The issue of factor rewards is one of the most complicated subjects in economics, and manifestly the one which is the source of most of the dissatisfaction felt by Islamic economists with regard to conventional economics. The complications of conventional analysis could not but spill over into Islamic economics, and since Islamic economics did not care much about the virtue of clarity, even in those areas where the conventional analysis was fairly transparent, the degree of confusion multiplied when the subject came under the pen of the Islamic economists. As far as the conventional analysis is concerned, the complications center around the well-known problems associated with either the aggregation issues, or the identification, and therefore the role and rewards, of entrepreneurship. There is a third problem, relating to drawing a distinction between physical and circulating varieties of capital, which the conventional analysis considers trivial but which forms the point of departure in some of the formulations of Islamic economics. It is the circulating capital that is most exposed to the charge of ribā when this is unequivocally equated to interest. In some formulations, fixed return on any form of capital is considered equivalent to ribā. It is thought that since capital is necessarily exposed to risk, its owners must bear the corresponding risk (here notwithstanding Siddiqi, as we saw in Chapter 7) and must not be allowed to pass it on to someone else, which is what is supposed to happen when a fixed interest is earned. The panacea for most of these problems, it is argued, resides in profit-sharing in one form or another. We

1 When a student of conventional economics reads this, the first thought that comes to mind is: but the real rate of interest, and thus the real return which is what counts, is not known ex-ante. As far as Islamic economists are concerned, this question is irrelevant. It may also be noted that this rationale for the prohibition of ribā has no origin in fiqh literature, see, for example, Razi’s (d. 1209) discussion of this subject. Both these issues are discussed in Chapter 10.
are told that it is the idea of profit-sharing that represents the true Islamic perspective on the questions relating to distribution, particularly when the institution of interest is abolished. We are also given the impression that this approach is novel as far as the conventional economic analysis is concerned, and implicitly, for the relevant issues are hardly ever explicitly stated, it is also supposed to resolve the difficulties associated with the conventional conceptualization of entrepreneurial input. In the following pages we will explore these premises to see how judicious this agenda has turned out to be. Specific attention will focus on the authenticity of the profit-sharing as the true Islamic perspective as per the original sources of Islamic imperatives as well as the analytical integrity of what are offered as new perspectives on the distributional issues.

The conventional difficulties in the theory of distribution do not elicit much response from the Islamic economists, for much of the conventional analysis is wittingly or unwittingly disowned on the presumption that the Islamic perspective on all matters economic will necessarily be different. This vision has been held so firmly, as it turns out, that even when it was unwarranted, Islamic perspective was colored to make it look different. Be that as it may, we cannot fully understand what is being offered as the new dispensation until we know the backdrop against which it is being laid out. Besides, to determine what is novel and what is not in the new coloring, we require some knowledge of the mosaic on that backdrop. We would note that Chapter 4 was intended to provide the necessary elements of this backdrop. Some of those elements, those relating to entrepreneurial and circulating capital, now need to be recalled here in a summary form. We note that issues pertaining to aggregation, particularly of capital, were not discussed in that chapter. To the extent those become relevant in view of Islamic economics emphasis on the rate of return in contrast to the rate of interest, they will be taken up in what follows.

The Backdrop

In Smith, we saw two explicit factors of production, land and labor, and an implicit factor that was referred to as the capitalist-employer in Chapter 4. He was the residual claimant after wages and rent had been paid, and this residual was sometimes referred to as profit and sometimes interest, though with hindsight we can see that it included both of those elements. In the wake of the marginalist revolution, when