the former is permissible except in the case when that specific commodity becomes unavailable in the market, while the action of the monopolist who manipulates the price is prohibited at once.

To study the effects of a monopoly on the market, It is useful to distinguish between a pure monopoly and having certain monopolistic elements in a competitive framework. A **pure monopoly** exists when a single producer, or seller, controles all the supply in the market. If only some of the conditions of perfect competition is lacking, such as having commodities that are different not identical, or a small number of producers or non availability of information to all actors in the market etc., in such cases the market would be under **monopolistic competition**. The most important case of monopolistic competition is that of **oligopoly** where e few firms dominate the market.

IIIa. Pure monopoly:

A pure monopolistic firm is faced with the market's (or the industry's) demand curve, which is the total demand of all the concumers. As a profit maximizer, and the firm's market research about the demand for its product, a pure monopolist will select the quantity of output that gives it the highest total profit. This is where the firm's marginal cost equals its marginal revenue. Only at this point, any unit increase in the quantity sold would cost more than the revenue it would bring, and any unit decrease would make the firm lose a revenue that is more than the cost of its production. This is shown in Figure 3.

P,C

MC

AC

AR

MR

Q

Figure 3: the behavior of a monopoly

Figure 3 tells that the monopolist reaps a higher price and produces a smaller quantity than if the market was working under perfect competition. The direct societal cost resulting from a monopoly is measured by the area pabc, which represents the monopoly's total profit. It equals the unit profit times the quantity sold. Additionally a monopolistic behavior entails indirect social cost resulting from withholding information, resources used for, legally or illegally, preserving the monopolistic power, resources used by the government for investigating and regulating monopolies in order to protect the public interests, etc.

Obviously, the shape of the demand for the commodity has a great importance on the ability of the monopoly to exercise its power over the price. If the demand curve is very inelastic, as is usually the case of goods that fulfill basic needs such as food, the monopolistic firm can set a very high price for its product and the unit profit ir extracts from the consumer will be large. On the other hand, if the commodity is of marginal importance which makes its demand very elastic, setting a high price risks losing the market completely if the expected consumers decided to do without it (i.e., if the set price is above the demand curve). In this case the profit maximizing monopoly would have to select a point on the demand curve and it would not allow it a high unit profit (see Figure 4). That is why monopoly of goods that fulfill basic needs is considered worse than of other goods in Shari'ah.

P,C P,C

MC AC MC AC

MR AR

MR AR

Q Q

Figure 4: a-Monopoly of basic food b-Monopoly of non-essential goods

IIIb. Oligopoly:

An oligopoly exists if there is a small number of producers in the market, but what matters more the number of firms is the characteristic of their behavior. **Oligopoly** is where each firm's action has an effect on other firms' behavior, important enough to the extent that it must be taken in consideration in formulationg the other firms' actions. Oligopoly is thus a rivalry of a few giants.

There is no general theory of oligopoly because there are many and different oligopolistic situations. The best explanation of oligopolistic behavior may be learned from game theory where each player's strategy is drown on the basis of past and expected moves of all other players.

An oligopolistic firm always attempts to insulate itself against the influence of its rivals. It attempt to eliminate its rivals by driving them out of the market in order to enjoy a monopolistic power. Driving rivals out may be pursued by means of price lowering even below the average cost for a certain period of time until the rival loses its ability to hold on. It may be purued by differentiating the firms product either through introducing real changes that creates an exclusive market, or through advertisement and marketing policy. In both cases resources are waisted and the system becomes inefficient from the point of view of the society as a whole.

Insulating one's decisions may also be acieved by reducing price changes to the minimum. This explains the so called "price stickiness" which is characteristic to certain oligopolistic situations. Some oligopolistic firms can manage to obtain a large segemnt of the market that allowes it to become a "price leader". Aprice leader's actions affect other rivals, but it is very little affected by the small firms in the industry.

Monopsony (Monopoly of Demand):

A monopsony exists when there is a single buyer of certain commodity in the market. For instance, the labor market may sometimes be dominated by only one firm as the single employer in the area. A profit maximizer monopsony attempts to drive the price of the good it buyes to its lowest possible level. The extent of of the success of the mmonopsony depends on the slope of the supply curve, i.e., its elasticity. If the supply curve is very elastic, the monopsonic price does not differ much of the price under perfect competition; but if the supply curve is very inelastic, as is usually the case of labor supply, the monopsonic price may be driven very much below the perfect competition level.

Some Muslim scholars pointed out, as early as the third century of Hijrah, to the possibility of forming buyer's monopolies that are nowadays called monopsonies.They also mentioned monopolies of craftsmen forming unions or cartels. Those *Fuqaha'* called for government intervention to break such monopolies. Moreover Ibn Taymiyyah (circa 8th century of Hijrah) also recognizes the existence of a natural tendency toward monopoly in certain cases similar to public services today, and calls for pricing by the government in the case where the nature of the production processes do not allow breaking of the monopoly by the market forces alone.

4. The role of government with regard to market

Involvement of the Islamic government in the market is not occasional or temporary. The Islamic economic system views the government as co-existing in the market with other economic units on a permanent and stable basis. It is seen as a planner, producer and a supervisor as well.

a.The political body in Islamic society works within a well-defined set of 'norms' for promoting public interest. A particular pattern of consumption and distribution is set forth in Islamic teachings and the system derived from them.

Since Islam does not believe in the usually overstated virtues of the "invisible hand", production and distribution should be geared toward achieving the said pattern.

The Islamic government should take this role of planner and motivator. To fulfill the target of producing the necessities of the society that represent a minimum standard of living, the government can go as far as redistributing employment and other resources among industries on the basis of certain quotas if the market allocation fails in meeting the objective of the society. This minimum standard of living is often determined by the degree of development and other circumstances.

b. Public enterprise plays a significant role in the Islamic economic system, going hand-in-hand with public ownership. Public ownership in Islamic thought not only includes what is conventionally known as public utility, such as roads and rivers, but, in addition, what is known in Islamic literature as "the publicly-shared sources of utility".

This position originates in the stand of the Prophet (pbuh) when he refused to allow any private ownership of such sources. He is reported as saying, "All individuals share water, fire, herbage and salt" (Reported by Abu Dawud).

Mustafa al Siba'i in *Ishtirakiyyat al Islam* comments on this. "These should be understood as examples only; i.e. all types of goods mentioned are necessities of desert life and there is no reason to limit application of this principle to these goods in urban life".

In *Nizam al Islam: al Iqtisad*, pp. 103-104) Muhammad al Mubarak includes under public ownership all minerals that exist below the surface of ground, whether they are found in private or public land. He adds that the government is not permitted to grant any personal franchise to any individual on these minerals, nor on land that is not privately owned.

Muhammad Abu Zahrah (*Al Takaful Al Ijtima'i fi al Islam*, pp. 29-30) discusses the idea of things being a bounty from God as the basis for public ownership of minerals, in which the value of the product cannot be attributed to the labor put into it. He also emphasizes that individuals are not allowed to own these resources and that it is not legitimate for the government to permit it.

Additionally, there is distinction between shared public property and state public property. About the former, every individual has the right to satisfy his/her personal needs by using publicly-shared resources such as water in a river. The latter refers to governmental enterprises that exist for the exploitation of such resources as hydro-electricity, mining and salt (Al Sadr, *Iqtisaduna*, pp. 439-449). There seems to be no practical economic significance in such a distinction, since individuals are not allowed to use the publicly shared resources beyond the scope of their immediate personal consumption.

c. The last important point that characterizes the involvement of the government in the market is its supervisory and control function. There are two types of checks on the market mechanism.

The first is intended to enhance efficient fulfillment of the objectives of the state, as discussed previously. In this regard, M.N. Siddiqi argues that human life and the material world in which to live are so made up that desired ends always call for some intervention by the government. This fact, supplemented by the equally important fact that full conformity of all economic units to the desired pattern of behavior is a highly unrealistic proposition, explains the existence of many provisions for government intervention in the Islamic system.

While the economic role of the state in bringing about the desired conditions is liable to contraction or expansion according to the exigencies of the situation, it is never allowed to exceed the limits established in the Islamic law. The government is always an active participant in economic life, and the functioning of the market mechanism is never fully relied upon.

The second type of control is performed by an independent agency called *al Hisbah* whose function is to ensure adherence to the rules of fair business practice discussed earlier. This institution of *al Hisbah* or ombudsman is a semi judicial one. It is usually empowered to take and implement decisions about the observance of the rules of fair business practice.

It is charged with the responsibility of carrying out the spirit of the system, setting conditions that preserve and enhance public health and interests, protect the consumers, solve labor and business disputes, promote good market behavior, and ensuring their observance.

This task was first practiced by the Prophet (pbuh) himself. Later, the Prophet appointed a *Muhtasib* to the market of Madinah. This job continued to be maintained during the *Khulafa* after the death of the Prophet (pbuh) and was usually held by a person of high qualifications and influence.

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Market