

ISLAMIC ECONOMICS

On Definition and Methodology

Edited by
Sercan KARADOĐAN

İstanbul, 2014



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PREFACE

From the perspective of civilizations and their activity epochs, Ibn Khaldun's analysis has still been valid. It is commonly accepted that the life of the world has perpetuated in an enormous revolution process.

For now on, The Western civilization has dominated the world we live in. This domination could be seen and felt in a variety of aspects. However, for the vast majority, the previous epoch was the Islamic Civilization. Apparently, once a civilization rules over the world, it predominates with all its dynamics. Its basic philosophy, law, ethics, art, sport, science, technology and economy become the dominant paradigms, customs and also trends.

Undoubtedly, these approvals of societies have deep meanings. It is also impossible to realize such deep impacts and transformations artificially. The transformation process consists of an obsolescence and a proposal of a renewal.

'Old' is abandoned as a result of its inability to renew itself and 'new' is honored and accepted as a consequence of its ability to adapt itself to the new conditions. If someone or something does not want to become obsolete and be abandoned, then it must successfully renew itself. Besides, 'the new' needs a comprehensive in a high performance to be accepted universally.

When do epochs change? When renewal is not possible. However if the previous old epochs become able renew and regenerate themselves fundamentally then they would regain a new identity and become prominent. The most significant underlying elements of all these are studying hard, making use of the opportunities for renewal and disallowance for degeneration.

Islamic Civilization which has strived to recover and change back into its good old days and has an impressive opportunity and potential. At the same time, its certificates of achievements need to be examined somewhere in the minds of the people.

We, as an economic institution, undertake such missions on us; to re-study and revive economic aspects of Islam and in accordance with these to provide a basis for economic models and while we are experiencing the endpoints of globalization in this epoch, we have started such an activity with the hope of forming an alternative to the universal system of fairness.

Our wish from Allah, to give us the ability to think correctly, to do rightful things and to understand his purpose properly.

Sıtkı ABDULLAHOĞLU

Chapter ①

Introduction and About The Book

Karadođan, Sercan

He had his BA degree in Economics from the University of Marmara (Turkey) in 2011. After that, he continued for MSc in International Political Economy at the University of Bilgi (Turkey). He finished his MSc program in 2013, and now he works as a research assistant in foundation of SETA (Foundation for Political, Economic and Social Research). In addition to that he works as a researcher at the Institute of Islamic Economics and as an editor in ASKON (Anatolian Businessmen's Association). He is interested in International Political Economy, Economic Thought and Islamic Economics.

Sercan KARADOĐAN

The world of 21st century that we live in swing on the brink of change and transformation. It is seen that a great deal of concepts belonging to from 20th century are now obsolete and insufficient when faced with today's events and issues. Besides these concepts fall behind to the renewal, and could not perceive the present transformation process. From the politics and economics to the philosophy and sociology; they could not neither foresee the crisis nor offer solutions and alternatives to these problems. Economy concerns and relates to the every class and department of the society and in the foreground as a consequence of that it has become one of the most important one among these concepts. Since a society could not exist without an economy, for the same reason societies which could not solve their economic problems would not exist either; Because one of the fundamental reasons determining the political freedom is possessing economic freedom. The societies and individuals which do not have economic freedom would be chained to the slavery. Economic poverty generates political slavery as a result leads to economic exploitation and dependency.

Muslims who have always been the pioneers for transformation throughout the history, have a great chance and opportunity. In this context, while the Western Civilization have been facing turmoil and chaos, this gives rise to Muslim World to re-create and re-construct the new future. In other words, Muslims have never had an opportunity and trump like this in the last two centuries. Despite this fact, we Muslims for the present are far from analyzing and clarifying an issue and concept. Likewise, unfortunately there are not enough Muslim schol-

Introduction and About The Book

ars who focus on particular issues and subjects and try to find solutions for them. The issues usually dealt with are plain, easy and daily matters and as well one-day efforts. As such is the condition most of the topics and subjects remain unsolved and as a consequence permanent and consistent suggestions could not occur. Actually, to accomplish a transition process from the current condition to the other, there is no other way; there must be objective responses to these questions. This can only be achieved through a consistent learning, studying and research course of action. When this is realized in consequence of that a transformation and change dynamics will be manifested and additionally the right, justice and order will prevail all around once again. For this reason if we Muslims will take our responsibilities seriously thereby we need to come up against to all the concepts and systems that the West has generated and imposed on us. In this sense, the economics has been one of the most problematic issue among all these.

Likewise in this context, Islamic economics is the leading issue that Muslim world must solve. The reason is, Islamic economics started by intimate efforts and interests, but then remained as an unfinished area and as well confined in simple, technical discussions. Additionally, Islamic economics generally has become an area which is mostly Sharia scholars have shaped and defined. Howbeit, to understand and perceive the current economic structure and mechanism and to establish/offer alternatives, one needs to know and be informed about the history, philosophy and thought of economics. If and only if these perceptions are combine with an Islamic world view then positive results will be generated.

The economics which is the prominent area among the Western thought and science has never been only economics. Along with the teaching of economics the products and embedded elements generated from the Western philosophy would spread into our daily life, habits, behaviors and ideas. This will bring together the kind of speaking, behaving and thinking defined by the Western mind. In other words, the philosophy, velocity, technicality, mathematics and theories of economics which are like laws of nature would change and impose the society from the bottom even if we are not aware.

On the other hand, if we are claiming that both Islam and Islamic economics are alternatives to the current paradigm and system then we need to produce more extensive studies. For example, for most of the Muslim thinkers Marxian theories are obsolete and outdated. This is because of the perception of the neoliberal ideology that the Western media imposed. Though the reality seems to be a bit different. Actually, the Marxist theorists and the new socialism thinkers claim that the 21st century will be the century of socialism. Within in this context, they try to form alternative theories to the prevailing capitalist system. Additionally, these are not bare mottos, on the contrary are the productions of detailed works and life after capitalism.

In conclusion, there is a need for re-thinking Islamic economics, and also questioning where the mistakes had been made. Thereby, religion and world, Islam and economy would not be different things anymore, adversely they would form a single and holistic order.

This compilation book has been prepared in order op to fill a gap in this area in Turkey. A common interest and curiosity have arisen among people parallel to the recently increasing significance and being on the agenda of the Islamic Economics. Unfortunately, while these studies cover a wide range of area they seem to be inconclusive and additionally have no consensus on basic terms and fundamental concepts.

However it is difficult to find up-to-date works about this subject in Turkey and they are not sufficient. Thus, this insufficiency lead us to prepare such "Introduction" book. In the first book of this series which is designed as a series of three books, underlies the idea of presenting, defining and analyzing all the components starting from the definition and methodology of Islamic Economy.

Hereby, articles about what the definition and methodology of Islamic economy is, and examining the limits of its scope and content are included. It should be admitted that without clarifying, knowing and interpreting correctly, the primary topics taking part at the beginning, such as the definition and the methodology, we cannot talk about the existence and comprehensiveness of a system. Therefore, these articles

written by scholars from different geographies at different times, has been chosen with a logic and presented to the attention of the reader.

In his 'Studying Islamic economics' essay, Abdullahoglu mentions what studying Islamic Economics means and why it is necessary. It is in some way an effort to prepare the reader who does not know much about the subject. While he tries to demonstrate the objection points against the subject, also provides answers to these and needs to done. Thereby in a sense, the importance and scope of Islamic economics has been presented.

The next essay, Islamic economics: Notes on Definition and Methodology, belongs to Monzer Kahf in which he examines different approaches proposed about Islamic economics. He aims to investigate the scope, methodology and boundaries of Islamic economics. As can be seen in his essay, there is not any consensus on the definition of Islamic economics. Thereby, he tries to classify them into different definition sets by combining different definitions under different groups. Moreover, he attempts to analyze the relation and similarity of Islamic Economics with the conventional economics in terms of scope, method and even fundamental hypothesis. In this sense, this essay helps readers who are not very familiar with the discussions among Muslim economists to understand and see the different opinions and ideas on Islamic economics. This will prepare them for further discussions on the topic.

In the fourth article Shamim Ahmad Siddiqui, defines the economics and Islamic economics and makes a comparison. From the classical economics to the modern versions of it, nearly every thought of economics or school of economics has its own definition on economics. They differ from both their definitions and also methodology on economics. Additionally, it suggests that Islamic economics should be treated as a heterodox economics and proposes detailed claims on the usage of the term of Islamic economics. This essay offers an comparative approach to the issue, and in consequence suggests a definition and reaches to defined version of Islamic economics.

The fifth essay is Muhammad Akram Khan's Methodolgy of Islamic Economics is also about the methodology and aims to show the meth-

odology of Islamic economics in a broad perspective. On the other hand, it tries to compare the conventional economics and Islamic economics and presents the differences between them. Likewise, traces the answers for the questions "why Islamic economics needs to a methodology" and "why this is so important".

In the sixth essay Syed Nawab Haider Naqvi, Ethical Foundations of Islamic Economics, examines the ethical principles of Islamic economics. For this purpose, after by defining the founding and basic axioms of an Islamic economics, it underlines that what it should prioritize and aim. Furthermore with the help of these sets of axioms we can have a criteria which will be included in and excluded from a working Islamic economics. By this it can be showed that in which points Islamic economics is overlapped with the current economic system and in which points it differs. In this sense, Naqvi's article differs from the others in terms of the elements he prioritizes. However, as a result, at the point he reached, answers to where the Islamic economics should be fed and start from are produced by giving the definition of the Islamic economics.

The next essay is Mehmet Asutay's A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System one. Asutay changes and enhance Naqvi's axiomatic system, as well points out the foundations, necessity and importance of Islamic economics. Hereby, there will be a chance to form the founding paradigms of Islamic economics as a consequence of this generates a political economic system. Moreover, he aims to show the current position of Islamic economics while compares the desires and aspirations. On the other side, while Asutay provides a political economic approach to Islamic economics, he also deconstructs it and take every piece one by one to create a new structure with reference to authentic sources of Islam.

The eighth work, An Islamic Approach to Economics, belongs to Muhammad Najatullah Siddiqi. He firstly starts with the definition of economics. In this respect, to settle a correct perspective, from past to present the history of economics is given, as well different definitions of economics and the progress of methodological approaches are

told. From this point of view, by giving a nature and context, scope and methodology of Islamic economics, it attempts to provide a range of definitions for Islamic economics. It puts emphasis on the prominent of Islamic economics what they prioritize and how they deal with the issue. This paper brings to an Islamic approach to economics, as well as how the current condition, theories and structure of it compatible with Islam. In this study, an Islamic approach has been attempted to bring into economics and to show how the current state, theories and structure of the economics are compatible with Islam.

The last essay is Umar Chapra's Ethics and Economics: An Islamic Perspective, focuses on these two related concepts, ethics and economics, and aims to provide an Islamic viewpoint. Thereby, both ethics and economics will be determined, as well what these concepts actually mean and cover will be demonstrated. Shortly, this paper deals with the comparative analysis of these two concepts that are enshrined in both Islamic thought and Western intellectual orientation. It attempts to perceive the importance of the term 'ethics' which is the basis for economic theory and system as well. Correspondingly, this will provide an examining of foundations of economics and also presents what principles Islamic economics should be based on.

We have come to the end of this compilation book with this article. As this editing book aims, all the papers focus mainly on the definition, methodology, scope and content; besides try to find answers on the questions how much space will ethics occupy and what will its role be. In this regard, ethics will be basis and foundation of economics and also Islamic economics. Then the definition of an Islamic economics should contains the principle of ethics. With these questions and problems, this book desires to be an introduction text to this issue, and aims to contribute to the literature. Additionally, if it gives rise to a re-thinking and re-discussion of Islamic economics, then it will achieve all of its objectives. Furthermore, for general readers, in appendix section, a brief history of Islamic economists in 20th century presented to see the traces and paths that Islamic economics passed.

Chapter ②

Studying Islamic Economics

Abdullahoglu, Sıtkı

Abdullahođlu was born in 1959 in Turkey. He graduated from the Institute of Islam in Istanbul. He worked as a manager in institutions of private education. At the moment, he is the vice president of ASKON (Anatolian Businessmen Association) and the president of commission of R&D. He has published many essays and papers in various platforms and journals.

Sıtkı ABDULLAHOGLU

I. Islam and Economics

It has been a considerable length of time since the usage of the words of Islam and economics side by side until now. However this period of time is not enough to adapt these concepts each other completely. Since the usage of both of these concepts together is accepted problematical and there have been substantial objections against their coupling.

II. Objection Points Against the Concept of Islamic Economy

One of the main objection point is “Economy is economy, there is nothing Islamic in it. Islam is not about economy, it is about human. Human gives the meaning to economy.”

Another point is, “Economy requires a system and a model. Anyhow there is nothing mentioned about system and model in Islamic literature in that sense. If there would be such a system, then it means there is a restriction for Islam. Binding Islam to a system and a model means limiting it into a period of time. It is not appropriate to the main purpose and character of Islam. Since Islam is universal and is grounded as having the characteristics of meeting the requirements of human being till judgment day.”

Another argument is, “Islam is a religion; economy is a secular area. Thus bringing them together is not ontologically right.”

Studying Islamic Economics

Essentially, even if these sort of explanations and objections feed and support the idea of being interest on this issue.

There may be some significant points with regards to scientific methods, etymological discussions of these objections. Undoubtedly those are worthy.

Howbeit this article is prepared with combining the titles of Islam and economy in order to state the idea and the belief of necessity of study within this frame. In this article, it is tried to present back ground assessments of this idea and questions that need to be answered.

III. Why Is It Necessary to Study Islamic Economics?

The purpose for this, to determine the intersection points of Islam and economy, hereby to produce academic works on the topic and to provide a new perspective and perception to the humanity.

The main departure point is surely Islam. Despite this fact, it is not about interest motivation, fanatic supporting or fantastic ideals.

As a universal religion Islam's founding structure of holistic identity recommend such work even oblige to work such studies. This assessment may has a religion side on the other side it is also as well has academic mentality deep inside in it. Likewise the content of the Islamic dogma bad the process of the structuring the religion by the Prophet of Islam are the proof documents of this claim.

Actually, the Qur'an itself includes such instructions for members of this religion and for all humanity about economy. Besides these instructions are certain, if someone obeys to them then he will succeed¹ and if not then he will fail both in this world and hereafter.²

Again in the same way it is a known fact that the Prophet Mohammed (pbuh) started to design the political and social structure of the society in Madinah by organizing the market, giving every one equal entrepreneur right and promoting economic earnings.³

1 'Ali `Imran

2 Al-Ma'idah, 90.

3 "İktisadi-siyasi bağımsızlık ve Medine Pazarı", İktisat ve İş Dünyası, 2 (1992)

These tangible realities which require the issue to be analyzed deeply and they are even references proving a system and model should be generated on it.

Moreover, as the purpose of existence of Islam is "justice and equity"⁴, it would be unimaginable to think that Islam doesnot say anything about the most prominent element of human life namely economy. Economy tends to create injustice and inequity and also if it is given to the hands of human or left to the mercy of someone then it would generate a huge inequality since humanbeing is selfish. As a consequence of this fact Islam could not let the economy alone itself as this means the wealth would accumulate in a minor class. Thereby, Islam as it orders people to be just and fair, must generate and offer the mechanisms to fulfill these objectives. In other words, a structure ordering justice and fairness should also produce concrete mechanisms to substitute it otherwise these mechanisms and orders would be just advices allowing people to obey or not. When the researches are enough and sufficiently made then it would be seen that Islam has also provided and founded this.

The only problem will be this: how will a religion that was existed long ago in a part of the history answer all renewing necessities of people in all times? This is the vital point of the issue. For the very reason there is a need for working under the title of Islam and economy. Whereas economy is accepted as a living reality closely related with life in Islam. Consequently, this logical framework impose on us to study these different concepts together.

IV. Basic Questions

If we continue to discuss the issue with basic questions, first of all the concepts 'justice and equity' must be emphasized. Howbeit the economy is the one of the main areas occupying people's ordinary lives. Who owns "the authority to define" in this area? In other words what is just and right and who owns these to define and conduct them? Who owns;

4 An-Nahl, 90.

does employee, does employer, do unions, do agreements, do markets, do governments, global powers, sovereigns or Allah? Who owns?

How the allocation of resources that already exist naturally in the univers will be made? In allocation, capital, labor, raw material, organization and intelligence have natural rights. How will these allocation performed? Who will decide that allocation is righteously made? In other words in essence what is the nature of the right owner?

Economy is seen as a sub-moral and interpreted or generated regulation proposals according to its results. Although it is appropriate naming as sub-moral when in action, the higher moral part is more dominant when allocation of right. This clarification may be a perspective that place moral and ethics into economy necessarily. Moreover this perspective can be accepted and seen as opposed to most of the current perspectives. Anyhow, we have already express previously that we have mentioned about a different world view. Fundamentally, it must be considered as a higher moral value and subject it to a qualification of fairness in order to surround all objects including the non-living creatures.

Additionally, to assign this determination of justice and equity process to a transcendent being seems to be the most fair in an intellectual sense. If we start from such a strong position, then it means all the models should be designed according to this perspective.

Nonetheless, if all these basic concepts determined by human minds, then it would always be questioned that how much these suit to the justice and equity. The most important question for economy has overwhelmingly been the problem of allocation. What will be the criteria for this allocation has always been a main question in economics. How much of this defined ex-officio or how much of this defined by conditions? If all left to the mercy of conditions then how would a just allocation and distribution be possible? In this sense, there must be description and definition works for the concepts that are the core elements in the issue. Likewise the attributed meanings of the con-

cepts have directly related to the background ideas and philosophical thought system. For instance for a philosophy on the topic of “cheating” the guilty is the deceived one on the other hand for another philosophy the guilty is the cheater. As these two different thoughts have deep differences between them, the economic perspectives they produce will have huge discrepancies as well.

V. Studying Islamic Economics and Priorities

As a consequence of that one of the primary matters is to keep the concepts determined by Islamic point of view up-to-date. Have all the concepts that are both in modern and classical economic literature such as property, commodity, price, exchange, interest, value, inflation, utility, surplus value, competition, profit etc. defined just and equitably? How would a pure Islamic definition for all these made? The differences that occurred when defining these issues would be the basis for the new economic system. For even the characterization bestow on the related concept a legality or illegality.

As a matter of fact people could legitimate interest by saying “interest is just like trade”. In fact the Qur’an forbids it as an unfair gain and a distortion.⁵ For this reason the characterization and identification are the main issues.

VI. The Mentality of Economic System

The purpose of an economic system is to obtain a sustainable economic life performing in a just and fair way between people. This system should both regulate the economic relations between ordinary people and also determine the responsibilities of the government executives.

On the other hand, having a responsibility for all people in a society does not seem like to be a problem for some of the economic systems. In fact this issue materially and morally is a nonignorable responsibility in Islamic perspective.

⁵ Al-Baqarah, 275.

'Equilibrium' is a similar problem. The issue that economy only realizes itself and is not interested the possible social consequences of it would not be accepted by Islamic perspective. In a society to perform an economic balance and preserve it there are requirements needed to be done from the point of system. Here, the religious duty as it reflects an inclusive feature for all parts of life, to make a distinction is not acceptable. In other words, to perform salaah and to show great care to the economic allocation have equally same tasks. They are not optional or arbitrary. The minimum limits of these responsibilities could not be determined by volunteering. They must be fulfilled and performed otherwise if not it must be done forcibly.

VII. Economics and Ethics

'Ethics' also should find a firm place in economy. The system that is re-formed and re-produced must reject an economic structure without any moral elements. This type of perception is considered as radically contrarian and nonsense which is quite comprehensible and also seen as a harmful thing for economy from the perspective of western thought. However this type of mentality changes should be seen and understood within this context. Thereby, the understanding that gaining at any rate is acceptable is a paradigmatic distinction and correspondingly the followers of Islam have refused this type of principle from the beginning as a matter of faith.

A perception which eradicates the nature extensively, consumes everything unnecessarily and also desires to use the future generations' rights and sources inconsiderately even though it brings economic welfare is mistaken and fatal. In other words, a restrainable, different type of human could be possible. A human who is satisfied, contented and participative.

The universal scope of the concept of wastage surrounds this issue multi-directionally and makes it systematize. "What will be the limits of consumption?" is a critical question. The relation with all livings in

accordance with sufficiency is an exceeding acceptance. The reason for starvation is not insufficiency but over consumption. Nowadays if we compare the cost of avoiding the starvation and the cost of campaign against the obesity, the results will prove this thesis.

VIII. Conclusion

There is a general estimation that economics is not science as mathematics and physics. In view of this fact it means the economic realities imposed on us are mostly resulted from a single basic idea. Different theories could be generated freely to replace it. Actually this flexibility is a major reality. Thus these judgments always could be considered to have alternatives. Today even though the dominant ideas and their proponents are so powerful, it must not be forgotten that always alternatives could be produced. This seems really hard even means row against the tide, however it is always possible.

Chapter ③

Islamic Economics:
Notes on Definition
and Methodology

Kahf, Monzer

Dr. Kahf was born in 1940 in Syria. He had graduated from Damascus University in 1962 and took his BA degree and also graduated with high honors awarded by the President of Syria.

For more than 34 years, Dr. Kahf has been touring the Muslim communities in North America and overseas and lecturing on a variety of issues of community concern especially in the financial and economic areas. He gives lectures in conferences, seminars, meetings and gatherings on the theory of Islamic finance and its practices in North America and the rest of the world, Islamic economics and banking, Awqaf, Islamic Trusts, Islamic estate planning, charities in the Islamic Religion (Zakah), Friday Sermons in mosques and Islamic centers, etc.

He has a website in which he answers and publishes some comments on Islamic economics and economic problem that people face:

<http://monzer.kahf.com/>

Islamic Economics: Notes on Definition and Methodology

Monzer Kahf¹

I. Islam and Economics

The proposition that Islam is a comprehensive way of life, inclusive of economic behaviour, is rarely challenged today by anyone, Muslim or non-Muslim. In the past centuries of Islam, Muslim scholars did not need to emphasize the point because their understanding of the *words din and Islam* was not subject to distortions of the kind introduced in the modern Muslim world, especially over the last two centuries, through Western colonization and cultural influence. Remarkably, when Muslim scholars of the second and third centuries of Islam embarked on extensive translations from the Greek and Latin heritage, they translated philosophy, mathematics and physical sciences, but not Roman Law. Evidently, they considered Roman laws to be in gross conflict with Islamic principles.²

¹ DR MONZER KAHF is a freelance researcher. He wishes to thank Dr. M.N. Siddiqi and Dr. M. Anas Zarqa of the Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah and Drs. Muhammad Osman, Mahmud Gulaid, Rida Sadallah and Ausaf Ahmad, all from IRTI-IDB, and three anonymous reviewers for valuable comments on an earlier version of this paper. He is solely responsible for its ideas and mistakes.

² Shaikh 'Izzeddin K. al Tamimi, 'Comments on Anas Zarqa's Theoretical Problems in Islamic Economic Research presented at the Seminar on Problems of Research in Islamic Economics, held in Amman, Jordan, April 23-26, 1986 and organized jointly by the Islamic Research and Training Institute of the Islamic Development Bank, Jeddah, and the Royal Academy for Research in Islamic Culture of Jordan. See the Seminar Proceedings (Arabic) p. 91.

The word *din* implies the compliance of one's behaviour with certain beliefs and commandments,³ while Islam indicates submission of one's conduct to the *Shari'ah*.⁴

The two primary sources of Islam, Qur'an and *Sunnah*, emphasize the inclusion of the economic behaviour within the norms, moral values, and behavioural standards they prescribe. This is evident even in those *Makkan* verses of the Qur'an that were revealed before the *Hijrah*. The *pre-Madinan* period was the period of the formulation of the fundamentals of Islamic ideology and entailed a critique of the prevailing patterns of conduct.⁵ A great part of the *fiqhi* heritage, which is derived from the Qur'an and the *Sunnah* deals with forms of economic behaviour and related business relations.

It is granted, then, that Islam has its own norms and ethical values with regard to economic behaviour, individual and collective. However, the same is also true for other religions. A question arises as to why Islam should claim an 'Islamic' economics, whereas neither Christianity nor Judaism make any corresponding claim. The answer, simply, is that for Christianity and Judaism, restrictions were imposed, in the European context, on the concept of 'religion'. This happened for a number of historical reasons, discussion of which is beyond the scope of this study. Following these restrictions, certain domains of life, the economic and political in particular, were pushed outside the realm of religion. Consequently, neither present-day Christianity nor Judaism claim to be total ways of life.⁶ As far as Islam is concerned, its ethical and ideological values were demonstrated in economic institutions

3 Muhammad Abdallah Draz. (1970). *Al Din* [The Religion]. 2nd Edition. Kuwait: Dar al-Alam, pp. 31-36.

4 Ibn Manzur (n.d.). *Lisan al 'Arab*, Volume 12. Beirut: Dar Sader. v. 12, p.293.

5 Monzer Kahf. (1981). *Al-Iqtisad al-Islami* [The Islamic Economics]. 2nd Edition. Kuwait: Dar al-Qalam, pp. 28-30.

6 One may add that although the source of the three religions is Divine, God did not send down the complete system of life to the early Messengers. The Religion of God was only completed in the form of Islam (Qur'an, 5:3).

and patterns of inter-personal relations during the formative period of the Revelation, namely the life of the Prophet Muhammad. Accordingly, Islam has its own economic system based on its philosophical viewpoint, and consistent with the Islamic organization of other aspects of human behaviour, i.e. the social and political systems. 'Islamic economics' is the study of the economic behaviour of men and women, as individual economic agents, and as communities and collective entities.

II. Objectives of This Study

This paper examines the implications of the different definitions proposed of Islamic economics, exploring its scope and attempting to outline its methodology. As we shall see later in the paper, there seems to be no agreement among Muslim economists about the definition of

Islamic economics, its scope, relation to conventional economics, methods and instruments of analysis and even some of its basic assumptions. This paper is an attempt to reflect on the different opinions about these issues and an endeavour to settle some of them as far as possible.

The rebirth of Islamic economics in the early part of the twentieth century was dominated by scholars and writers with a background in Islamic sciences. This strongly influenced its scope and methodology, giving Islamic economics a *fiqhi* and common knowledge type of tendency.⁷ In the mid-seventies a new generation of trained economists started their research in Islamic economics.⁸ For many reasons, the tendency persists to overstate the differences between Islamic and conventional economics to the extent that some like to believe that Islamic economics is a distinct discipline, quite independent of conventional

7 Look for instance at the writings of Hasan al Banna and Abu al A'la al Maududi in the late 1930s and later Sayyid Qutb in the 1940s.

8 One should mention, however, that A.I. Quraishi, a professional economist, was pioneering in his 'Islam and the Theory of Interest' published in 1946.

economics. The present paper does not take such a position. It tries to look into the common grounds and rationalize them, to stylize the facts and assumptions and to justify any conclusion it reaches. It will further attempt to show that there is a certain inconsistency in the work of some Muslim economists in that when they incorporated assumptions alien to Islamic economics in their research.

The paper initially deals with the definition of Islamic economics and its scope. It analyzes the definitions proposed by some writers and show their inadequacy and sometimes irrelevance to the issue in hand. In the following sections, it deals with methodological issues. It will outline the main methodological problem by addressing the question of whether Islamic economics calls for a methodology of its own or, as an 'expanded' economics, it accepts the general framework of the scientific methods applied in Western economics.

III. Definition of Islamic Economics and its Scope

3.1. What does Islamic economics offer?

The term Islamic economics may be justified as an identification of a field of study based on the assumption of the existence of Islamic axioms in the social, political and legal environment, a system of values and ethics, which guide the economic behaviour of men and women in an Islamic society. This way of looking at 'Islamic economics' resembles the way 'capitalist economics' is treated as economic analysis carried out on the basis of the capitalist paradigm. In this sense, Islamic economics is simply a branch of the science of economics, the study of one economic system among others.

This branch of economics must then elaborate the paradigm, axioms and principles of the Islamic economic system, as well as to analyze its impact on economic measures and on the decisions of economic agents within it. Again, as for other branches of economics related to other economic systems, some of the tools of economic analysis may

not suit some of its axioms, and will have to be amended or substituted. However, just such changes in terminology or method would not qualify the capitalist or Marxist economics as an independent discipline, Islamic economics cannot be branded as a distinct branch of knowledge, standing in contrast with the discipline referred to by some Islamic writers as 'conventional economics'.

This conclusion may not be welcomed by Akram Khan⁹ and Hasanuzzaman.¹⁰ In their respective definitions, they seem to consider Islamic economics as a replacement of the discipline of 'conventional economics'. They describe Islamic economics in terms of the distinctiveness of the Islamic way of life - the principle of '*falah*' for Khan, and *Shari'ah* for Hasanuzzaman - as if the economic behaviour of human beings can only be practised under Islamic injunctions and for the purpose of pleasing Allah (Subhanahu Wata'ala). In the course of justifying their proposed definitions, both Khan and Hasanuzzaman suggested alternative definitions of the discipline in the form of Islamic economics, instead of seeking a definition of a sub-branch of it, that applies in the framework of the Islamic economic system.

On the other hand, Muhammad Arif tends to classify 'Islamic economics' on a par with 'socialist economics' and 'capitalist economics' on the ground that all three refer to economic systems,¹¹ each with its

9 Akram Khan. (1404 AH) 'Islamic Economics, Nature and Need', Journal for Research in Islamic Economics, 1 (2), pp.55-61. His definition is 'Islamic economics aims at the study of human *falah* achieved by organizing the resources of earth on the basis of cooperation and participation'.

10 S.M. Hasanuzzaman. (1404 AH) 'Definition of Islamic Economics', Journal for Research in Islamic Economics, (1404 AH) 1 (2), pp.51-53. His definition is 'Islamic economics is the knowledge and application of injunctions and rules of the *Shari'ah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the Society'.

11 Muhammad Arif, (1405 AH). 'Toward a Definition of Islamic Economics', Journal for Research in Islamic Economics, 2 (2) pp.87-103. His definition is 'Islamic economics is the study of Muslim behaviour who organizes the resources, which are a trust, to achieve *falah*'.

own paradigm. He also recognizes that the study of these three systems is a branch of economics. Furthermore, it seems that Arif does not challenge the conventional definition of economics although he disagrees with the utilitarian presumption that, in Robbins' view, shapes human behaviour.¹²

Seif el Din Tag el-Din finds in 'Islamic economics' a system of economic policy guided by the Qur'an and *Sunnah* in facing the economic problems.¹³ For him, the focus of Islamic economics is 'the normative interventionist policies' made necessary by the greed of human beings. Hence, Islamic economics becomes, for Tag el-Din, a tool to enlighten policy-makers, and help them take the right decisions. Consequently the analytical part of economics becomes a secondary requirement, since one must know what 'is' in order to be able to suggest what rationally 'ought to be'.

The approach of Zaidan Abu al-Makarim is familiar to *Shari'ah* specialists, because they habitually describe each branch of Islamic studies, as a science or *'ilm* (such as the science of inheritance law, *'ilm al-fara'id*, science of Qur'anic recitation, *'ilm al-tajwid*, etc.) He suggests a ten-point test to qualify an *'ilm*. These points include name, definition, subject and sources.¹⁴ Applying these criteria, Abu al-Makarim concludes that Islamic economics is certainly a science of its own,¹⁵ and he gives it the name 'science of economic justice'. His definition of Islamic economics may be consistent with the definition of 'science' proposed later by Zarqa, viz, 'any organized and classified kind of knowledge'.¹⁶

12 Ibid, pp. 91-92, see also the diagram on p. 102. Arif quotes Robbins' definition of economics as 'the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses'.

13 Seif el-Din Tag el-Din. (1994). 'What is Islamic Economics', *Review of Islamic Economics*, 3 (2), pp.97-100.

14 Zaidan Abu al Makarim. (1974). *'Ilm al'Adl al Iqtisadi*. Cairo: Dar al Turath. p.35.

15 Ibid., p.37. Abu Al Makarim's definition is 'the science which deals with wealth and its relation to man from the point of view of the realization of justice in all forms of economic activities'.

16 Muhammad Anas Zarqa, 'Tahqiq Islamiyyat 'Ilm al Iqtisad', mimeograph, p.38.

The above mentioned works seem to raise more questions than answers about Islamic economics, its definition, scope and validity as a science, as also about the need to prefix 'Islamic' to 'economics'.

For the purpose of clarity, the definitions of 'Islamic economics' are classified in two categories: the first category includes the definitions of Hasanuzzaman and Abu al-Makarim. Their main focus is the principles and rules of *Shari'ah* that make up the framework or milieu for the behaviour of the economic agents. These definitions refer to what Zarqa calls the 'normative part' of Islamic economics¹⁷ i.e., how things should be if people follow the Islamic injunctions as derived from the principal sources of Islam. The definition suggested by Tag el-Din may be added to this category as it refers to normative economics by concentrating on macroeconomic policy. These normative definitions apply only within the framework of the Islamic economic system which is a part of what Islam calls to be established on earth by means of the conviction, faith and efforts of human beings.¹⁸

The second category of definitions includes those suggested by Khan and Arif. The focal point of these definitions is human behaviour within the framework provided by the Islamic economic system. Since these definitions implicitly cover the study of the Islamic economic system, the definitions of al-Sadr and Zarqa may also be included in this category. Al-Sadr assigns to Islamic economics, what he calls 'a scientific function' and 'a doctrinal function'. Accordingly, the role of Islamic economics is, on the one hand, to discover the shape which real-life variables may take in a society that applies the Islamic economic system, and on the other, to uncover the Islamic economic system itself.¹⁹ Zarqa also considers that Islamic economics consists of two parts: one that studies the economic system of Islam (positive part), and the other that studies the behaviour of Muslims within the system.²⁰

17 Ibid., p.40.

18 Ibid., and Muhammad B'qir al Sadr. (1968). *Iqtisaduna*, 2nd edition. Beirut: Dar al Fikr, pp. 290-291.

19 Al Sadr, *ibid*.

20 M. A. Zarqa, *op.cit.*, pp. 31-39. It should be mentioned, however, that Zarqa and Sadr differ on whether Islamic economics, in its two parts, is a science or not.

3.2. An Islamic definition of economics

Few Islamic economists would dispute that economics is a relatively new discipline that arose, in the West, alongside the *laissez faire* doctrine, of a free market that enables individual players, all of whom have material concerns, to interact as economic agents.²¹ The publication of Adam Smith's *The Wealth of Nations* marks the transition to the modern discipline. Economic writings before it in the non-Muslim lands since Aristotle and in Muslim Lands since the end of the second century of Hijra, do not constitute a sufficiently defined and distinct field of study, separate from politics and jurisprudence.

In a recent comment, Taysir Abd al Jabir questions the wisdom of prefixing 'Islamic' to 'economics'. It is obvious from his argument, that he fears that the use of the prefix implies the need to 're-do' two hundred years of the development of economic theory.²² This fear may be partially justified in view of the sensitivity with which many Muslims (even scientists) approach ideas developed in the West.

It may be useful, in the quest for a definition of economics compatible with Islamic principles, to look into our heritage for a similar experience in our scientific history. What we need is a discipline in the area of behavioural sciences that is native to the Islamic milieu and the work of Muslim social scientists, who would not have had the sensitivity many of us have today. The closest candidate is obviously Ibn Khaldun's *'ilm al-'umran*.

Ibn Khaldun invented a new and unprecedented behavioural science, which he called *'ilm al-'umran al-bashari wa-l-ijtima' al-insani*, the

21 Irving Kristol. (1981). 'Rationalism in Economics', in Daniel Bell and Irving Kristol (eds.) *The Crises in Economic Theory*. New York: Basic Books, Inc., pp.201-218, see especially pp.204-206.

22 Taysir Abd al Jabir. (1986). 'Comments on the paper of Khurshid Ahmad on Problems of Research in Islamic Economics' presented at the Amman Seminar on Problems of Research in Islamic Economics, April 23-28, 1986. See the Seminar Proceedings, op. cit., in Arabic, pp. 127-128.

science of the civilization of mankind and human socialization.²³ He defined it as a study from the point of view of 'showing what happens to them by way of changes and situations in their own nature.'²⁴ In explaining the objectives of the new science and its indispensability for understanding history, Ibn Khaldun repeatedly emphasizes that it aims to discover the nature of human society as it applies to all human beings. In this regard, he repeated concept of studying human society 'its own nature' eight times in three pages.²⁵ In other words, Ibn Khaldun did not feel any need to restrict the science to Islamic societies or to Muslims only, as this would make his new science less general, and reduce its analytical ability to explain the behaviour of all human beings.

The aim of Ibn Khaldun's new science is to derive universal laws which can be used to examine history, to distinguish truth and falsehood in it.²⁶ Obviously, in adopting this universality of outlook, Ibn Khaldun never meant to be 'un-Islamic'. Indeed, he was perhaps being more Islamic than many contemporary writers who repeat the word 'Islamic' at every opportunity, and his new science of human civilization, *'ilm al-'umran*, was an Islamic discipline, not a conventional one.

Thus, we have a precedent of a behavioural science that deals with universal phenomena that Muslims did not need to confine to a Muslim society or to the Islamic system. Why can't we, Islamic economists,

23 Ibn Khaldun. (1978). *al Muqaddimah*. Beirut: Dar al Qalam, p.38. This translation of the name of Ibn Khaldun's new science of building human settlement and societies may not convey the precise meaning of his Arabic expression. The word 'Umran' related to the Qur'anic usages in 11: 61- 'It is He who has raised you from the earth and settled you in it' and 30:9-'They were more than them in strength, they tilled the land and settled it in greater number than they settled'. While the basic meaning of the word is 'dwelling' or 'settling', its normal connotations extend this meaning to include populating the land, constructing it, adding to its prosperity - in short 'civilization'. I should note that I have offered a translation different from Yusuf Ali where the sense and context, as I understand it, require a difference in phrasing or emphasis.

24 Ibid.

25 Ibid., pp. 35-38.

26 Ibid., p.35-38

think of economics in a universal sense too? In fact, Ibn Khaldun's *'ilm al-'umran* includes, in a sense, economics as a subfield. In citing cases of human socialization included in the realm of the science he invented, he says "... and what earnings, living, sciences, crafts [and industries], etc. people acquire, by their works and efforts".²⁷ As a part of the study of human civilization and association, economics must be defined as 'the study of human behaviour' individually and collectively, with regard to the use of resources for the purpose of satisfying human material objectives.

If we were to use Ibn Khaldun's terms, we would add the phrase 'in its own nature' after the word 'behaviour', but I think 'human behaviour' is sufficient as it is a general term that applies to any and all human beings regardless of any social, political, religious, or other association. Thus, from the Islamic (Khaldunian) viewpoint, economics may be defined as the study of the behaviour of men and women, individually and collectively in order to understand the patterns and modes of this behaviour, its motives and incentives, as well as its goals and objectives, and responses and reactions, with and without being confined to a specific situation, norms, set of moral values, or legal, political, religious framework.

Consequently, laws of behaviour and collective and aggregate relationships discovered by this study shall be applicable to all men and women, with local variations resulting from the spiritual, psychological, organizational milieu or environment that determine the circumstances of the behaviour. This discipline cannot be labelled 'un-Islamic' just because the word 'Islamic' does not appear in its name and definition, nor is it in need of a deliberate effort for its Islamization. It is part of what God ordered us to learn in this world so that we may come nearer to understanding His Wisdom in creating it so, because such study enables us to discover universal patterns,²⁸ which enable us to

27 Ibid., p.35

28 Patterns here are not meant in the sense of laws of physics -the pattern could

understand this area of man's life and reorient it, when necessary, to servanthood to God (*Subhanaha Wat-ala*).

Zarqa comes very close to this when he accepts descriptive postulates of 'conventional' economics as part of 'Islamic' economics. He also suggests that Islam itself lays down certain descriptive (positive) postulates that carry no value judgement. Such descriptive statements are applicable to human being, as such, 'in their nature'.²⁹ They are explanatory of human behaviour in a universal way, regardless of religion, culture, level of development, race, etc...³⁰ But Zarqa cannot detach himself fully from the current trend among Islamic economists:³¹ he insists that an Islamized economic discipline cannot explain behavioural patterns incompatible with the Islamic ethics such as unjust transactions (e.g. effects of interest rate) or the production of non-good commodities (e.g. intoxicants).³² Besides emphasizing that the subject matter of economics is human behaviour, the definition offered above stresses the micro and macro aspects of behaviour. As with Ibn Khaldun's approach in *al-'Umran*, human behaviour has individual and collective aspects resulting from the socialization which is a macro or aggregate aspect that reflects groups' or communities' behaviour.

be statistical observations or more generally descriptive statements. See Mark Blaug. (1980). *The Methodology of Economics*. New York/London: Cambridge University Press, pp.161-163.

29 op.cit., pp.18-19.

30 Descriptive statements derived from Revelation are sometimes better at explaining human behaviour than their counterparts introduced by Western economists. Take, for example, Kahf's extended time horizon proposition in the consumer utility maximization (see Monzer Kahf (1978) *The Islamic Economy*. Indiana: MSA of US and Canada, p.19), or the multi-dimensional producer's function in producer's maximization proposed by M. N. Siddiqi (1972) *The Economic Enterprise in Islam*. Lahore Islamic Publications Ltd, pp. 11-34. Zarqa, op.cit., pp.14-15, mentions several other postulates such as the relation between wealth and aggression, love of wealth, i.e., more of wealth is preferred to less, etc.

31 Zarqa, op.cit., p. 39.

32 Goods as a noun is derived from good as an adjective, it is loaded with value judgement, thus it is equal to Khayrat when the latter is used to mean morally approved commodities, See Kahf, op.cit., pp.22-23.

Additionally, the suggested definition does not fall into the trap of over emphasizing the explanatory efficacy of the concept of scarcity. Obviously only scarce resources are allocated by human effort, but the utilization, and especially consumption of non-scarce resources should not be completely excluded from the field of economics because such consumption affects the welfare of human beings and influences their moral and spiritual attitudes - the Prophet is quoted as saying: 'shall I not' be a thankful servant (of God)?'

Besides, scarcity is relative to human effort and knowledge.³³ The suggested definition also refers to the human material objectives instead of to desires, wants or needs as is common in the Western definitions of economics, and in place of the *falah* and 'performing obligations to Allah' found in certain Islamic definitions. 'Human objectives' is a neutral term that applies equally to Godfearing human beings, agnostics and unbelievers. The adjective 'material' excludes human efforts related to spiritual upliftment and other non-material human objectives.

Finally, the scope of economics as redefined from an Islamic point of view is human behaviour, in all its facets, under all sorts of moral and religious values, and within all kinds of social, political and legal frameworks. Economic theory should be able to explain the behaviour of believers and unbelievers in their pursuit of material objectives; it should have the capability of understanding the motives for a riba-based financing, a mark-up based murabahah sale, and a profit and loss-sharing participatory financing.

An important conclusion from the above is that Islamic economists need to rethink what economics is all about and whether we really have to create an alternative to 'economics' in the form of 'Islamic economics' or simply to have an Islamic perspective on the same discipline. More specifically the previous discussion indicates the following:

33 God gave knowledge to Adam (Qur'an, 2:31) that he can count on in making best use of all resources around him.

i) There is a need for a discipline³⁴ which studies issues usually described as the subject matter of economics on a universal basis.³⁵ This need is similar to that which was felt by Ibn Khaldān when he invented 'ilm al-'Umran. In other words, even if there were no economics in our time, Islamic economists should feel the urge to create it.

34 The degree of the influence of values on this discipline is similar to that of all social sciences. While one tends to reject the extremist view that all descriptive theorems of this discipline are mere value judgements, one can hardly defend the claim that it is immune to value loaded premises. See Mark Blaug, *op.cit.*, pp. 134-35. Section four will show that the Divine Revelation reduces the role of value-loaded premises in understanding human behaviour.

35 Sultan Abu 'Ali, in his 'al Mushkilat al Iqtisadiyyah al 'Alamiyyah al Mu'asirah wa Halluha al Islami' (Contemporary Economic Problems of the World and their Islamic Solutions), a discussion paper by the International Center for Research in Islamic Economics, 1981 (p.19), argued that the central problem of the discipline should be shifted from the allocation of resources to the restriction of human wants. Unfortunately, the latter is a subject for biologists who may develop means to reduce the sustenance needs of human beings, or moralists who may convince men and women to prefer less over more material goods and services. Anyhow, at any level of biological and moral progress, there remains a problem of allocation of 'scarce resources' to be studied by economists, since 'scarce' always means relative to their uses. Moreover, even in the perfect Islamic society where the moral axiom of 'no extravagance' is internally observed by individuals and externally enforced by law, human wants and desires remain greater than resources to the extent that wants can be treated as unlimited for all analytical purposes, especially if we add Zarqa's argument that one of the positive postulates derived from Revelation is that human beings prefer more over less (*op.cit.*, p.15). This is not to say that the patterns of consumption in the affluent society, with all its over consumption and waste that Abu Ali criticized, does not pose a serious challenge to resource allocation through market mechanism and creates undesired distortions in distribution. This phenomenon calls for dissatisfaction with the market mechanism as a sole allocator of resources and a sole distributor of income rather than for a redefining of economics. On the other hand, when economists (Muslim or otherwise) define the economic problem as one of allocation, thus restricting their discipline to this well defined arena, they always mean that the solution to this problem may be sought through this discipline under the 'ceteris paribus' assumption. Everybody, Muslims as well as others, knows that dealing with human beings cannot be except a multi-disciplinary matter. Therefore, more often than not, and in all societies, non-economic means are always undertaken to solve economic problems. Once moral, technological, legal, and other frameworks are changed, a new allocation problem is given to economists.

ii) There is no need to add the adjective 'Islamic' to such a discipline. Such addition is not required by our religion, and Muslim scholars did not do it when they were leading culturally and otherwise. It is also misleading because it may denote that the economic 'laws' of 'Islamic economics' are not universal and generic to all human beings and human societies.³⁶ Furthermore, the prefix 'Islamic' can be restrictive³⁷ especially when it reduces the scope of the discipline to 'within' the framework of the value-loaded Islamic postulates.³⁸

36 Many universal laws of human behaviour can be derived from the Qur'an and Sunnah. Zarqa (ibid., pp. 15-16) gives several examples, some of them are the following:

Positive relation between wealth and abuse of power - from the Qur'an (42:27), and a hadith meaning 'a want that makes one forget or a wealth that makes one abuse one's means'.

Men and women prefer more (of goods, etc.) than less - from the Qur'an (3:14-15) and hadith to the effect that no matter how much a child of Adam gets he/she still likes more.

Positive relation between economic hardship and the prevalence of the practice of riba- from the Qur'an (2:267), and a hadith to the effect that those among whom riba prevails are given economic hardship.

Positive relation between hardship and lack of faith as well as between faith in God and sufficiency - Qur'an (20:12 and 7:96).

Men and women behave with extended time horizon - from a hadith which tells that the Prophet drew a line representing the hope of a person, and the line extends beyond human's life span.

One's own holdings are dearer to a person than the holdings of one's heir - from an authentic saying.

37 It seems that many Muslim economists think of Islamic economics as the study of the application of economics to Muslim societies only, whether in their ideal form or in their actual setting in Muslim countries today. See for example M. A. Mannan. (1982) *Why is Islamic Economics Important?*. Mimeograph of the International Center for Research in Islamic Economics, especially his second, fifth and sixth reasons. Also, see Hasanuzzaman, op. cit.

38 As done by Zarqa when he restricts the scope of the discipline to three areas: value-loaded Islamic postulates, positive postulates derived from revelation, and positive postulates derived by economists from their observations and analysis. See Zarqa, op.cit., p.19. This limitation contradicts Zarqa's emphasis on the universality of the Revelation-based positive postulates (pp. 14-18). Alternatively, one could consider value-loaded postulates as special cases of the universal economic laws.

iii) The unfortunate historical incident, that Muslims have fallen into the shadow or periphery of human civilization for the last few centuries, allowed the discipline of economics (unlike *Ilm al-'Umrān*) to evolve within the Judaeo-Roman culture. This has stamped it with a restrictive cultural imprint that deprives it from becoming fully universal. Zarqa, rightly, points out the need to clean our discipline from the value-loaded postulates incorporated in it by economists of Judaeo-Roman heritage as well as from the effects of such postulates on the descriptive premises of the discipline.³⁹

iv) The Islamic economic system ought to occupy its place in the discipline of economics on the same footing as other economic systems. And like others, studying the Islamic economic system should include the 'ought' as well as the effects of the 'ought' on variables and relationships within the Islamic economy. These effects should be analyzed in the light of an economic theory of a universal and human nature, free of any preconceptions. In this regard, Tag el-Din's proposed definition of Islamic economics - as a study of macro policies in the Islamic society - may partially fit, because of its focus on what should be done, and on how and towards what ends certain behavioural situations should be changed by a global decision from the authority.

v) Finally, and referring back to the beginning of this section, the term 'Islamic economics' may be loosely justified as a sub-branch of economics, that deals with the Islamic economic system and its impact on the economic variables and decisions. As far as economic theory is concerned, it is a tool that allows us to understand the economic response of men and women to the framework of the Islamic economic system and to suggest suitable policies for transforming the 'is' into the 'ought', or for mapping the 'ought' into the domain of Muslims' life.⁴⁰

39 Zarqa, ibid., pp. 19-22.

40 M.N. Siddiqi (1982) 'An Islamic Approach to Economics' in *Knowledge for What?* Islamabad: The Institute of Education, International Islamic University, pp.

IV. Methodology and Tools

Previous Section concluded with two important points. First, if Islamic economics can be broadly constoned as a part of economics, it is no more than the application of economic theory to the case of the Islamic economic system. It is not a science on its own, nor does it negate the scientific nature of economics. Secondly, conventional (or Western) economic theory, because of historical reasons that overloaded it with Judaeo-Roman presumptions and preconceptions, falls short of explaining human nature, specifically, it lacks the wisdom derived from Revelation and it carries, within its folds, propositions influenced by local value systems and ideologies. This makes it unable to account for some subsets of the global society such as the Muslim World where there exists a composite mix of values and behavioural patterns that is not in complete conformity with that which exists in the birthplace of Western economics.

These two conclusions determine the dual task of Islamic economists: (a) the elaboration of the Islamic economic system; and (b) the revision of conventional economic theory. Ironically, there is a little difference between Islamic economists and other (conventional) economists as far as the prior, conscious or unconscious, adherence to a value system is concerned. It is now widely recognized that social sciences, including economics, and ideologies and personal and social values on the other hand, are inseparable,⁴¹ although a few economists tend, sometimes, to hide it. Clearly, Islamic economists, because of their ideological consciousness, are usually more explicit about ideological affiliation than their counterparts. The emphasis on 'ideological' allegiance, that one finds among many Islamic economists is perhaps, only a manifestation of their keenness to be explicit, although

179-83, includes such policy recommendations as an explicit part of the definition of Islamic economics.

41 See for example Warrent J. Samuels (1977). 'Ideology in Economics' in Sidney Weintraub (ed.), *Modern Economic Thought*. Oxford: Basil Blackwell Publishers, especially, pp. 473-75.

some of them seem to carry such emphasis too far when disclaiming the tools of analysis used in 'conventional' economics.⁴²

4.1. The methodology of elaborating the Islamic economic system

An economic system includes three components: a basic philosophy or an ideology; a set of axioms, assumptions and general principles, which are derived from its ideology; and a set of operational rules that, when applied to given human and material resources, result in formulating and shaping the relationships of production, distribution, and consumption as well as the degree of economic achievement of a society. Therefore, an economic system must not lose touch with real life, the same way a legal system must preserve its applicability if it is to remain in existence.

Hence, the task of elaborating the Islamic economic system consists of two parts: (1) the theoretical discovery of all the components of the system and its internal coherence; and (2) the investigation of the economic validity and applicability of the system including the way variables and behaviours are affected within its framework.

The Islamic way of life in all its aspects is derived from the basic sources of Islam, the Qur'an and the *Sunnah*. These sources give only the broad lines of the Islamic economic system and leave many of its ingredients to be worked out by Muslim thinkers. Even with regard to issues mentioned in the Qur'an and the *Sunnah*, there is a great room for exerting efforts in order to discover the economic contents of the principles laid down by Allah and His Messenger (pbuh).

4.2. Discovering the Islamic economic system

Essentially, the approach to discovering the Islamic economic system is similar to the approach to discovering the theories and general

42 See, for example, Akram Khan (1985) *Challenges of Islamic Economics*. Lahore: All Pakistan Islamic Education Congress, pp. 20-22.

rules of *fiqh*. In formulating *fiqh* theories and general rules, the *fuqaha'* had to survey all the texts of the Qur'an and the *Sunnah*.

Some of these rules and theories may be taken directly from the foundational texts themselves. For instance, the rule *la darara wa la dirar*, which means: 'there should be no harm nor exchange of harms', came as a saying of the Prophet (pbuh).⁴³ Similarly, the rule '*al-kharaj bi al-daman*' which means 'return is dependent on (or related to) liability'. This rule is also taken from the text of *hadith*.⁴⁴

Other rules are derived by grouping several texts, each of which deals with only one aspect or one case, so that, when all are put together, they reveal a tendency or make one general rule. For example, the rule *al-mashaqqah tajlib al-taysir* which means 'adversity warrants alleviation' is derived from several texts of the Qur'an and the *Sunnah*.⁴⁵

Yet other rules are based on common sense and rationality (including tautology) such as *La ijtiḥad fi māwrid al nass*, which means there should be no effort spent to derive a *Shari'ah* opinion when it is given by a text, or *al tabi' tabi'*, i.e. that which follows should be treated as a follower.

The major premises of the Islamic economic system are derived by the same approach. Some of them are found in the Qur'an and the *Sunnah* such as the prohibition of interest (*riba*)⁴⁶ and the prescription of *zakah*.⁴⁷ Some are derived from surveying several texts such as the preference of equitable income and wealth distribution,⁴⁸ or the state's responsibility in guaranteeing subsistence to everybody.⁴⁹ Yet a third

43 Reported by Malik Ibn Majah and Al Daraqutni.

44 Reported by Abu Dawud al Tirmidhi and al Nasa'i.

45 See Shaikh Mustafa al Zarqa (1958). *al Madkhal al Fiqhi al 'Amm*, pt. 1, Vol.2, Syrian University Press, pp. 977-78, where he quotes several of these individual texts.

46 The Qur'an 2:275 and 278.

47 It came in 28 places in the Qur'an.

48 See, for example, the Qur'an (59:7) verses of *Zakah*, and verses of inheritance, and see the sayings on issues of brotherhood and care of the poor and needy, etc.

49 See, for example, the several sayings on guaranteeing debts and dependents of the deceased, collecting and rationing food in travel with shortage of foods, guaranteeing the material needs of non-Muslim citizens, etc.

kind of premises are derived from common sense and rationality such as considering the improvement of the economic lot of people as a general objective of the Islamic economic system, and planning government policies and decisions accordingly.

Moreover, it must be noticed that the usual methodology depends heavily on mathematical logic. The principles of analogy (*qiyas*) are only an application of the mathematical principles of equality, transitivity, addition, etc. Analogy, in its several varieties, consists of finding the similarities (and differences) between something with a known *Shari'ah* ruling, and some other thing whose ruling is to be determined and deriving the latter from the former in accordance with the similarities (and differences). Analogy is an indispensable tool for deriving the Islamic economic system.

While the usual methodology works with the texts of the sources of Islam, the Islamic economist, in exerting his/her effort to discover the Islamic economic system, works in addition with texts of *fiqh*. In other words, *fiqh* is an indispensable source of knowledge for Islamic economists. For instance, in developing financial instruments compatible with *Shari'ah*, a deep understanding of the *fiqhi* positions on *mudarabah*, partnership, sale contracts, lending and *riba* is essential.⁵⁰

To summarize: the methodology of deriving the Islamic economic system from the basic sources of Islam is very similar to the methodology through which general theories and rules of *fiqh* were developed. Making utmost utilization of the texts of the Qur'an and the *Sunnah* to draw the general 'shape' or basic pillars of the Islamic economic system and fitting individual cases within those pillars while, at the same time, taking the *fiqhi* heritage as a useful vehicle to understand these texts.

Further, just as there is similarity between the exertion of effort (*ijtiḥad*) required in the elaboration of the Islamic economic system and the *Ijtihad* required to derive the Islamic *fiqh* system, there is also similarity in the tools for testing their applicability. Application in real

50 For more on the *fiqh* foundation of the Islamic economic system, refer to Zarqa, op. cit.

life and empirical data represent a true testing ground for the validity of the Islamic economic system. They also provide a basis for a necessary feed-back process in the working out of the operational rules of the system. Zakah, for instance, is based on the doctrine of justice and the inadequacy of the market system to achieve distributive justice.⁵¹ The general principles of Zakah are derived from the texts of the Qur'an and the *Sunnah*. These include the main *zakah*-liable items and classification of deserving categories. Finally, Zakah operational rules, such as distinction between apparent and non-apparent types of funds, collection in kind or in cash, extent of state interference in the process of collection and distribution, etc. Most of these rules are derived by Muslim scholars through application in real life. In this way, a continuous process of feed-back and revision of the operational rules of the Islamic economic system takes place, enabling it to cope with changing conditions and circumstances of the human and material resources of the Muslim society.

History, as a record of human experience, is to the social scientists, like a laboratory to physicists. The development of the economic system of Islam benefits from Islamic history for the derivation of many tests and lessons. Yet the historical experience must not be allowed to dominate the shaping of the system because the latter is supposed to fit different conditions and levels of socioeconomic composites different from those of the past.

Additionally, historical experience influences the elaboration of the Islamic economic system in another way by helping understanding of its premises and postulates. The Qur'an and the *Sunnah* have several references to economic relationships, for the understanding of which help can be derived from historical experience, past and present. For instance, there are statements in the Qur'an and the *Sunnah* whose

51 This is expressed in the Qur'anic verse (36:47) 'And when they are told "Spend of (the bounties) with which God has provided you', the unbelievers say to those who believe: 'Shall we then feed those whom, if God had so willed, He would have fed'".

understanding requires certain historical and/or statistical information. The Qur'an says 'God will make *riba* perish and will increase *sadaqat*',⁵² "And nothing do ye spend (in his cause) but He replaces it".⁵³ The Prophet (pbuh) also says "No wealth decreases as a result of *sadaqah*"⁵⁴ and 'Zakah (due but not paid) is never mingled with a wealth without corrupting it'.⁵⁵ These texts, and many others, can be interpreted metaphysically, i.e., whatever relationships they mention refer to the hereafter or according to the judgement of God. If they ever have any relations to this world, as suggested by their very wording, understanding such relations can only depend on the empirical experience of people and societies.

This degree of empiricism (using the term only loosely) does not only apply to such relationships as are mentioned in these texts, but also to the institutional and ethical components of the Islamic economic system. Take for example the assertion of some Islamic economists that the belief in the Day of Judgement and eternity of happiness in heaven, or misery in hell, affects the economic rationality of Muslims by extending their time horizon.⁵⁶ This assertion, which relates to the internalized ethics of the economic agents, can be tested empirically by assigning quantitative values to the strength of faith in the life after death.⁵⁷

52 The Qur'an (2:276).

53 Ibid., (34:39).

54 Reported by al-Tirmidhi.

55 Reported by al-Baihaqi al-Bazzar, and others.

56 Monzer Kahf, op.cit., pp.19-20.

57 Quantifying qualitative characteristics is a Qur'anic practice. It comes many times with regards to pleasures of heavens and punishments of hell, but an impressive example about this world is found in 8:65-66: '... If there are twenty amongst you, patient and persevering, they will vanquish two hundred: if a hundred, they will vanquish a thousand of the Unbelievers: for these are a people without understanding. For the present, God has lightened your (task). For He knows that there is a weak spot in you: But (even so), if there are a hundred amongst you, patient and persevering they will vanquish two hundred, and if a thousand, they will vanquish two thousand, with the leave of God: for God is with those who patiently persevere.'

4.3. The Islamic methodology of economics

The second task of Islamic economists is to revise the discipline of economics in order to identify and isolate biased postulates, i.e., those loaded with the dogmatic, doctrinal and/or moral view points of the professionals and their milieu.⁵⁸

In spite of the universality of economic laws, discovering them is a process that is affected by the ideas and values of the researchers and by the prevailing social attitudes and moral ethics of the social entities whose behaviour is observed by the discipline professionals. One must add that identifying and isolating the effects of these value-loaded measures is not at all an easy task in any of the social sciences, not only economics, because of the very nature of social phenomena and their characteristics in comparison with physical phenomena. In the economic postulates, values and ideas intermingle with the objective observation to such an extent that many of the data of this discipline are interwoven with normative and positive statements.

Take, for instance, the measurement of national income and the objective function of utility. In national income several items are not included although they affect the individual and aggregate welfare of a nation, such as housewives' work, output of preachers in mosques and other places of worship, the value of learning acquired by students, influence of smiling in interpersonal relations,⁵⁹ etc. The exclusion of such valuable elements from national income, although they affect welfare, is an obvious result of a value-oriented presumption about each

58 An obvious example of such postulates is the sole economic motive (*homo economicus*) which is responsible for the exclusion from the domain of economics of a good deal of human economic decisions. Another is the predominant role assigned to interest in the allocation of resources. This had to wait until the modern literature on Islamic banking in order to start to be shaken. Another example is the exaggerated role of market, in the classical theory, as the sole allocator of resources and distributor of income. This has already been challenged by many Western economists.

59 The Prophet is reported to have said 'your smile, when you face your brother, is a sadaqah.'

of these items. The utility function includes the amount of goods and services consumed by a consumer, but only on the value-biased presumption that consumer theory does not include goods and services consumed by one's own children. One can hardly argue that the welfare of the consumer does not improve by an increase in the consumption of the consumer's own children.⁶⁰ In an Islamic society, one may strongly argue that the consumer's welfare is also influenced by the consumer's parents and neighbours, as stated in many sayings of the Prophet (pbuh) and as observed in contemporary Muslim societies.⁶¹

However, the complexity of the task of purifying economics from value judgements derived from the ideas, beliefs and values of the researchers and their environment may allow us to be resigned to making such presumptions explicit rather than expecting to remove them altogether.

The other part of the Islamic economists' task, i.e., the incorporation in economics of positive postulates derived from *Shari'ah*, is a task not easier nor simpler than the first.

Muslims believe in God as the All-Knowing and Most Merciful to all His servants, and whatever He sent down in term of His Divine Message is for the best of mankind. This is one of the basic implications of the Islamic faith, but it does not represent a common ground with non-Muslims and in the positive part of economics, i.e., when we do not talk about the Islamic economic system and its application, we are required to take from the *Shari'ah* those ideas that are faith-neutral because only these have the nature of universal economic laws whose existence is a *sine qua non* of economics.⁶²

60 Refer, as an example, to the report of 'A'ishah that she gave a beggar one date and the latter, instead of eating it, divided it in two halves and gave them to her own daughters.

61 For more examples, see, M.A. Zarqa (1998) 'Methodology of Islamic Economics' in Monzer Kahf (ed.) *Lessons in Islamic Economics*. Jeddah: IRTI.

62 Zarqa asserts that the *Shar'iah* points to the existence of universal laws not only in economics, but in all social sciences; he adds that the existence of such universal

The Qur'an and the *Sunnah* have several 'positive' statements about the economic behaviour of human beings such as "Truly man was created very impatient; fretful when evil touches him, and niggardly when good (or prosperity) reaches him" (70:19-21); "Human souls are swayed by greed" (4:128); "Ornamented in the eyes of people is the love of lust for women, sons and heaped up hoards of gold and silver ..." (3:14); etc. These and similar Revelation-based positive statements need to be interwoven with human observations, explanation and rationalization in order to formulate the laws of economics.

In performing the function of *takhliyah* (taking out the incorrect) and *tahliyah* (adding to the good), a clear distinction between premises and tools is also necessary. Islamic economists have little dispute with conventional economics as far as the tools of analysis are concerned. The essentials of mathematical logics and empiricism are common tools for all economists, Islamic and Western alike, keeping in mind that the process of correcting the discipline would entail some shifting of emphasis and sometimes a different formulation of certain questions, but such a modification in the tools of analysis is a natural and continuous process of economics and does not justify a claim of a different or 'distinct' methodology.

This may displease some Islamic economists, who prefer to present their subject-matter as having a clear-cut independence from conventional economics. In so doing, they have developed a tendency to reject many instruments of economic analysis out of the desire to be distinct. In part this may be a function of confusing axioms with methodology. For instance, the maximization mechanism is a mathematical tool independent of the function which is maximized. A completely materialistic person with no constraint of ethics and morals would seek only maximize his/her material benefits.⁶³ If a person had to take account of

laws represents the 'basic logic' of sending one religion to guide all human beings and societies until the Last Day. See Zarqa, *ibid.*

63 However, many economists today argue that it is difficult to describe people

certain social ethics, he/she would maximize the same, within whatever constraints were implied by the ethics he/she believes in. A Muslim who internalizes faith in accountability on the Day of Judgement and the Divine reward or punishment attached to his/her economic decisions, and who acts within a milieu of Islamic social and legal institutions, would maximize a composite function that is derived from this kind of beliefs. For all three types of economic agency the same mathematical tool of maximization applies. Therefore, the rejection or modifications of the objective function a materialist person maximizes does not warrant dissatisfaction with the tool of analysis used.

To throw more light on this common functionality of tools, let us take an example from the Qur'an. Since Qur'an was revealed in Arabic, the scholars who have studied rules of derivation of *Shari'ah* positions and opinions say that Qur'anic words must be understood in accordance with their meaning in Arabic. The meaning of the Qur'anic terms *yatanafas* and *al-mutanafisun*⁶⁴ understood in accordance with the Arabic language, meaning 'let them compete' and 'competitors' respectively. The term for competition used here in the Qur'an with regard to rewards in hereafter is the same as the Arabs used, fourteen centuries ago, when they competed with each other in trade and other worldly matters. The tool (concept of competition) is distinct from the objective, that for which people compete. By the same token, unless proven incompatible, an IS-LM model, for example, can be used to analyze certain effects of Zakah in an Islamic society, though it is a tool invented by non-Muslim economists.

In their efforts to cleanse economics from partial value-loaded judgments incorporated by Western economists and to enrich it with value-free axioms derived from the Revelation as a major source of hu-

as profit (or utility) maximizers and that fairness and manners affect human behaviour in addition to utility. See Colin Camerer and Richard H. Thaler (1995) 'Anomalies, Ultimatums, Dictators and Manners' in *Journal of Economic Perspectives*, 9 (2-Spring), pp. 209 - 19.

64 The Qur'an (83:26).

man knowledge,⁶⁵ Islamic economists may have to redefine and refine as well a few fundamental concepts of economic theory, but they do not need to negate its inductive methodology and tools of analysis on any ideological ground.

Lastly, it is important to note that the methodological controversy in economic theory is not yet over. Hence, Islamic economists who, rightly, reject homoeconomicus models, do not stand alone in this regard, as many conventional economists are already disappointed with such models.⁶⁶ This means that the rigidity of the neoclassical theorists is no longer popular among the conventional economists themselves. It has become established in the economic profession that economics, as a social science, cannot be separated from other branches of social studies, nor from the ideology and values of its professionals.⁶⁷ Thus it is suggested that there should always be a degree of ideological influence that may be tolerated and accounted for by readers and theoreticians. It has also become established that any one-sided approach can only observe one part of the show. The call for a holistic approach to economics came from Western quarters long time before Islamic economists started talking about it. The Islamic economists' claim to take a holistic approach to economics does not appear as original as we once thought.⁶⁸

65 Because this comes from God, the Most Knowledgeable, it must provide better and more comprehensive explanations of human behaviour than economists' value-neutral postulates.

66 e.g., Gunnar Myrdal (1976) *The Meaning and Validity of Institutional Economics* in *Economics in the Future*. Boulder, Colorado: Westview Press, pp. 82-89.

67 See Mark Blaug, op.cit., especially ch.5, and Lawrence A. Donald (1982) "*The Foundations of Economic Methods*." London: George Allen and Unwin, and several others.

68 Akram Khan, *Challenges of Islamic Economics*, op.cit., pp. 20-23. The same call was voiced by Myrdal many years earlier, Myrdal *Gumar* op.cit. Even J.S. Mill, the so-called inventor of homo economicus never thought of a homo economicus separable from non-economic motives and objectives. See: Joseph Persky (1995) "The Ethology of Homo Economicus", *Journal of Economic Perspectives*, 9 (2-Spring).

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Chapter ④

Defining Economics
and Islamic Economics

Defining Economics and Islamic Economics

I. Introduction

In responding to the question whether the term '*Islamic economics*' an acceptable and non-controversial term, it should be noted that '*Islamic economics*', as a term, varies or somehow departs from something recognized as '*economics*', and in that respect there is no reason why it should be controversial. After all, we have Keynesian and Post-Keynesian and New Keynesian economics, Institutional economics, Radical Economics, Feminist economics, and so on. The subject matter of all these '*economics*' remains economics. They may well define that subject matter somewhat differently to highlight their understanding of it with respect to its scope and methods. While not questioning the orthodox or mainstream definition of economics, a specialized economics could nevertheless represent a significant and distinct departure from some aspects of that mainstream definition.

If one agrees that Islamic economics is a species of heterodox economics, rather than a new subject completely distinct from economics,¹ unless the subject matter of economics is made clear it would be difficult to practice Islamic economics. It has been suggested that a definition of economics is not necessary – economics is just what economists do. But then is it not useful to know (and state) what it is that economists do or have been doing over different periods of time?

A working definition of economics is important for every research programme in economics (orthodox or heterodox) in order to under-

stand its objectives in the proper perspective. A definition of economics would also help these programmes to espouse an apposite methodology to study a specialized economics. Indeed it is possible that even when there is an agreement on the definition of economics, different methodologies are suggested for its study. Similarly, for economic methodologists too, a clear statement about the definition of economics they are working with will allow others to make a critical evaluation of their respective methodologies. John S. Mill (1874: 86) once observed that:

It might be imagined, on a superficial view of the nature and objects of definition, that the definition of a science would occupy the same place in the chronological which it commonly does in the didactic order. As a treatise on any science usually commences with an attempt to express, in a brief formula, what the science is, and wherein it differs from other sciences, so, it might be supposed, did the framing of such a formula naturally precede the successful cultivation of the science. This, however, is far from having been the case. The definition of a science has almost invariably not preceded, but followed, the creation of the science itself.

If Mill is right, Islamic economics or any other economics under the umbrella of economics could be defined and redefined after looking at what its practitioners have been doing or trying to do. In any case, it is worthwhile to start with a brief discussion of the history of the definition of economics and to see what stimulated changes in it over time and, at one point, prompted a change in the name of this discipline. It could be also argued that the nature of economics is such that the way it is defined has serious theoretical and practical implications; the definition is then liable to be used to suggest an economic system or a system of economic activities and institutions compatible with itself. As we will observe later, notwithstanding the changes in the definition of economics over more than two hundred years, the basic issue or problem in economics may have remained somewhat unchanged.

II. The Definition of Wealth

Adam Smith, generally regarded as the father of economics, chose as the title of his famous book: *An Inquiry into the Nature and Causes of the Wealth of Nations*. What he wanted to say in the book was that the 'nature of wealth' was not what the mercantilists before him wished people to believe. Moreover, he also wanted to argue that the 'causes' of wealth were also not what mercantilists had claimed them to be. One thing, however, must be noted that Smith did not question the pursuit of wealth as something undesirable. In the history of economic thought, mercantilists are credited with overthrowing the scholastic/church outlook that the pursuit of wealth was not admirable and commercial activities generally were just a necessary evil. Smith did not take issue with the view that people are generally interested in improving their material wellbeing and that this is a natural and legitimate desire. His basic philosophy was that when individuals are freely allowed to pursue their legitimate self-interest in economic affairs, it is not only good for themselves but, unintentionally, also helps a nation to increase its wealth through increased capacity for current and future production.

The word '*economics*' was not used until the last quarter of the nineteenth century. Smith and those who followed him used the term '*political economy*' as the umbrella term for issues related to production and Exchange of goods and services. Smith ([2008]: IV: 5) defined political economy as follows:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.

It is clear from this definition what role Smith wanted the government to play – to enable the people to earn an income that not only takes care of their own needs but also contributes to the revenues of the government. Smith also described the subject as “*the science of wealth’ and ‘the science relating to the laws of production, distribution and exchange.*” Smith, following the advancement in natural sciences especially the popularity of Newtonian physics, was impressed by the basic doctrine of the French Physiocratic school that the economy when free from unnecessary government intervention would follow its natural course to create optimal wealth for the people and the government. By using the term ‘*laws*’ of production, distribution and exchange, Smith was indicating that the object of his ‘*inquiry*’ was to discover the natural and (therefore) efficient rules that govern those economic functions.

The title of his book, *An Inquiry into the Nature and Causes of Wealth of Nations* said all that. Unlike the mercantilists before him, for Smith wealth of a nation was not its stock of gold and silver but its productive capacity. The objective of studying political economy was, therefore, to investigate what would increase the productive capacity of the nation. To Smith, the answer was to encourage domestic and international division of labour (implying free internal and external trade) allowing all individuals in the society to pursue their self-interest in productive activities, with a minimal role for governments (which he thought were generally corrupt) largely restricted to security issues. Smith’s use of the words science and laws shows his acceptance and appreciation of the Physiocratic notion that the economy should be allowed to run under the natural forces same as the physical matters behave in natural way all over the universe.

The title of Ricardo’s influential book published in 1817 was ‘*Principles of Political Economy and Taxation*’. He became interested in political economy after reading Smith’s *Wealth of Nations*. As Ricardo did not give his own definition of economics, it could be claimed that he agreed with Smith that ‘*political economy*’ is the study of how a country can grow wealthier over time. He looked for regularities in different eco-

omic phenomenon and initiated deductive methods to formulate economic laws that could, to some extent at least, mimic laws in the natural sciences. He appeared to be relatively more concerned about distribution of wealth than its production (Tideman, 2000:111). For that he developed theories of rent, wages and profit, and the dynamics of the share of income going to different factors of production as a country pursues an ever greater level of wealth. Furthermore, he was interested in deriving laws of distribution of income among factors of production and investigating how these laws affected the long term growth path of the economy. For example, his iron law of wages did not leave any room for a government role in determination of wages. According to this law wages depend on the wage fund and tend to move towards a subsistence level. He was concerned that the economy would eventually come to a stationary state as the cost of producing food kept increasing and the level of food production reached its maximum possible level.

John Stuart Mill, author of the leading book on the subject in his time and for a long time after, ‘*Principles of Political Economy with Some of Their Applications to Social Philosophy*’ (1848), deliberated on the definition of wealth before giving his ideas on what course political economy should take to address the issue of production and distribution of wealth. According to Mill (1848, ‘*Preliminary Remarks*’, §14):

Wealth, then, may be defined as all useful or agreeable things which possess exchangeable value; or, in other words, all useful or agreeable things except those which can be obtained, in the quantity desired, without labour or sacrifice. To this definition, the only objection seems to be, that it leaves in uncertainty a question which has been much debated’ whether what are called immaterial products are to be considered as wealth: whether, for example, the skill of a workman, or any other natural or acquired power of body or mind, shall be called wealth, or not: a question, not of very great importance, and which, so far as requiring discussion, will be more conveniently considered in another place.

Indeed, what Mill left outside the definition of wealth is now conveniently and correctly labelled as human capital but unlike the physical capital still remains unmeasured even as it contributes in creating goods and services. However, this issue was not the main concern for Mill, and for that matter, nor for Smith, Ricardo and others before him. After his definition of the nature of wealth Mill (1848: 'Preliminary Remarks', §15) goes on to the main topic of political economy, production and distribution of wealth:

These things having been premised respecting wealth, we shall next turn our attention to the extraordinary differences in respect to it, which exist between nation and nation, and between different ages of the world; differences both in the quantity of wealth, and in the kind of it; as well as in the manner in which the wealth existing in the community is shared among its members.

Mill, like Smith, thus not only sought to investigate the causes of the wealth of nations but, following Ricardo, extended his study by looking into the manner in which the wealth is distributed among different members of a nation:

In so far as the economical condition of nations turns upon the state of physical knowledge, it is a subject for the physical sciences, and the arts founded on them. But in so far as the causes are moral or psychological, dependent on institutions and social relations, or on the principles of human nature, their investigation belongs not to physical, but to moral and social science, and is the object of what is called Political Economy.

(Mill, 1848: 'Preliminary Remarks', §29)

It is clear that Mill regards political economy as a social science or what he also called elsewhere an inexact science to distinguish it from natural sciences.

The production of wealth, the extraction of the instruments of human subsistence and enjoyment from the materials of the

globe, is evidently not an arbitrary thing. It has its necessary conditions. Of these, some are physical, depending on the properties of matter, and on the amount of knowledge of those properties possessed at the particular place and time. These Political Economy does not investigate, but assumes; referring for the grounds, to physical science or common experience. Combining with these facts of outward nature other truths relating to human nature, it attempts to trace the secondary or derivative laws, by which the production of wealth is determined; in which must lie the explanation of the diversities of riches and poverty in the present and past, and the ground of whatever increase in wealth is reserved for the future. (Mill, 1848: 'Preliminary Remarks', §30)

For Mill, thus the task or subject matter of political economy was to deduce laws, given the technology based on advancement made in natural sciences and the nature of human beings, which not only determined the production of wealth but could explain the differences in the wealth of nations over time and space. He further argues that (Mill, 1848: 'Preliminary Remarks', §31):

Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein obtaining. But though governments or nations have the power of deciding what institutions shall exist, they cannot arbitrarily determine how those institutions shall work. The conditions on which the power they possess over the distribution of wealth is dependent, and the manner in which the distribution is effected by the various modes of conduct which society may think fit to adopt, are as much a subject for scientific enquiry as any of the physical laws of nature. The laws of Production and Distribution, and some of the practical consequences deducible from them, are the subject of the following treatise.

Note how Mill introduces the concepts of moral and psychological issues into the definition of the 'science' of political economy. The above were the concluding words of 'Preliminary Remarks' of Mill's Principles (1848). The controversy over the subject matter of political economy continued after that and compelled Mill to write his Essays on Some Unsettled Questions of Political Economy in 1874. After an elaborate deliberation on the nature of the subject he finally defines political economy as

The science which treats of the production and distribution of wealth, so far as they depend upon the laws of human nature.' Or thus 'The science relating to the moral or psychological laws of the production and distribution of wealth. (Mill, 1874: 94)

In Essays, Mill also clarifies that the pursuit of wealth is only one aspect of human nature and the science of political economy was only investigating into that part of human nature:

The science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the pursuit of any other object. (Mill, 1874: 99)

Cairnes, Mill's friend and disciple, defines economics as (1875: chapter 11):

... the science, which, accepting as ultimate facts the principles of human nature, and the physical laws of the external world, as well as the conditions, political and social, of the several communities of men, investigates the laws of the production and distribution of wealth, which result from their combined operation; or thus as the science which traces the phenomena of the production and distribution of wealth up to their causes, in the principles of human nature and the laws and events, physical, political, and social, of the external world.

Cairnes thus brings political as well as social angles to economics. It comes out that for both Mill and Cairnes, in order to explain the nature

of the subject of political economy, three things needed to be understood and recognized: (a) human nature as it related to human mind which in turn works under the influence of the human physiological system; (b) physical realities of the outer world such as fertility of land and technological realities that lead to different kinds of production possibilities; and (c) the social and political realities (or laws of society, or 'laws of human nature in the social state' as stated in Mill's Essay (Mill, 1874: 96).

III. Departure from the Definition of Wealth

The wealth interpretation gave economics a narrow focus that was rejected by many as placing wealth in the forefront and man in the background. Some of the criticism came from thinkers and philosophers whose primary subject of study was not economics. For example, in 1862 John Ruskin referred to political economy as a bastard science that made acquisition of wealth as its primary goal without giving an explanation of what exactly constituted wealth. Ruskin has been severely criticized for his use of indecent language and not given serious consideration by students of history of economic thought perhaps for his heterodox ideas on economics. However, some of his ideas have remained popular up to the future. For example, in a review article Moore (2000: 76-7) states:

Consider, for instance, Ruskin's appeal, made most emphatically in the fourth essay of *Unto This Last*, for political economists to analyse, and then deliberately shape, consumer preferences for wealth and 'illth'. As already mentioned, Ruskin insisted that the traditional focus on the production and distribution of an ill-defined wealth should be replaced by the investigation of the way in which the consumption of certain commodities elevates the individual to a higher plane of being (and thereby 'avails life'), while the consumption of others reduces them to a state of degradation (and thereby leads to a type of 'death'). In his words: the 'real science of political economy, which has yet

to be distinguished from the bastard science, as medicine from witchcraft, and astronomy from astrology, is that which teaches nations to desire and labour for the things that lead to life: and which teaches them to scorn and destroy the things that lead to destruction' (1862:85). It was to be a 'science' of consumption, albeit a strange sort of science with an abundance of 'oughts' (cf 1873:147).

Later definitions evolved to include human activity, advocating a shift toward the modern view of economics as primarily a study of man and of human welfare that goes beyond a study of acquisition of wealth. For example, Aspers (1999) points out that Marshall used a broad approach to economics and he preferred to label his work 'economics' or 'social economics' rather than political economy, which, according to him, was too narrow. Marshall (1920: 1) defines economics in the following words:

Political Economy or Economics is a study of mankind in the ordinary business of Life; it examines that part of the individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man.

According to Aspers (1999) the above definition assigns a larger scope to economics. He refers to Marshall's opinion that economics is a science of human motives (Aspers, 1999: sec II). Hodgson (2007: 3) also claims that Marshall's definition of economics was sufficiently broad to accommodate historical and other insights within the discipline. He mentions that 'Although Marshall preferred the term 'economics' to the earlier one of 'political economy', this choice did not for him signal a narrowing of the legitimate subject matter of the discipline. On the contrary, Marshall saw political economy as 'the narrower term' because it often referred merely to discourses on politically desirable economic policies, rather than the analysis of "the best methods" of

reaching proposed ends' (Hodgson, 2007: 4). Hodgson clarifies that for Marshall 'economics is not exclusively concerned with pecuniary values but they are the most convenient data available to examine human motives and behaviour 'in the ordinary business of life''. Hodgson thus suggests that Marshall had conceded a role for sociologists and other social scientists to investigate other than wealth motives while economists concentrated their efforts on pecuniary values as 'they are the most convenient data available to examine human motives and behaviour "in the ordinary business of life" (Hodgson, 2007: 4).

Lionel Robbins criticized Marshall's definition of economics in his influential book *Nature and Significance of Economic Science* (1932). He questioned the wisdom of considering only 'material requisites' for the wellbeing of human beings. The non-material provisions of well-being such as the services of doctors, teachers, advocates, etc., are also important. It unnecessarily narrows the scope of economics. Similarly, goods that may provide happiness and pleasure to men and women even if considered unhealthy or harmful, such as drugs, cigarettes, alcoholic drinks, etc., are also excluded. Indeed, Robbins would recommend that the desirability or non-desirability of consuming these goods or services should be left to the individuals. Furthermore, welfare is not measurable and it also varies from person to person.

It has also been pointed out by Robbins (1984 [1932]):

Marshall's definition has sometimes been attacked on specious grounds too. It has been alleged, for example, that sociologists, psychologists, and even anthropologists study 'exactly' the same phenomena (of well being). However, to the extent that this is their primary concern, these social scientists are working more as economists than as psychologists, sociologists, or anthropologists. Each of these disciplines is far more centrally concerned with other topics, and touch upon economics only at their periphery; and in any case, there is nothing unusual in some degree of overlap between disciplines. For example, a similar situation is common in the physical sciences.

The most popular and long-lasting definition of economics came from Lionel Robbins (1932: 15) who defined economics as ‘the science which describes human behaviour as a relationship between (given) ends and scarce means which have alternative uses’.

According to Mulligan, ‘This is a definition no economist would find remarkable today, and it seems too narrow only in light of a specifically Misesian critique involving the treatment of entrepreneurship and uncertainty. It was pathbreaking in its time’ (Mulligan, n.d.; italics added). Mulligan (n.d.) claims that ‘Robbins contributed the most definitive modern definition of the discipline. Although limited by his overly restrictive assumptions on information, his definition represented a great leap forward in the profession’s self-understanding’. However, he also points out that: ‘a major limitation of Robbins’ definition is the implicit assumption that ends, means, and their relationships are known in advance with final certainty. This leaves no role open for entrepreneurial experimentation, and assumes knowledge which is only discoverable through entrepreneurial alertness and inquiry’. This drawback of Robbins’ definition of economics is often emphasized by the members of the Austrian school who find this definition applicable only in equilibrium and devoid the need to understand the process and importance of entrepreneurial actions under uncertainty that causes the economy to move towards equilibrium (see, for example, Krizner, 2000).

Robbins’ definition was part of the essay that also dealt with the scope of the subject and its methods of investigation. One of the most important issues he raised was the intractability or impossibility of making any comparison of interpersonal utility and hence his case against any government role in using taxes and transfers as a tool of improving distribution of income. Thus the definition, seen in this context, could be a reflection of an implicit recommendation to leave the issue of the desirability or morality of ends and means up to the individuals.

Hodgson (2007) claims that Robbins, particularly influenced by economists of the Austrian school, redefined economics as the universal ‘science of choice’.

For him, economics was about the rational choice of means to serve given ends. The ‘economic problem’ was then to determine the best means available to meet those given ends. It applied to all economic systems, as long as there were choices to be made and a scarcity of resources. Economics was no longer defined in terms of a real object or zone of analysis, but in terms of specific assumptions and methods. (Hodgson, 2007: 12)

Hodgson points out that this narrowing of the scope of economics ceded substantial territory to sociologists. He mentions the sociologist Parsons (1934) who did not reject Robbins’ narrowing of the scope of economics as in fact it served his purpose. For Parsons ‘sociology was about the social and normative origin of the ends that Robbins had taken as given’ (Hodgson, 2007: 11).

Indeed, for Hodgson (2007: 11) being an institutionalist, this was not a healthy development for either economics or sociology, since it reduced the domain of both:

An implicit contract emerged between both economists and sociologists. Economics was henceforth to concern itself with the rational choice of means to serve given ends; sociology was to be concerned with the explanation of those values and ends. With Robbins (1932), economics became the ‘science of choice’ without much consideration of what ‘choice’ actually meant in philosophical terms. Under Parsons (1937, p. 768) sociology was reconstructed as ‘the science [...] of social action’ without much discussion of the materialist causes behind intention or action itself.

Crucially, both Parsons and Robbins avoided any direct and integrated analysis of socioeconomic structures and institutions as a whole. Each of them focused on a selected analytical aspect. Each science was defined in terms of concepts and assumptions, rather than real objects of enquiry. Neither addressed the structured reality in its totality.

Robbins' definition of economics has survived all kinds of objections and remains the most referred to definition in the textbooks. Those who give their own definitions are generally not far away from the essence of his definition. For example, the definition given by Samuelson and Nordhaus (Year: 4-5):

Economics is the science of choice. It studies how people choose to use scarce or limited production resources (land, labor, equipment, technical knowledge), to produce various commodities (such as wheat, beef, overcoats, concerts, roads and missiles), and to distribute these goods to various members of society for their consumption.

Answering a question on whether economics is romantic, Friedman (2006) once said, 'Fundamentally, economics is a science, like physics, like chemistry ... It's a science about how human beings organize their cooperative activities.' When asked 'Was that his preferred definition of economics?' he replied, 'Well, the standard definition is the study of how a society organizes its resources. In that sense, it's not particularly romantic.'

Perhaps the emphasis on economics being a science of choice is also an outcome of the way the theories of microeconomics (e.g., theory of consumer behaviour, theory of firm, etc.) were developed by neoclassical economists over the years. While Marshall used the term well-being, for reasons mentioned earlier, Robbins, deliberately avoided that term. Even the welfare theory largely relied on the concept of Pareto optimality, which neglected the issues of ethics and distribution. The science of economics was confined to understanding how economic agents make choices to maximize an objective in an economy.

IV. No Need to Define Economics?

While one can hardly find an introductory textbook on the principles of economics that does not give a definition of economics, often echoing Robbins' famous definition, Stewart (1991: 8) notes that:

Mercifully, methodologists these days have ceased agonizing over the question: 'What is economics?' It is by now accepted that economics is whatever the current academic and professional community defines it to be. It is also recognized that different economists have different definitions, none more correct than any other, and that in any case current economics covers so many diverse sub-disciplines that a single definition would be otiose.

This observation is interesting. It is asserting two things. First, economics is what the current academic and professional community defines it to be which implies that the community works with a single contemporary definition. But then Stewart also agrees that as there are so many branches of economics, a single definition will be hard to get. However, which other discipline does not have many branches? Do physics, chemistry, biology, sociology not have branches? So then, should no one think about defining these subjects? Of course there could be more than one definition of economics but not because there are many different fields of economics but because people disagree about its subject-matter and scope. Furthermore, while it is possible or even desirable that each branch of economics (e.g., macroeconomics, econometrics, labour economics, etc.) provides its own working definition, each of them seeks to offer solutions to questions raised within the broad premises of one or more definitions of economics.

One reason why Robbins definition happens to be the most widely used in economics textbooks is that most authors of these books are trained and adhere to the neoclassical school which adopted and has since retained this definition. It is also possible that a heterodox economics accepts the definition of economics provided by the orthodox neoclassical school but derives its heterodoxy through disagreements on methodological issues within the premises of the broader definition. Finally, it could be claimed that each school of thought in economics works under some definition of economics whether the school clearly spells out its definition or not.

Piderit (1993: 10) finds Samuelsson and Nordhaus's definition of economics apparently very broad but actually very narrow if one brings ethical issues in economics spheres. According to him (emphasis in the original):

Economics is the study of choice. It studies how people choose and ought to choose to use scarce or limited production resources, to produce various commodities, and to distribute these goods to various members of society for their consumption and ought to choose.

It is clear that Piderit, an economist by training but possessing a strong belief in Christianity, is attempting to broaden the scope of economics as limited by the definition used by Robbins. In my view it is desirable that each school of thought in economics provide its working definition of economics as clearly as possible for a better understanding of their differences as well as their compatibilities with orthodox economics.

Regarding Islamic economics, if I am forced to define economics in a way that would help me to explain my understanding of the heterodoxy of Islamic economics, the best I can come up with at present is:

Economics is the study of how people in a society, individually and collectively, organize or could organize different aspects of production and distribution of goods and services, and allocate given resources at hand for current and future well being of its people, influenced by the views held by different segments of the society about various aspects of human life.

This definition accepts that choices have to be made in allocation of resources. However, it also claims that economies could be organized somewhat differently depending on the prevailing views of the most effective political power in the society, be it an authoritarian regime or a democratically appointed group of representatives. The definition thus rejects the assertion that economics is a science that must be studied like natural science subjects always looking for universal truths unaffected by time and space. The study of economics under

this definition can look critically at different aspects and structures of an economic system and its potential to achieve the objectives set by its proponents, without questioning the objectives themselves.

It is clear from our discussion so far that the definition of economics has gone through changes and that the changes and their acceptance primarily represent the views of at least some members of the profession. Furthermore, the existence and acceptance of multiple definitions at a given time shows the differing views held by proponents of different research programmes in economics. However, there must be some fundamental issues in economics that have remained central through time and space. It is only to be expected, however, that there will be different opinions even on the question of what constitutes the central issues in economics. The views of George Joseph Stigler, the recipient of the 1982 Nobel Prize in economics on this issue, are very interesting (1982: 61):

If the problems of economic life changed frequently and radically, and lacked a large measure of continuity in their essential nature, there could not be a science of economics. An essential element of a science is the cumulative growth of knowledge, and that cumulative character could not arise if each generation of economists faced fundamentally new problems calling for entirely new methods of analysis. The change of problems and methods would also undermine the training of economists: if the young studied under the old, the young could be confident that they were learning things that were rapidly becoming obsolete. A science requires for its very existence a set of fundamental and durable problems. In economics the most fundamental of these central problems is the theory of value. The theory of value must explain how the comparative values of different goods and services are established. Until that problem is solved, it is not possible to analyze for scientific purposes what will be produced and in what quantities, how the resources will be employed in producing the menu of outputs, and how the resources will be valued. Without a theory of value the economist can

have no theory of international trade nor possibly a theory of money. This central problem of value does not change in its essential content if one seeks to explain values in rural or urban societies, or in agricultural or industrial societies. Indeed, if the problem of value were so chameleon-like as to alter its nature whenever the economic or political system altered, each epoch in economic life would require its own theory, and short epochs would get short-lived theories.

Stigler (1982: 62), however, does admit that:

The central task of an empirical science such as economics is to provide general understanding of events in the real world, and ultimately all of its theories and techniques must be instrumental to that task. That is very different from saying, however, that it must be responsive to the contemporaneous conditions and problems of the society in which it is situated.

A viable and healthy science requires both the persistent and almost timeless theories that naturally ignore the changing conditions of their society and the unsettled theories that encounter much difficulty in attempting to explain current events. Without the base of persistent theory, there would be no body of slowly evolving knowledge to constitute the science. Without the challenges of unsolved, important problems, the science would become sterile.

One point on which it would be difficult to disagree with Stigler is his emphasis on the cumulative growth of knowledge of a science or even a social science such as economics. Although Stigler is referring here to the theories of economics, the argument could also be extended to the definition of economics. Indeed, as we have seen there have been attempts to drastically change the definition of economics, but in practice its major concern has remained the issues related to organization of production and distribution of goods and services.

Stigler has emphasized the centrality of the theory of value in economics – how comparative values of goods and services are deter-

mined. An equally important and related issue in economics has been to understand how the comparative returns to different factors of production are determined. Marx's main concern was not why the price or value of a piece of cloth was, for example, \$15 per unit, but who had contributed what to create that value and whether everyone justifiably received a remuneration commensurate to his contribution. Whether Marx's analysis was correct or flawed is a different matter and the same goes for neoclassical analysis of that issue. On the other hand neither Marxian nor neoclassical traditions are in favour of bringing in ethical and moral issues (which often or ultimately lead to religious doctrines) in their analysis.

In any economy goods and services are produced by combining factors of production, the values of those goods, services and factors of production are determined, and exchange of those goods and services takes place. Which goods and services are allowed or encouraged to be produced and by whom, and how the determination of the values of these goods, services and factors of production is allowed or encouraged, have remained the main concerns of economics. But these concerns can be addressed from different perspectives that not only affect how economics is defined under each perspective but also alternative answers to these concerns.

V. Defining Islamic Economics:

What Islamic Economists Want To Do?

The difference in opinion of many Islamic economists about the definition, scope, and methodology of Islamic economics has given birth to a considerable debate over the issue of whether Islamic economics is really a distinctive and separate discipline, quite independent of mainstream economics, or it is one of the many heterodox economics that seriously disagree with one or more aspects of orthodox economics, e.g. capitalist, socialist, or communist economics. Before moving to look at the controversies over the definition and subject matter

of Islamic economics among Islamic economists, it would be pertinent if the heterodoxy of Islamic economics is briefly explained.

5.1. The heterodoxy of Islamic economics

Islamic economics, like any other heterodox economics, can be seen as a critique of orthodox economics. The nature of each heterodox is different; it targets one or more aspects of the contemporary orthodoxy in economics. In order to understand the nature of a heterodox economics, it is, therefore, necessary to have a clear idea of contemporary orthodoxy. The present orthodoxy in economics works under an advanced version of Robbins' definition discussed above. Economics under this definition is a study of the mechanisms for making choices that would produce optimal solutions to the problems created by the existence of unlimited but rankable wants and limited resources that have alternative uses. Its advocacy for free markets at the micro level and only a limited role of government in facilitating free markets or intervening in cases of market failures is supposed to be based on its solution of the economic problem created by scarcity. Apart from this broad definition of economics, orthodox economics holds its own worldview and explicitly explains its understanding of the nature of human beings, their behaviour and aspirations, and the methods that should be preferred in economic investigations. It treats economics as a positive science having no relation to ethics, morality and sociological issues. It may not be unreasonable to claim here that all heterodox economics stem from their differences on one or more elements of the premises of orthodox economics.

The present orthodoxy of neoclassical economics is the culmination of a long tradition that started with the Physiocratic school and the writings of Adam Smith and other members of the classical school. With a tremendous technical boost from the marginalists it was Marshall who synthesized all the seemingly valid and defensible elements of the past theoretical work of that tradition to form the neoclassical

school. It must be kept in mind, however, that the Physiocratic school of mid-eighteenth century France was doctrinally in favour of a naturally free economic order without reference to any economic theory. It followed the Newtonian revolution in physics that had shown how natural gravitational forces maintained the universe in order and harmony. It was thought that the same must be true for the economy and the society and any intervention by government disturbing the natural order must be undesirable. The *laissez-faire* argument made sense to and was approved by the French farmers in a political and social environment where the governments had long sided with rent-seeking merchants, landlords and licensed private land-rent collectors.

A strong and persuasive theoretical framework for Physiocratic beliefs was provided by Adam Smith who shared their doctrinal thinking, through his most influential books *The Theory of Moral Sentiments* and *The Wealth of Nations*. The natural gravitational forces among human beings were sympathy towards fellow human beings in non-economic matters and self-interested behaviour in economic matters. It was argued that men and women naturally working in their own self-interest in pursuit of wealth would not only enrich themselves, but unintentionally benefit the society and increase the wealth of the nation. Furthermore, any excesses due to the egoistic human behaviour could be controlled *naturally* through competition among different factors of production.

Even if not clearly stated, the theories of value, rent, profit, wage and prices were developed by Smith, Ricardo and others on the premises of a completely free economy. John Neville Keynes in his book *The Scope and Method of Political Economy* published in 1890 conceded this point, affirming that derivation of economic laws on the assumption of *laissez-faire* was the easiest approach to start with. As economic agents were allowed to deal with each other in a free and natural manner; the complexities of intervening forces could be addressed at the later stage. Keynes suggested distinguishing between *laissez-faire* as an

assumption of the deductive method and using it as a maxim of conduct. The use of *laissez-faire* as a maxim of conduct has a quite different meaning. It describes a preference for a system where individuals are given all kinds of liberty to make their own choices free from any intervention. Keynes admitted that the confusion was partly created by the fact that the economists busy investigating the laws of positive science of political economy were also preaching the desirability of *laissez-faire* as an ideal. In proof of his assertion, he gave several examples from *Wealth of Nations* of how Adam Smith suggested a need for government intervention in the economy. How far the classical economists and their later followers were able to keep their preference for freedom of action from influencing the outcome of their positive economic analysis is an interesting area or research for students of history of economic thought.

It has been suggested that Adam Smith never celebrated the self-interested economic behaviour of human beings, he only pointed out its unintentional positive effects on the economy. The issue has, however, remained unsettled. It has also been argued that Adam Smith somehow approved self-interested behaviour as acceptable, apparently without regard to the morality of some actions under such behaviour in different circumstances.

The socialist writers (using a historical approach, rather than the predominantly deductive approach of the classical school) questioned the harmony of interests thesis of a free market economy and argued in favour of varying degrees of control and intervention by workers-supported governments for a desirable and justified distribution of income and freedom from the tyranny of the capitalists, industrialists and land-owners. For them, a capitalist system was inherently exploitative and source of conflicts. However, even if their support for an intervening government received widespread support among workers their theoretical work on theory of value was subject to severe criticism by a new group of *laissez-faire* believers, the marginalists.

This new group provided a much more sophisticated theory of value in support of their belief in the superiority of a freer economic system. In addition to self-interested behaviour they promoted the notions of avoidance of work, impatient indulgence in present consumption (providing one of the bases and theoretical legitimacy for the payment of interest), and capacity to take risk and hedonistic rationalism as natural human instincts that must enter in the calculation of the value of economic goods. They criticized both the classical economists and Marxists who based their theory of value on cost of production; labour being the main cost (or only cost for Marx) and hence major source (or only source for Marx) of value. Marginalists instead argued that the value of a good basically depends on demand that in turn depends on the utility the good provides. They thus provided a new theoretical ground for a *laissez-faire* economy, advancing the case for free markets and the legitimacy of market-determined prices of goods and factors of production. Marginalists kept their faith in the classical notion of a free market economy always leading to full employment, the inability of money stock to affect any real variable in the economy and the absence of monopoly.

It was Marshall who eventually synthesized the classical and marginalist theories of value, bringing in both supply and demand, which provided the basic foundations of neoclassical microeconomics. Marshall and his contemporary neoclassicals remained loyal to the free market economic system and its ability to produce efficient allocation of resources, determine market-clearing prices, distribute income and provide full employment to everyone who wanted to work.

It should be clear that the issue of morality was set aside by both the supporters and opponents of a free market capitalist system. The proponents of free market who were also advocating for a free society wanted freedom from government and religious regulations and pursued theoretical work in support of their ideals. The opponents supported a system that could bring freedom from the tyranny of the capi-

talists, landlords, industrialists, and of course from religious leadership that was seen as working in favour of these tyrants. None of the two groups were much interested in bringing moral issues into their arguments, perhaps realizing that any such attempt would eventually lead to religious edicts which were abhorrent to both.

Keynes did not question Marshallian (neoclassical) microeconomics and the ability of markets to allocate resources in the 'right' way. He only pointed out that the markets may not always create the volume of economic activity that would guarantee full employment although it may achieve the goal occasionally. He therefore developed his *General Theory* to show why government often needed to act through fiscal and monetary policies to avoid prolonged recessions. Keynes did this by introducing his liquidity theory of interest and emphasizing the uncertain nature of future economic outcomes, the volatility of investment expenditures, the inflexibility of wages to move downward, and the inability of interest rates to equalize savings and investment. His views were eventually accepted into the mainstream orthodoxy in what became a neoclassical-Keynesian thesis in macroeconomics. The governments were thus allowed, encouraged, to intervene to stabilize the economy towards full employment through monetary and fiscal policies. The broad synthesis in macroeconomics has survived the onslaught from extreme proponents of the free market, first from monetarists and later by new classicals by restructuring its theoretical framework to accommodate concerns about inflation and the role of expectations. The synthesis has also survived the attacks coming from the left-of-centre Post-Keynesians who advocated for even larger intervention by governments and demanded an incomes policy for a better distribution of income.

While the Keynesian revolution came in response to a theoretical challenge to neoclassical belief in a self- (read *naturally*) correcting economy producing full employment, the early institutionalists pointed their guns at the ability of the market to produce a desirable or justified pattern of distribution of income. They also questioned the behavioural assumptions of the neoclassical school such as hedonism,

and the presumed sovereignty of consumers. They recommended a closer look at existing institutions at a particular time and place to understand how an economy works rather than looking for universal laws of economics. They supported reforms through democratic processes favouring the under-privileged classes of society.

At present, according to orthodox economics, the goal of economics science is to allocate economic resources efficiently to produce the highest possible volumes of goods and services in society. Orthodox economics also claims that this goal can be best achieved through a free market system. I do not think any heterodox school of thought (holding the same worldview and the same stand on morality, ethics and religion as the orthodoxy) would have any objection to this goal and the means to achieve it provided that it was sustainable, i.e. it did not lead to:

- (i) an inequitable distribution of income in the economy
- (ii) increasing degradation of environment, and
- (iii) frequent instability in the economy.

Indeed, Islamic economics shares all these three concerns of heterodox economics, especially the first two as they come under its basic premises. However, as the Islamic economic system bases itself on a different worldview, it is also concerned about the morality of different aspects of economic activities and economic institutions emerging from the unbridled natural (but controllable) instincts of human beings. Mere maximization of material provisions thus does not form the goal of Islamic economics.

5.2. Definitions of Islamic economics: Monzer Kahf's reservations and suggestions

Monzer Kahf (2003) deals with issues related to definition and methodology of economics. He critically reviews definitions of *Islamic economics* given by different people writing on the subjects. Furthermore, he also deliberates on the desirability or suitability of the pre-

fix Islamic before economics. Thus a discussion of his views here will naturally lead to a working definition of Islamic economics.

According to Kahf, there seems to be no agreement among Islamic economists about the definition of Islamic economics, its scope, and relation to conventional economics, methods and instruments of analysis and even some of its basics. He refers to different definitions of Islamic economics suggested by Islamic economists. For example, according to Akram Khan Islamic economics aims at the study of human *falah* achieved by organizing the resources of earth on the basis of cooperation and participation. S.M. Hasanuzzaman's definition is "Islamic economics is the knowledge and application of injunctions and rules of the Shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the Society". For Muhammad Arif Islamic economics is the study of Muslim behaviour which organizes the resources, which are a trust, to achieve *falah*. Abu Al Makarim defines Islamic economics as "the science which deals with wealth and its relation to man from the point of view of the realization of justice in all forms of economic activities" (Kahf, 2003: 26, 41). After giving his criteria for a distinct scientific discipline, he concludes that Islamic economics is certainly a science of its own and he gives it the name 'science of economic justice'. His definition of science may be consistent with the definition of science proposed by Zarqa, as any organized and systematic kind of knowledge (Kahf, 2003: 27, 41).

According to Kahf, Tag el-Din defines in Islamic economics a system of economic policy guided by the Qur'an and *Sunnah* in facing the economic problems. For him, the focus of Islamic economics is the normative interventionist policies made necessary because of the greed of human beings. Hence, Islamic economics, for Tag el-Din, becomes a tool to enlighten policy-makers, and help them take the right decisions. Consequently 'the analytical part of economics becomes a

secondary requirement, since one must know what is in order to be able to suggest what rationally ought to be.' (Kahf, 2003: 26–7)

Kahf finally observes that the above-mentioned works seem to give rise to more questions than answers about Islamic economics, its definition, scope and validity as a science, as also about the need to prefix 'Islamic' to 'economics'. For the purpose of clarity, he classifies the definitions of Islamic economics in two categories: the first category includes the definitions of Hasanuzzaman and Abu al-Makarim. Their main focus is the principles and rules of Shari[ah that make up the framework or milieu for the behaviour of the economic agents. These definitions refer to what Zarqa calls the normative part of Islamic economics i.e., how things should be if people follow the Islamic injunctions as derived from the principal sources of Islam. The definition suggested by Tag el-Din may be added to this category as it refers to normative economics by concentrating on macroeconomic policy. These normative definitions apply only within the framework of the Islamic economic system which is a part of what Islam calls to be established on earth by means of the conviction, faith and efforts of human beings (Kahf, 2003: 27).

In the second category of definitions Kahf includes those suggested by Khan and Arif and asserts that the focal point of these definitions is human behaviour within the framework provided by the Islamic economic system since these definitions implicitly cover the study of the Islamic economic system. In Kahf's view definitions of al-Sadr and Zarqa may also be included in this category. Al-Sadr assigns to Islamic economics, what he calls a scientific function and a doctrinal function. Accordingly, the role of Islamic economics is, on the one hand, to discover the shape which real-life variables may take in a society that applies the Islamic economic system, and on the other, to uncover the Islamic economic system itself. Zarqa also considers that Islamic economics consists of two parts: one that studies the economic system of Islam (positive part), and the other that studies the behaviour of Muslims within the system (Kahf, 2003: 27–8).

Kahf then approvingly mentions Taysir Abd al Jabir who questions the wisdom of prefixing 'Islamic' to 'economics'. According to Kahf, it is obvious from al Jabir's argument, that he fears that the use of the prefix implies the need to re-do the last two hundred years of the development of economic theory. Moreover, this fear may be partially justified in view of the sensitivity with which many Muslims (even scientists) approach ideas developed in the West (Kahf, 2003: 29).

Kahf then looks at the debate on the definition of economics from yet another angle which also facilitates him in stating his own definition. He asserts that Ibn Khaldun's new (at that time) science of human civilization, *ilm al-umran*, was an Islamic discipline, not a conventional one. Why can't we, Islamic economists, think of economics in a universal sense too? Kahf thus claims that (Kahf, 2003: 29–30):

As a part of the study of human civilization and association, economics must be defined as the study of human behaviour individually and collectively, with regard to the use of resources for the purpose of satisfying human material objectives. Moreover, 'from the Islamic (Khaldunian) viewpoint, economics may be defined as the study of the behaviour of men and women, individually and collectively, in order to understand the patterns and modes of this behaviour, its motives and incentives, as well as its goals and objectives, and responses and reactions, with and without being confined to a specific situation, norms, set of moral values, or legal, political, religious framework'.

Consequently, the laws of behaviour and collective and aggregate relationships discovered by this study shall be applicable to all men and women, with local variations resulting from the spiritual, psychological, organizational milieu or environment that determine the circumstances of the behavior.

This discipline, Kahf asserts, cannot be labelled un-Islamic just because the word Islamic does not appear in its name and definition, nor is it in need of a deliberate effort for its Islamization. It is part of what God ordered us to learn in this world so that we may come nearer to

understanding His Wisdom in creating it so, because such study enables us to discover universal patterns, which enable us to understand this area of man's life and reorient it, when necessary, to servanthood to God. According to Kahf, Zarqa comes very close to this when he accepts descriptive postulates of conventional economics as part of Islamic economics. He also suggests that Islam itself lays down certain descriptive (positive) postulates that carry no value judgment. Such descriptive statements are applicable to human beings, as such, to their *nature*. They are explanatory of human behaviour in a universal way, regardless of religion, culture, level of development, race, etc. But, according to Kahf (2003:30), Zarqa cannot detach himself fully from the current trend among Islamic economists and insists that an Islamized economic discipline cannot explain behavioural patterns incompatible with the Islamic ethics such as unjust transactions (e.g. effects of interest rate) or the production of non-good commodities (e.g. intoxicants). (Kahf, 2003: 31)

In Kahf's view his own suggested definition (given above) also refers to the human material objectives instead of to desires, wants or needs, as is common in the Western definitions of economics, and in place of the *falah* and performing obligations to God found in certain Islamic definitions. 'Human objective is a neutral term that applies equally to God fearing human beings, agnostics and unbelievers. The adjective material excludes human efforts related to spiritual upliftment and other non-material human objectives' (Kahf, 2003: 31).

Some comments on Kahf's views on the prefix 'Islamic' and his own definition on economics are in order. Apparently, he seems to hold contrasting views when compared to the opinions of the contemporary Islamic economics writers. Let us first take the issue of prefixing Islamic to economics. He claims that Ibn Khaldun's new science of human civilization, *ilm al-umran*, was an Islamic discipline, not a conventional one and asks why Islamic economists cannot think of economics in a universal sense too? What he is suggesting is that it would be more appropriate if we (the Islamic economists) simply do our research as mainstream economists. The implication of his suggestion is

that, barring some variations due to cultural and spiritual influences, the basic postulates about the behaviour of economic agents would be the same for any society and any economy.

While it is true that the basic nature of all human beings is the same, the current orthodoxy in economics has developed without any explicit consideration for morality and religious teachings. An individual under this system of organizing the economy is free to hold any moral standard or religious view (including the option of not holding any moral standard or religious leanings) but he has to adjust on his own if the environment in which he strives for his material objectives is not very helpful. However, an important objective of any system (politics, economics, education) in Muslim society (or any society) is to provide a conducive environment for its inhabitants. In light of that objective, it is important to find out if it is necessary to reform or replace economic institutions established under the orthodox economic doctrine.

Kahf (2003) is right that the basic nature of human beings is the same all over. All human beings, albeit to different degrees have the instincts of selfishness as well as altruism; all are capable, to different degrees, of being honest or dishonest. One of the objectives of a society based on Islamic principles is to promote the admirable instincts and help in containing bad instincts. The prefix 'Islamic' could signify that objective. Muslim scientists of the past did not use such terms as 'Islamic algebra' or 'Islamic chemistry' even if they made significant contributions in these fields. The reason is that the principles and elements of natural sciences and mathematics do not vary between societies. There was (and still is) no need at all for an Islamic prefix for physics, chemistry, biology, etc. On the other hand, for social sciences such as history the 'Islamic' prefix has a different meaning. Islamic history need not mean a distinct discipline; it can mean the history of Muslim peoples and of Islam over the centuries.

Ibn Khaldun initiated a new discipline of human civilization and society and also adopted a new method of writing history. On issues that now come under economics, he commented on phenomena based on

his personal observations and understanding of the real world he had seen and dealt with. As a historian he wrote the history of civilization with his new method and did not indulge in what should and should not be done from an Islamic point of view. He was a Muslim and a devout one but when discussing civilizations and their developments he only wrote what he saw of the societies he lived in or came to know about. He did not take on the task of giving a complete framework for an ideal Islamic politico-economic social system. The context for an Islamic prefix was completely absent from his writings on history of civilizations or on sociology.

On the economic issues that Ibn Khaldun touched upon, his views cannot be termed 'Islamic' or 'un-Islamic'. For example his statement that a rising rate of taxation eventually leads to a decrease in overall tax revenue and harms both the rulers and the ruled could be true for any economy irrespective of the religious beliefs of its people. Islamic economists, like many among mainstream economists, can accept the policy implication of this theory – tax rates should be moderate because this benefits everyone in the society (and thus accords with Islamic injunctions). There are many such economic ideas in Ibn Khaldun's writings related to labour, money, public expenditure, etc. Economists of any background including Islamic economists can benefit from his observations on these topics but whether and how far they accept his theories and their policy implications will depend on their compatibility with their preferred economic doctrines.

The issue with economics and Islamic economics is different. Political economy (now economics) as a distinct subject-matter started with the publication of Adam Smith's *Wealth of Nations*, which was, in important respects, the culmination of many earlier ideas coming from different countries in Europe. Its followers came to be known as members of the classical school with *laissez-faire* as its prime political-economic paradigm. After surviving the onslaught of the Marxists in the middle of the nineteenth century, its improved version was given the

name of the neoclassical school towards the end of the century. It has dominated the field of microeconomics until our time. On the other hand, today's mainstream macroeconomics is a synthesis of neoclassical and Keynesian schools of thought. If Keynesian economics, which considers the issue of unemployment the most important economic concern, remains a part of economics then there should be no problem with the term Islamic economics whose proponents are interested in embedding relevant Islamic principles and concerns into economics. As mentioned earlier, the term Islamic economics should imply the acceptance of economics as a discipline. There is no need to remove the 'Islamic' from economics at this stage when Islamic economics is far from being the mainstream economics of the world? If, like Ibn Khaldun, we were inventing a new discipline the term 'Islamic' was not needed. But that is not the case.

One can be sympathetic with Kahf's reservations for the 'Islamic' prefix if anyone claimed it as a new discipline different from economics and I would be against any such claim. The prefixing of economics simply signifies a school of thought. Post-Keynesian economics primarily refers to the economic ideas of a group of economists who are relatively more concerned about distribution of income and favour an incomes policy for the economy rather than leaving distribution of income to the free market. Post-Keynesian economics is a research programme in economics carried out by Post-Keynesian economists. The same goes for Islamic economics and Islamic economists.

The Keynesian school itself admits such variants as Post-Keynesian and New-Keynesian, and no one from that broader school demands a common definition for Keynesian economics. More important than the definition, is to see what is being offered under a particular definition of Islamic economics. Also, there are many Islamic economists who have contributed a lot without offering a definition of economics. By and large everyone has sought changes in orthodox economics, which happens to be neoclassical school in the area of microeconomics

and neoclassical Keynesian synthesis in the area of macroeconomics. Every advocate or practitioner of Islamic economics may have a somewhat different version of an Islamic economic system in mind and it should be judged on a criterion set by Kahf (1989: 43) himself in one of his earlier papers:

Any economic system should be founded on an ideology which provides the economic system with its basis and objectives on one hand and its axioms and principles on other.

The validity of an economic system can be tested by its internal consistency, its compatibility with the systems organizing the other aspects of life, and its provision for improvement and growth.

It is important to note that Kahf has not made the prefixing with 'Islamic' a crucial issue. From the beginning of his deliberations on the matter, he has been willing to accept the 'Islamic' prefix even if that is not his preferred view, perhaps out of respect for the majority view on the issue. For example, Kahf (2003: 25-26) states:

The term Islamic economics may be justified as an identification of a field of study based on the assumption of the existence of Islamic axioms in the social, political and legal environment, a system of values and ethics, which guide the economic behaviour of men and women in an Islamic society. This way of looking at Islamic economics resembles the way capitalist economics is treated as economic analysis carried out on the basis of the capitalist paradigm. In this sense, Islamic economics is simply a branch of the science of economics, the study of one economic system among others. This branch of economics must then elaborate the paradigm, axioms and principles of the Islamic economic system, as well as to analyze its impact on economic measures and on the decisions of economic agents within it. Again, as for other branches of economics related to

other economic systems, some of the tools of economic analysis may not suit some of its axioms, and will have to be amended or substituted. However, just such changes in terminology or method would not qualify the capitalist or Marxist economics as an independent discipline. Islamic economics cannot be branded as a distinct branch of knowledge, standing in contrast with the discipline referred to by some Islamic writers as conventional economics.

First of all, Islamic economics like Post-Keynesian economics should not be treated as a branch of economics. Nuclear physics, quantum physics, theoretical physics, applied physics are branches of physics. Similarly, microeconomics, macroeconomics, international economics, labour economics, urban economics, are some of the branches of economics. As the term 'labour economics' signifies a branch of economics, the term Post-Keynesians economics over the years has come to be (or perhaps has always been) understood as a research programme or a school of thought in economics – a species of heterodox economics. It was never meant to be a distinct new discipline such as sociology or political science or history. The same should be true for Islamic economics.

On Kahf's (2003) definition of economics it is interesting to compare it to that of Robbins'. According to Kahf, 'it is the study of human behaviour individually and collectively, with regard to the use of resources for the purpose of satisfying human material objectives'. Although Kahf avoids the concept of choice and scarcity in his definition, he explicitly mentions the problem of scarcity in his explanation of the definition (2003: 30-1; italics added).

Additionally, the suggested definition does not fall into the trap of *over emphasizing* the explanatory efficacy of the concept of scarcity. Obviously only scarce resources are allocated by human effort, but the utilization, and especially consumption of non-scarce resources should not be completely excluded from

the field of economics because such consumption affects the welfare of human beings and influences their moral and spiritual attitudes ...

Kahf (2003), in my view, is thus not too far away from Robbins' definition of economics cited earlier, i.e., the science which describes human behaviour as a relationship between (given) ends and scarce means which have alternative uses. Unlike Robbins, Kahf (2003) avoids mention of the word scarce in the formal definition of economics while (rightly) observing that only scarce resources need to be allocated.

VI. Conclusion

What then should be the definition of Islamic economics? I am not sure if there can be a single definition of Islamic economics. Any definition of Islamic economics must depart from a definition of economics. For me, economics is the study of how people in a society, individually and collectively, organize (or could organize) different aspects of production and distribution of goods and services for current and future well-being of its people, given the resources at hand and influenced by the views held by different segments of the society about different aspects of human life. Islamic economics is then, simply, *to study economics from an Islamic perspective*.

On this approach, Islamic economics is the study of how different sectors of an economy could be organized on the basis of the interpretations of the guidelines given by Islamic sources of knowledge in a Muslim society. While there may be a sort of consensus on the basic principles of Islamic economics in different Muslim countries and societies, it is very likely that there will remain differences in the details. One should also be ready to expect and accept the fact that some fundamental axioms of Islamic economics and the procedures of reasoning within it will be similar to those of the prevailing capitalist systems.

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Chapter ⑤

Methodology of Islamic Economics

I. Introduction

The main objective of the present paper is to discuss in broad and general terms methodology of Islamic Economics and to show its major differences with the methodology of economics. It would also discuss some of the methodological issues relating to Islamic economics. This paper does not intend, however, to discuss or appraise methodology of economics. A vast literature exists on this subject¹ and its re-statement at this place would not add much to the pool of knowledge. In this section we intend to take up two questions: first, why do we discuss methodology of a subject especially that of economics? Second, why do we need a methodology for Islamic economics?

¹ Some of the recent works which give a comprehensive view of the methodological debate are:

Mark Blaug. *The Methodology of Economics* (Cambridge C. University Press, 1980).

Bruce Caldwell, *Appraisal and criticism in economics* (Boston: Allen and Unwin, 1984).

Sheitla C. Dow. *Macro economic Thought: A methodological approach* (Oxford: Basil Black well. 1985).

A.S. Eiehnor. *Why Economics is not yet a science* (London: Macmillan. 1983).

Daniel M. Hausman, *The Philosophy of Economics: An Anthology* (Cambridge: C. University Press. 1984).

J.j. Riant. *The Rule of the Game*. (Cambridge: C. University Press. 1984).

Peter Willes & Guy Routh. *Economics in Disarray* (Oxford: Basil Black well. 1984).

Methodology of Islamic Economics

1.1 Why Methodology at all?

Methodology of a subject investigates into the concepts, theories and basic principles of reasoning of a subject.² There is a wide difference of opinion on the methodology of economics. From the classical emphasis on verification of assumptions to the neoclassical falsification of predictions, the debate on methodology touches such issues as positive vs. normative, inductive vs. deductive, incorporation vs. exclusion of values, prescription vs. description, apriorism vs. empiricism, to name only some main cross-currents. Economists have taken positions on these issues and often heated debates have ensued as a result. The question arises: why a discussion of the methodology at all? The answer is that the economists are keen to reach the truth and each methodological approach claims to reach it in a surer manner as compared to the others.³ Looking from this angle the debate on methodology is an inborn human demand. Man has been keen to reach the truth in all ages. The Qur'an also invites people on the plea that it is a book of sure knowledge.⁴ Thus it appeals the human instinct to reach the truth. The Qur'an argues that one should discard the 'doubtful' against the 'the sure'.⁵ The debate on methodology in economics (and other sciences as well) shows that there is hardly a disagreement on this basic fact. The entire debate is intended to establish clear and consistent rules to sift the true from the false.

1.2 Need for Methodology of Islamic Economics

Despite the differences in various strands of methodological debate in economics there is a broad agreement on at least three points:⁶

(i) The basic assumption is that man is selfish by nature and he behaves rationally.

2 Blaug, M (1980), p. xi.

3 Klant, J.J (1983), p.2

4 Al-Qur'an, 2:1

5 Ibid. 10:36, 53:28

6 Siddiqi, M.N. (1982), p.18

(ii) Material progress is a supreme goal.

(iii) Every person has an inherent tendency to maximize his material welfare and he also has the knowledge and ability for deciding what is good for him.

The Islamic view-point is quite different on these points. Firstly, it is not true that man is selfish by nature. There is an overwhelming evidence that in all civilized societies men have been motivated by altruistic motives. Altruism is a fact of life. Islam encourages people to adopt altruism and to make sacrifices for others.⁷ The Qur'an has praised Muslims because they prefer others over themselves although they are in difficulty.⁸ Caring for others is a paramount value of Islamic society. Muslim societies have a history of waqf institutions devoted to philanthropic activities.⁹ Even in this age when the religious hold has gone weak, people in Muslim societies display a spirit of altruism. In non-Muslim societies also philanthropy is a fact of life. Only in America 22000 organisations are engaged in philanthropic activities.¹⁰ In sum, the assumption of selfish nature of man is not supported by evidence in real life.

Secondly, the material progress is not a supreme objective in an Islamic society.¹¹ It is a desirable goal but is subservient to the *falah* in the *'Akhira*, should there be a conflict. The prophet (S.A.W) led a simple life and his companions also adopted an arduous life-style. The Qur'an talks of worldly pleasures as a plaything and a fleeting joy. It seems that the primary emphasis is on the well-being of man in the *'Akhira*. It does

7 All the injunctions in the Qur'an Hadith on infaq, sila rahm, generosity towards others are a testimony to this statement.

8 Al-Qur'an, 59:9

9 Gilani, S.M. Ahsan, Islami Ma'ashiyat(urdu), Karachi:Sh.Shaukat Ali and Sons, 1962(1947), p.449-450.

10 Economist, 23. August 1986, p.75.

11 'This is based on such Quranic verses as: 6:32, 14:3. 16:07, 75:20-21, 100:8

not mean that Islam teaches monasticism or fatalism.¹² Far from it. It enjoins upon its followers a balanced attitude. Material prosperity is desirable so far it helps one to perform his duties towards God, society, family and one's own self.¹³ It should be a means to achieve *falah* in the *'Akhira*. Adopting material progress as a supreme objective of life is thus alien to the Islamic framework. Thirdly, Islam considers man incapable of knowing what is best for him.¹⁴ Only God has perfect knowledge. The human knowledge is imperfect and man needs guidance for making various decisions in life. God in His ultimate mercy has revealed guidance for man through prophets and books. Man needs this guidance.

Thus on these basic assumptions Islamic economics has a different position. This provides, in part, need and justification for a separate methodology of Islamic economics. There is another difficulty with economics. It does not accept any source of knowledge other than the human knowledge, derived through mental hypothetico-deductive process. Thus it has closed upon itself the doors of sure knowledge available from divine sources. This has not only increased the confusion in economic thinking but has always left the question of criteria for truth unsettled. As a result there is hardly anything in economics which is universally accepted as valid and true. It seems that the entire knowledge of economics has been developed for its own sake and not for the sake of humanity.¹⁵ The complete denial of any divine knowledge has left economics without any universally accepted framework. Almost everything is questionable, including the boundary conditions.

12 Al-Qur'an categorically denies monasticism, 57:27

13 The Prophet S.A.W said: (Lawful) wealth for a virtuous man is an excellent thing" al-Hakim, ulMustaiirik, Vol. II, H.I, Hyderabad (India): Diara Maanf Nizam-yya, 1340 A.H.

14 Al-Qur'an. 4:11

15 Sir John Hicks has observed: 'There is much of economic theory which is pursued for no better reason than its intellectual attraction: it is a good game.' (Hicks. J.R., Causality in Economics, Oxford: Basil Blackwell, 1979. p.viii). Also Hutchison T., "Our Methodological crises" in Peter Wiles and G. Routh, Economics in Disarray, Oxford: Basil Blackwell. 1984, pp.1-21.

This is not to contend that the process of criticism and rational examination of economic theories itself is questionable. It only means that economics does not have any hard core of sure knowledge which may be treated as a point of reference and criteria for judging the truth and falsity of various theories. Therefore there is a need for a methodology which not only provides basis for sure knowledge but also eliminates confusion of contradictory theories by laying down a criterion for judging the contending theories. Since mainspring of Islamic economics is divine knowledge, it cannot accept a methodology which relies only on human knowledge.

II. Methodology Of Islamic Economics

2.1 The Hard Core

The basic function of methodology is to help in reaching the truth. The hard core of Islamic economics consists of postulates of the Qur'an and the *Sunnah* of the Prophet (S.A.W). These postulates are divine in nature. Therefore question of their truth or falsity does not arise. They are true because of their origin. The method of Islamic economics is that for each situation reference is made, first of all, to these two sources. It is only after we do not get any guidance in these sources that human reason comes in and question of methodology arises.

For example, a number of the verses in the Qur'an lay down general principles and predictions relating to economic phenomena. We cite below some of these verses. These verses need no verification or confirmation because they have been revealed by the All-knowing God. In Islamic economics they are accepted as given. These and other verses of the Qur'an and authentic *ahadith* of the Prophet (S.A.W) form the hard core of Islamic economics:¹⁶

16 Translation of the Quranic verses has been taken from Ahmad AU, al-Quran: A Contemporary Translation. Karachi: Arkash Publishing, 1984.

(i) 'God takes away (gain) from usury but adds (profit) to charity' (2:276)

(ii) 'And if they had followed the teachings of Torah and the Gospel, and what has been sent down to them by their Lord, they would surely have enjoyed (blessings) from the heavens above and the earth below their feet' (5:66)

(iii) 'When they had become oblivious of what they were warned, we opened wide the gates of everything to them; yet as they rejoiced at what they were given, we caught them unaware, and they were filled with despair' (6:44)

(iv) 'And you should seek His forgiveness and turn towards Him. He will bestow the best things of life on you for a time ordained, and favour those with blessings who are worthy of grace. But if you turn away, I fear the punishment of terrible Day for you' (11:3)

(v) 'O my people, beg your Lord to forgive you, and turn to Him in repentance. He will send down rain in torrent for you from the skies and give you added strength' (11:52)

(vi) 'I shall give you more if you are grateful, but if you disbelieve then surely My Punishment is very great' (14:7)

(vii) 'But he who fails to hear my warning will have his means restricted' (20:124)

All these verses state general economic principles and make certain predictions. These predictions need no verification. They are true and Islamic economics accepts them as given. The hard core of Islamic economics consists of such axioms. They define the boundary conditions of Islamic economics. At the same time they are criteria for testing theories propounded by human beings. Any theory put forward

by a human being is tested on these criteria and if there is a clear and undeniable contradiction, the theory is rejected straightaway without any further examination.

The above methodology applies only to the divine texts but not to the human interpretation of these texts. The human interpretation of these texts is open to examination and criticism. There exists a well formulated methodology (*'ilm al-usul*) to derive inferences from these texts. The Islamic economist applies the same methodology for testing the inferences from, and interpretation of, the divine texts. It is pertinent to add at this point that the methodology to interpret the Qur'an and the *Sunnah* also needs re-thinking. The scholars of the Qur'an and the *Sunnah* in the early era of Islam showed remarkable insight, imagination and vision and interpreted the basic sources in the context of their times. With the passage of time the methodology developed by them has lost relevance due to change in time and place. The entire context has undergone a major change. Therefore, there is a dire need to review the whole methodology in this age. For example, the hadith sources may be studied as a whole to study the rationale and objectives of the Prophet (S.A.W.) on any particular issue. The insight thus gained may be used to decide the *Shari'ah* position on an analogous contemporary question. A host of new questions in the contemporary life require the *Shari'ah* position but the scholars are unable to present an answer mainly because the existing methodology does not take them very long. The need to review the *Shari'ah* methodology is another subject, however, and it should not detain us here.¹⁷

2.2 The Role of Reason

The scope of Islamic economics includes study of Islamic values, analysis of real-life economic phenomena and exploration of ways and means to transform the existing economies into Islamic economies.

¹⁷ For a persuasive discussion on the subject, see Abu Sulayman, A..H., "Islamization of Knowledge with special reference to Political Science", *The American Journal of Islamic Social Science*, (2:2), December 1985, pp.263-290.

Therefore, the hard core of Islamic economics provides direct guidance on a small number of questions. A dominant part of the economic reality requires application of human reason and intellect within the over-all divine framework. The question of methodology becomes imminent mainly in the area where human reason is applied. In this area the general principle is that if a theory does not contradict any divine text it would be open for criticism. The criticism would be on two planes: rational as well as empirical. A theory must satisfy both the criteria. It should be true on rational grounds and should also be confirmed by empirical evidence. The confirmation is sought by Popperian thesis of falsification. It means that a theory would be tested on the criterion of falsifiability. The theories which are not falsified by these two criteria would be accepted. To this extent the methodology of Islamic economics is similar to that of economics.

It further implies that the hypotheses of Islamic economics must be stated in a form that they can be falsified. In other words the hypothesis must make clear its conditions and predictions. A hypothesis would merit consideration only if it tells the situations in which it would not hold or if it specifies the conditions which would falsify it.

It may be mentioned that the falsifiability criterion applies only to theorems which ask 'how' of an economic system. It does not apply to questions of 'why' in an economic system because reason can be applied only to questions of 'how'. It cannot be applied to questions of 'why' which takes one to the domain of faith and morality. In economics the questions asked are: how markets behave? How firms take decisions? How economy responds to a certain phenomena? It does not ask 'why' because it takes economics into field of morality. Since Descartes, the West has learnt to segregate reason from faith and morality. In Islamic economics, questions of faith and morality are quite valid. Therefore, for questions of 'why' applies the criteria of faith and morality.¹⁸

18 Garaudy, R. "The Balance Sheet of Western Philosophy", *AJISS*, (2:2), pp. 169-178.

2.3 Inductive or Deductive Reasoning

What is the response of Islamic economics to the question of choice between inductive and deductive reasoning? The brief answer is that Islamic economics applies a combination of both the methods. But this brief answer needs qualification. Muslims are the inventors of the inductive reasoning.¹⁹ Before the advent of Islam the ancient world did produce some great systems of philosophy but they were based on abstract speculative reasoning.²⁰ The Qur'an invited people to look and see. It argued on the evidence of such natural phenomena as sun, moon, day, night, rainfall, seasons, differences of colours and tongues.²¹ This ignited a spirit of inquiry which led to the discovery of inductive method in research. The Qur'an cites the example of Prophet Abraham who asked for an empirical evidence for life after death.²² The discovery of One God by Prophet Abraham also came by an empirical method.²³ At this place the Qur'an says "Thus we showed to Abraham the visible and the invisible world of the heavens and the earth so that he could be among those who believe" (6:75). Hence the emphasis on the word showed (nuri) refers to seeing and looking. God has used the experimental method to establish validity of metaphysical truths. It shows that for physical reality, it would be still more preferable to hold on to this method.

Therefore, in Islamic economics inductive method is only a continuation of the tradition set by Muslims in the past. But it has been

19 One of the prayers of the Prophet (S.a.w) bears testimony to the fact that the Prophet (S.a.w) himself was very keen for rational explanation of natural phenomenon. He used to pray: 'God! Grant me knowledge of the ultimate nature of things. A well known tradition found in sufi Works such as Ali b. Uthman al Hujwiri (d.465/1072) *Kashf al-Mahjud*, p. 166, as referred to by Saeed Sheikh in his notes on Allama Iqbal's *Reconstruction of Religious Thought in Islam* (Lahore: Institute of Islamic Culture, 1986. P. 158)

20 Iqbal, (1930. 1986). p. 100

21 al-Quran, 2:164, 15:16, 16:68-69. 21:33. 24:43-44, 30:48. 35:9. 36:40, 37:6. 41:12. 45:5. 50:6. 67:5. 85:1

22 Ibid 2:260

23 Ibid 6:75-78

argued that it is not possible to derive any scientific conclusions merely by inductive methods. The argument goes like this. Whenever a person looks around and sees a thing, there is always a priori thought in his mind which made him select the particular thing he saw out of the numerous others which he ignored. Therefore, the real source of knowledge is man's intellect and not observation. We do not dispute this argument. We accept that human intellect is the source of knowledge. But we want to add that there are other sources of knowledge as well. For example, revelation and institution are sources of knowledge.²⁴ Human mind is capable of receiving flashes of brilliant ideas which do not have any visible linkages in the empirical world or which are not result of systematic observation. The point we want to make is that the source of a theorem may be inductive or a priori but the Islamic economist tests it on the multiple criteria of *Shari'ah*, reason and empirical-evidence. Should we say then that Islamic economics does not use deductive reasoning at all? It cannot be said in simple words until we qualify our reply. The deductive reasoning in economics assumes a perfect knowledge of the future by economic agents. Abstract deductions are made on the basis of this assumption.²⁵ As a matter of fact the corpus of economic theory consists of, mainly, on these deductions. The validity of the assumption of perfect knowledge has been called into question by empiricists. Islamic economics also cannot accept this assumption as it clashes with one of the fundamental beliefs of Islam. Perfect knowledge of the future is only with Allah and man has only an imperfect knowledge.²⁶ Therefore, the method of abstract deductions on the assumption of perfect knowledge cannot be acceptable to Islamic economics. The whole argument can now be summed up to in one sentence. Islamic economics accepts human intellect as a valid source of knowledge but does not accept model building on the basis of deductive reasoning. Model building involves a series of deductions from initial premises, which presumes perfect knowledge of the future.

24 Ibid 16:68. 20:38. 28:7

25 Hutchison, T.. op. cit. p.5

26 Al-Qur'an, (e.g.) 31:34

The question remains: how does Islamic economics proceed to model building? Islamic economics accepts the real life situation that individuals do not have perfect fore-knowledge and different individuals have different knowledge. Therefore, in a given situation the possible reactions could be numerous. Therefore, the only rational approach for Islamic economics is to observe the human behaviour in the historical and institutional setting and then hypothesize on the basis of actual knowledge. This would require adoption of unusual research methods borrowed from such disciplines as sociology, marketing, social psychology, social anthropology, history, business management and industrial relations. The sources of data would be as unusual as national accounts, company accounts, national budgets, trade practices, behavior of employees, behavior of farmers, etc.

2.4 Assumptions and Method

The basic assumptions of economics have influenced its method as well. The economist assumes that human beings are selfish, rational, maximizers of their own material well-being and possessors of perfect knowledge in the future. These assumptions led to the hypothetico-deductive method with a limited number of variables. Islamic economics does not agree with any of these assumptions.

In Islamic economics there are high-level assumptions derived from the divine texts and low-level assumptions based on human reasoning. The high level assumptions need no verification. Therefore it dispenses with the need to discuss the validity or otherwise of these assumption. So far as low-level assumptions are concerned, they needed to be tested against the twin criteria of rationality and empirical evidence. This is a distinct position than that of economics. The western economists have argued (most prominent being Friedman) that the assumptions need not be empirically valid.²⁷ In fact some have gone to the extent of saying that valid predictions are possible only from invalid assumptions. Islamic economics does not accept this position on the basis of rationality and empiricism.

27 Hutchison. T.. op. cil. p.5

This leads us the question: What are high-level assumptions in Islamic economics? Firstly, man is neither selfish nor altruistic; he is both.²⁸ He has an inborn tendency to be selfish, to love wealth but he has also been endowed with the ability of being altruistic. Caring for others is a trait of human character which can be verified by overwhelming evidence. Secondly, by education altruistic behavior can be cultivated and made persistent. Thirdly, human beings have imperfect fore-knowledge.²⁹ Therefore, all economic analyses would be carried out in a world of uncertainty. Fourthly, in the ultimate analysis, *falah* of the 'Akhira is preferable over material progress in this world. This is not an exhaustive list. More high-level assumptions may be framed from the Qur'an and the *Sunnah*.

2.5 Problem-Solving

Islamic economic thought has a long history, though it has not been properly documented. Early thinkers like Abu Yusuf, Abu Ubaid, Yahya b. 'Adam, Qudama b. Ja'far, al-Mawardi, Ghazali, Ibn Taimiyya, Ibn Khaldun, Shah Wali Ullah. Afghani and thinkers of recent past like Iqbal, Mufti 'Abduhu, Rashid Rida, Mawdudi, Baqar as Sadr, Taleqeni to name a few, have almost unanimously adopted a problem solving approach.³⁰ They have been concerned about the economic problems of their respective times. They have written on poverty, social justice, taxation, economic balance, market imperfections and allocative role of the state. They based their arguments on the world view of Islam and brought rare insights in their respective times. Islamic economics in the contemporary era is a continuation of this tradition. Islamic economics studies the economic behavior of individuals, households, firms and state with the following focus:

28 We find verses in the Qur'an which bear witness to both the traits of human nature For example the Qur'an says: Selfishness is ever present in human souls {4.128}. At another place it says: we created man of finest possibilities (95:4)

29 Al-Qur'an 7:188.

30 Siddiqi. M.N.. Recent winks on the history of Islamic Economic Thought, (Research paper). Jeddah: ICRIE. 1980.

- (i) Understanding the behavior and decision-making processes.
- (ii) Relating the behavior with the *falah* of owners, employees, participants, clients, citizens and the society at large.
- (iii) Hypothesizing about a change path to maximize *falah* at different levels.

For example, in the first stage, a Muslim economist would understand how firms take various decisions regarding production, pricing and marketing of their products. In this phase, he may use with benefit the findings of neoclassical economics with a caveat that the assumptions of neoclassical economics are unreal and over-simplified. Therefore, the Muslim economist might have to use other disciplines such as market research, production management and social psychology. At the second stage, he would relate his understanding with the *falah* of the firms' owners, managers, citizens and point out various trade-offs. At the third level, he would try to build models which maximizes *falah* of various economic agents.

From the above discussion emerge two conclusions which are relevant to the discussion on methodology:

- (i) Islamic economics is a multi-disciplinary subject. It will not be meaningful nor would it achieve its objectives if it relies only on the traditional sources of economics.
- (ii) Islamic economics is a normative discipline. It does not study the economic problem for the sake of problem. It has a normative role to explore ways and means for transforming the existing economics into Islamic economies.³¹ It does not deny, however, the positive content of Islamic economics. The positive content is used for normative purposes. Thus Islamic economics goes a step further to economics.

31 For a detailed treatment of the issue, refer to writer's Challenge of Islamic Economics. Lahore: All Pakistan Islamic Education Congress, 1985, pp. 63-66.

III. Comparison Of Two Methodologies

In this section we shall summarize our discussion of the previous section to highlight distinctive features of Islamic economic methodology. First, Islamic economics uses a framework derived from the divine texts. This framework is sacred and immutable. No individual or assembly of individuals can make it redundant or irrelevant. Human criticism does not apply on the divine texts. This is distinct from the western economics where the fundamental paradigm is also subject to criticism and can also undergo change.³² However, the interpretation of the divine texts is not sacred. But the interpretation follows the methodology developed by *Shari'ah* scholars (the usual methodology).

Second, Islamic economics primarily follows inductive method. It testifies the truth or falsity of the assumptions as well as predictions on the twin criterion of rationality and empirical evidence. In economics, the deductive method is more common. The assumptions need not be realistic. The real test is in the non-falsifiability of predictions. The basic assumptions of self-interest, rationality, perfect fore-knowledge, man's ability to know what is best for him have facilitated the use of deductive method by economists. Islamic economics has a different stance on these issues. Therefore, it adopts a combination of inductive and deductive methods with primarily emphasis on the former.

Third, Islamic economics builds ethical values such as justice, benevolence, moderation, sacrifice, caring for others, into analysis as behavioral parameters. The debate whether economics should contain value judgment is a lengthy one. In economics, the balance of the argument says that there is no escape from value judgments. But the economists should produce falsifiable hypothesis. In the process of hypothesis testing, personal, social or political prejudices and value judgments should be eliminated. Herein lies the road to progress in economics. In

32 For a brief account of various paradigms in economics, see Arif. M.. "Towards the Shari'ah Paradigm of Islamic Economics: The beginning of a scientific Revolution", AJISS, Washington (2:1). 1985, pp. 79-99.

Islamic economics, so far as the matter relates to personal choices, prejudices or preferences, this approach seems to be acceptable with an important qualification. The ethical values of Islam, which have been given by the *Shari'ah* would continue to be part of economic theories and they would not be falsified by any hypothesis testing. Instead they would serve as criteria for hypothesis testing along with factual data. A theory which does not incorporate the *Shari'ah* ethical norms or contradicts them or leads to predictions which would defeat or dilute the ethical norms would be rejected per se even in the absence of any empirical evidence.

Fourth, Islamic economics is a normative discipline. It explores the ways and means to change the existing economics into Islamic economics. Economics, on the other hand, claims to be a positive science which studies the existing economic phenomena. Islamic economics is interested in changing the economic reality. Its predictions also relate to a world which has not yet ushered in. Therefore, the actual testing of Islamic economic theories would wait until an Islamic economy comes into being. However, Islamic economics also concerns itself with the transition path. Its transition theorems can be tested in the real world provided the process of transition also sets in.

Fifth, Islamic economics asks different questions than economics. It is concerned with the *falah* of man and in creating such social and institutional conditions which maximize *falah* in a society.³³ Implicitly, it visualizes to pursue those research programs which help in the maximization of *falah*. In this way, *falah* becomes a criterion for the acceptance or rejection of a research programme. In economics no such criterion exists in unambiguous terms. As a result, research for the sake of research or knowledge for the sake of knowledge, is pursued in economics. In Islamic economics, all knowledge has a purpose. The purpose is derived from the over-all world-view of Islam.

33 Khan, M. Akram Challenge of Islamic Economics, op. cil, pp. 2-12

IV. Some Related Issues

In this section we shall discuss some related issues which often come up for discussion in the forums of Islamic economics.

4.1 Interaction with Economics

Should Islamic economics discard economics and make a beginning from scratch? On this question, there are two opinions. One is that “the methodologies of western economics were developed and designed to solve problems that are peculiar to that system.”³⁴ Therefore, the Islamic economics should discard economics altogether and develop its own theory in the Islamic framework. The other opinion is that Islamic economics should not set aside the western economic thought which accumulated over centuries. Instead, with a modesty of a learner we should cast a critical look on this pool of knowledge and should try to identify and isolate those components of thought which do not conflict either with the hard core of Islamic economics or with the rational and empirical criteria. It would be arrogance of the first order if we dismiss the entire economic thought as un-Islamic.³⁵ However, we should adopt the following criteria to judge the western economic thought:

- (i) Compatibility with the *Shari’ah*: we should accept a theory if it does not come in conflict with the divine text or the spirit (*illal*) and objectives (*maqasid*) of the *shari’ah*.
- (ii) We should accept a theory if it is not falsified on the twin criteria of reason and *empirical evidence*.
- (iii) We should accept a theory if it helps solve an economic problem. Speculative knowledge which is an exercise in mental gymnastics is not of interest to Islamic economics.

34 Sardar, Z., “Breaking Free from the Dominant Paradigm”, *Inquiry*. April 1985, 41-47

35 Khan, M. Akram, *Challenge of Islamic Economics*, op. cit, pp. 80-FF.

At this stage we need to mention a trap into which many Muslim economists have landed themselves. The economic thought developed in the west overpowers their reason and they are persuaded by its ‘truth.’ Then they try to interpret the texts of the Qur’an and the *Sunnah* in such a manner as would accommodate the economic thought of the west. They start reading the findings of the western secular economists into these primary sources. While there is no bar on the interpretation of the Qur’an and the *Sunnah* in each age, the danger is that this approach may reduce the entire discipline of Islamic economics into mockery or at least into a sub-discipline of the western economics. Thus the original objective of developing Islamic economics would be defeated. There is no hard and fast rule to remain out of this trap except that the Muslim economists should discuss their ideas widely. It is through a process of self-criticism that they can guard against this trap.

4.2 Role of Revelation

The general principle of Islamic methodology is that a reference should be made to the Qur’an and *Sunnah* of the Prophet for seeking guidance on any issue. But there is a limit to which we can seek guidance from these sources, The Qur’an and the books of *ahadith* are not books on any scientific discipline or on economics. They contain broad and general principles and provide a basic framework. The details have to be worked out by people themselves in each age. But in their enthusiasm Muslim economists often try to read such meanings into the verses of the Qur’an which are not there or which need not be searched in these sources because they are common knowledge and confirmed by casual observation. The point is that if a fact can be seen and confirmed by observation or reason there is hardly any reason to search for an evidence in the Qur’an or *Sunnah*, which often has to be established by labored interpretations. For example, there can hardly be a dispute that a well-looked-after worker would be more productive than a neglected worker. Some people have unnecessarily tried to interpret and stretch *ahadith* relating to slaves of the early Islamic era to prove this point.

A related point concerns the confusion which often takes place by not recognizing the distinction between 'Islamic' and 'Islamic framework'. By 'Islamic' we mean something sacred revealed by God or enjoined by the Prophet (S.A.W.). Whatever is 'Islamic' in this sense is immutable and beyond criticism. But some people append the adjective 'Islamic' with the concepts propounded by human beings such as Islamic profit, Islamic bank, Islamic business. Sometimes the adjective 'Islamic' is not appended but the discussion implies that the writer or the speaker intends to attach a sanctity to it. This needs to be clarified. All, which is said within 'Islamic framework' need not be 'Islamic'. That is human thought and is subject to criticism.

4.3 The Assumption of an Ideal Islamic Society

Most of the literature in Islamic economics assumes an ideal Islamic society which does not exist anywhere and the probability of its coming into being in near future is also remote. Should we continue making this assumption? The assumption of an ideal Islamic society is an analytical tool which presents a relationship of dependence between the ideal and the actual phenomena. Theories stated in this framework explain how the two phenomena are related and what are the factors which cause disturbance in this relationship. In this context it is a powerful tool.

But the Muslim economists should realize that the ideal Islamic society is a special case within a large range of possibilities. The ideal Islamic society may continue to be an ideal to be achieved. But it is also necessary that concrete social reality is also studied. This will help in shedding some of the romanticism in which many Muslim economists rejoice most of the time.

The idealism of Muslim economists has also done some harm to the scope of Islamic economics. Since the analysis is perceived in ideal Islamic conditions most of the ugly problems such as unemployment, inflation, trade cycles are simply assumed away. In ideal Islamic

economy they do not exist so why study them. I think this is an overly simplistic approach. These problems are real life issues and there is no guarantee that they would not appear in an ideal Islamic economy. The Muslims in an ideal Islamic society may not behave as expected which may lead to the emergence of such problems. Therefore, the Muslim economists should face the reality and discuss the real-life problems.

V. Concluding Remarks

In this era, the world at large and Muslim Ummah in particular are suffering from a few obstinate and insoluble economic problems such as unemployment, inflation, unequal distribution of income, poverty, balance of payments difficulties, debt overburden and international exploitation. These problems present a serious challenge to Islamic economics. If Islamic economics can present plausible solutions to these problems, it would be accepted by the world, whatever its method of inquiry. Therefore, in the final analysis it is not the method of inquiry that is important, it is the contribution that Islamic economics can make towards economic progress and prosperity. Islamic economics need not be confined to any one method. It should remain open to all the methods provided the inquiry remains within the basic framework of Islam and it satisfies the twin criteria of reason and empirical validity.

Islamic economics needs to have a name of Islamic economics and would be open to examination by Muslims and non-Muslims alike. It is ultimately the weight of its arguments and the rigour of its analysis that would fetch merit. Therefore, Islamic economics should come out of the romanticism of the ideal Islamic society. It should devote greater attention to the analysis and solution of the present day problems rather than recount the glory of Islam which it once was. It does not mean that Islamic economics should discard historical perspective. It only means that historical data need be used to learn lessons for the present rather than to rejoice in a trance of glorification.

The assumption of ideal Islamic society should also be kept as a goal to be achieved. The main occupation of Muslim economists should be to present an analysis of the application of the *Shari'ah* in the present day society. It would not only generate a theory of transition (which is missing at the present) but also provide a powerful persuasion for the unconcerned spectator to think seriously about Islamic economic system.

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Chapter ⑥

Ethical Foundations of Islamic Economics

Naqvi, Nawab Haider

Syed Nawab Haider Naqvi is a noted Pakistani economist and scholar. Prof. Dr. Syed Nawab Haider Naqvi was born in Marath, in 1935. He migrated to Karachi, Pakistan in 1950.

Following his master's degree from the Yale University in 1961, he earned his doctorate from the Princeton University in 1966. After finishing his post-doctorate research from Harvard University in 1970 he carved a career pathway that is studded with high portfolios, challenging responsibilities and distinguished accomplishments. Besides holding many high level positions, Syed Nawab Haider Naqvi has also been Director, Pakistan Institute of Development Economics, and until recently Senior Economic Advisor, National Electric Power Regulatory Authority (NEPRA) and Rector (Designate), Kausar University of Sciences, Islamabad.

Syed Nawab Haider Naqvi

Islam is a self-sufficient entity, with clearly defined features—an arabesque wherein reside the religious, economic and social dimensions, providentially equilibrated to form a unity. It contains complete guidance for man in spiritual and mundane matters. The Qur'an has advised all mankind to seek God's mercy in both: "Our Lord! Give unto us in the world that which is good and in the Hereafter that which is good..." (2:201). The way to Heaven, according to Islam, passes through the Earth. In fact, the Qur'an condemns misplaced self-denial. "Say: Who hath forbidden the adornment of Allah which He hath brought forth for His bondman, and the good things of His providing?" (7:32). Islam's originality lies in unifying the other-worldly and the mundane aspects of man's life, and in establishing a correct equilibrium between them.

The prefiguring vision of man in relation to his environment that Islam presented to the world at the beginning of the seventh century A.D., got obscured as the Islamic world moved away from the Centre. This divergent movement was helped by a decline in the spiritual values among the Muslims and the rise of the cult of materialism in the West. The colonial era, which gathered momentum in the 18th century, also fostered the cultivation and propagation among Muslims of the secularistic-materialistic values of the West. The cumulative effect of all these forces, buttressed by the powerful weapons of modern science and technology, was to undermine seriously the faith of Muslims. In fact, many a frustrated soul blamed Islam for his economic backwardness.

Ethical Foundations of Islamic Economics

For a time, the victory of the Western value system over Islam's was complete; or so it seemed. However, the West, though it appeared to be regenerated intellectually, had in fact degenerated through spiritual decadence. Excessive materialism, in the end, proved to be self-destructive.¹ There has occurred, as a result, a remarkable resurgence of interest throughout the Muslim world in the Islamic way of life. Economic prosperity among the oil-rich Muslim countries has forced even the Western countries to take Islam seriously, if only for transitory political ends.

Yet the modern Muslim looks back on the Islamic heritage with bewilderment. The world has come a long way since the Middle Ages. It has become much more complicated than it ever was; and easy solutions, which sufficed in those halcyon days of ascetic simplicity, have become inadequate in the modern world. What is the Islamic 'way' of solving these intricate economic problems? The situation becomes more difficult as we do not have a model Islamic economic system anywhere in full operation, which can be 'simulated' and generalized to form the basis of Islamic economics. No doubt, Muslim philosophers, like al-Farabi, "Jus! and Ibn Khaldun, wrote extensively on economics;² yet they all belonged to a different socio-economic milieu.

While it is true that the Islamic way of life forms a self-sufficient orbit of social, economic and moral values, it is by no means insular. It is complete in terms of given socio-economic parameters, which change with time, but is not closed with respect to future potentialities. In fact, "Islam was given providentially the power to synthesize, to integrate

1 For an excellent discussion of this theme see S.H. Nasr, *Islam and the Plight of the Modern World*, (London: Longman, 1975), esp. Chs. 1, 2. At a different level of exposition a similar theme, the essential "naivety" of the modern man, recurs in Firthjof Schuon, *Lights on the Ancient World*, (London: Perennial Book, 1965), esp. Chs. VI and VII.

2 For a valuable discussion of the origins of economic thought among the early Muslims see, Rafiq Ahmed, "The **Origin** of Economics and the Muslims — A Preliminary Survey," *Punjab University Economist*, Vol. VII, Number 1, June 1969. For a brief discussion of Ibn Khaldun's contribution to economic science, and the relevant references, see Note 2 of my "Islamic Economic System: Fundamental Issues," *Islamic Studies*, XVI, No. 4, (Winter 1977), pp. 342-43.

and absorb what was in conformity with its perspective from previous civilization."³ As a living religion, Islam cannot fail to absorb from its surroundings what conforms to its own native genius. In particular, there is nothing wrong with assimilating Western thought into Islamic economics. After all, Muslim philosophers did study Pythagoras, Plato and Aristotle to propound the Islamic point of view on science and metaphysics, in a language which even non-Muslim philosophers and scientists could understand.

How can this task be accomplished in the field of Islamic economics — the task of transforming and integrating into the Islamic pattern the extant economic wisdom, most of which has evolved in the Christian West? It is important to remember that this assimilation and integration cannot be done by an indiscriminate levelling out into uniformity what essentially runs counter to basic Islamic ethical values. The first step in the elaboration of an Islamic economics is to recognize and understand clearly what these fundamental ethical values are, in order to discover the touchstone by reference to which can be established the Islamic (or un-Islamic) nature of given economic principles or economic systems.

I. The Analytical Framework

The essence of scientific method is to discover a general theory, which can unify particular theories of a discipline with respect to its central features.⁴ Any such fruitful generalization presupposes a limited number of restrictive hypotheses which can explain a wide range of phenomena. The aim of this article is to outline a "general" theory, which can "span" the essential features of an Islamic economic system. Its basic insight is the observation that Islam's ethical system provides such a "unifying principle."

3 S.H. Nasr, *Ideals and Realities of Islam*, (London: George Allen and Unwin, 1966), p. 36.

4 P.A. Samuelson, *Foundations of Economic Analysis* (New York: Atheneum, 1947), reprint 1965, esp. Chs. 1 and 2.

Our approach in this study, therefore, has been to formulate a minimum number of ethical axioms, which adequately summarize the basic Islamic views on the philosophy of life. Such an axiom system furnishes the framework within which to study the concrete objects of an Islamic economy. Then, through the process of logical deduction, we arrive at a set of economic principles which can be recognized as unambiguously Islamic.⁵ The general criterion of accepting any existing “alien” economic principle into the Islamic fold is that it must satisfy all the axioms simultaneously. The choice of this method was dictated by the inapplicability of inductive method for want of a fully-functioning Islamic system.

Such an analytical technique is warranted because the subjective approach, so common in the literature on Islamic economics, must be replaced by scientific objectivism in order to minimize the element of personal idiosyncracies. The four ethical axioms—Unity, Equilibrium, Free Will and Responsibility—described in the next section, seek to provide a set of necessary and sufficient conditions for Islamic economics: not only does an Islamic social ordering imply these axioms; but these axioms also imply a social rank ordering based on the teachings of Islam. Such a claim, however, constitutes a refutable hypothesis and needs at least an heuristic proof. The necessary part of this hypothesis is proved if it can be shown that the set of axioms is ‘independent’. Its sufficiency also follows from the demonstration in this article that all the basic principles of an Islamic economy can be derived from the given set of axioms.

However, it should be noted that a full validation of such a claim, particularly that relating to the consistency of the axiom system, can be

⁵ This approach is known as the ‘axiomatic’ approach and forms the basis of mathematical logic since the time of D. Hilbert, an outstanding mathematician. Fullest development of such an approach is, however, found in K. Popper, *The Logic of Scientific Discovery*, New York (1959). See also his, “Three Views Concerning Human Knowledge”, *Contemporary British Philosophy*, (1956) Vol. in. My attention to this source was drawn by Dr. Asghar Qadir, Assistant Professor of Mathematics, Quaid-i-Azam University.

substantiated only by a thorough research on Islam, based on the Qur’an and the Sunna. It may turn out that the set of axioms, stated below, is smaller and may, therefore, be enlarged by adding more axioms to the set. The effect of this enlargement of the set will be to make the criteria of ‘acceptability’ even more ‘restrictive’. Also, in this case the axiom system, described below, will constitute only necessary but not sufficient conditions for a truly Islamic economic order. The reverse possibility of the ‘contraction’ of the existing criteria set can also not be ruled out. It may be argued, for instance, that while Equilibrium is implied by Unity, Responsibility is implicit in Free Will. The set may therefore be contracted to only two, dropping Equilibrium and Responsibility as additional axioms from the set. However, as pointed out later in this study, the axioms of Unity and Equilibrium constitute the vertical and horizontal dimensions respectively of the Islamic ethical system; and are, therefore, (mathematically) ‘independent’. The same holds for the third axiom of Free Will, which also is independent of both Unity and Equilibrium. As for the axiom of Responsibility, from a strictly logical point of view, it is not independent of Free Will and Equilibrium. However, we have kept it as a separate axiom only for analytical convenience and clarity. This decision is, however, based on ‘expediency’ rather than on logic. At any rate, our analysis will not be much affected by such a contraction of the criteria set, since its effect will be only to make implicit what in our system is explicit, without invalidating it; which, incidentally, is a decisive argument against any such contraction.

II. The Ethical Values Of Islam

Man, in the Islamic perspective, is not the one “fallen” with “original sin”, but a theomorphic (not anthropomorphic) being, with something God-like in him. The Qur’an explicitly attests to this exalted state of Man’s situation: “So, when I have made him and have breathed into him of My spirit” (15:29).⁶ Like the universe around him, his sinner

⁶ All English translations of the Qur’anic verses quoted in this article are from

self has been chosen by God to reflect His glory.” We shall show them Our portents on the horizons and within themselves until it will be manifest unto them that it is the Truth” (41:53). Man could not have been assigned a higher place in the scale of the Universe than be the reflector of God’s portents.

By virtue of his exalted station in the Universe, man has the potentiality of becoming God’s vicegerent on Earth; of walking where angels fear to tread, and of ultimately becoming crystallized in immortality. At the same time, man is prone to avarice and given to love for material possessions: “And lo! in the love of wealth he is violent”. (100:8). Also, “if you possessed the treasures of the mercy of my Lord, ye would surely hold them back for fear of spending, for man was ever grudging.” (17:100).

The remarkable thing about Islam’s ethical system is that it combines the soaring idealism of man’s spiritual ascent with a deep concern for his worldly attachment, which within specified limits, has been willed by God. Its ethics are based on the clear recognition that the basic traits of man’s nature can at best be neutralized at a personal level; they can never be altogether abolished on the plane of our social existence. Hence, while every effort must be made to cure man of his weaknesses, his natural love for self-interest cannot be altogether ignored. No ethical system which suspends natural laws for the benefit of some kind of hypocritical idealism can find any place in a revealed message; for only God knows his creatures best: “We verily created man, and We know what his soul whispereth to him, and We are nearer to him than his jugular vein.” (50:16).

This integrated, balanced and realistic view of man’s nature and his social role, exclusive to Islam, can be summarized exactly by four ethical axioms.

M. Pickthal, *The Meaning of Glorious Qur’an*, (London: George Allen and Unwin, 1930). The first number in the parenthesis refers to the chapter in the Qur’an, while the second indicates the verse (*ayat*).

III. Fundamental Ethical Axioms

(a) Unity: Islam’s ethical system, which encompasses man’s life on this earth in its entirety, resides eternally ‘prefigured in the concept of Unity. This concept forms the cornerstone of the Islamic message and bears out all Islamic arts and sciences.⁷ It shows, within the compass of one immaculate, divinely revealed vision, the inter-relatedness of all that exists. Indeed, in the Islamic view, which is perfectly coordinated and necessary, the Universe, this life on earth, and man himself all form a Unity, wherein the perceptible and the imperceptible, material abilities and spiritual powers coalesce and intersperse with the theomorphic character of man. Through the direct knowledge of all things created, that alone makes a unified view possible, the dream of a humanity marching towards the ultimate Truth can be realized on the Earth. The Qur’an is explicit on this point: “But seek the abode of the Hereafter in that which Allah hath given thee and neglect not thy portion of the world.” (28:77).

The Islamic ethical conceptualization, of which its economic system is only a subset, must therefore be seen from the vantage point of Unity, which can be described as the “vertical” dimension of Islam. According to this view, economics gets integrated with ethics and gains strength from it; for it is only with the aid of Islamic ethics that a rank ordering of economic preferences is possible in an Islamic society. Indeed, an Islamic economic system is meaningless outside of the matrix of an Islamic ethical system.

(b) Equilibrium: In addition to the “vertical” dimension, contained in the concept of Unity, Islam has also a “horizontal” dimension, sym-

⁷ This aspect has been explicitly emphasized in the scholarly work :S.H. Na\$R, *Science and Civilization in Islam*, New American Library (1968). However, a complete development of Unity in relation to Islamic social system is given in Sayyid Qutb, ‘Islamic Approach to Social Justice,’ Ch. 8 in Khurshld Ahmad (ed.) *Islam, its Meaning and Message* (London: Islamic Council of Europe 1976), However, the analytical edge of Qutb’s profound paper, has been considerably blunted because it does not make explicit the horizontal dimension of Islam without which the problems of social justice cannot be adequately handled.

bolized by Equilibrium.⁸ In fact, Unity carries within itself all the qualities in an “undifferentiated equilibrium”, so that any “rupture” of it is a positive evil.⁹ Equilibrium exists in the very order of the universe: “He hath created everything, and hath meted out for it a measure.”

(25:2); also: “Lo! We have created everything by measure.” (54:49). This fundamental Equilibrium must hold in our individual lives also. The innermost of each individual, itself a living tabernacle of Truth, is not only unified with it vertically as a homogenous whole, but is also equilibrated with respect to the elements within this whole.¹⁰ Within ourselves there is a world of conflicting emotions, wild instincts and errant desires which must be held together in correct balance to produce a balanced and just human being. Furthermore, being an integral part of this universe, man must live in harmony with it.”¹¹

8 The characterization of Islam as having a 'vertical' and a 'horizontal' dimension is made abundantly clear in the profound work: Frithjof Schuon. *Understanding Islam*, (Mandala Edition, Unwin *Paper-backs*, 1976).

9 Compare Frithjof Schuon, *The Transcendent Unity of Religions* (London: Harper and Row, 1975), p. 114. We have substituted the word Unity for Existence used by Schuon. See also Schuon. *Islam and the Perennial Philosophy*, (1976), (World of Islam Festival Publishing Co. Ltd., 1976). “It is the aim of Islam to combine the sense of the Absolute with the quality of Equilibrium.. .” (p. 23).

10 In fact, in an 'historical' perspective. Islam itself represents a providential synthesis, equilibrating perfectly and finally the various elements of the Divine Message. As Frithjof Schuon has profoundly remarked, “the equilibrium between the two Divine aspects of Justice and Mercy constitutes the very essence of the Mohammedan Revolution, in which it rejoins the Abrahamic Revolution,” *op. cit.*, p. 96. This also explains the logic of the Qur’anic injunction: “So follow the religion of Abraham, the upright.” (3:95) For the religion of Abraham represented an “undifferentiated equilibrium”, between Justice and Mercy, the exoteric and the esoteric, which Islam providentially sought to re-establish. Indeed, *it is equilibrium which distinguishes the Islamic concept of Unity from that of the Jewish and of the Christian religions and aligns it with that of the original Abrahamic religion.*

11 Social equilibrium must be maintained not only in material terms (e.g., an equitable distribution of wealth) *but also*, and *even more importantly, in terms of an equitable distribution of self-respect among the haves and the have-nots.* The rich *are* not allowed to exchange their money for the self-respect of the poor. The Qur’anic denunciation of such upright attitudes among the givers attests to Islam’s total commitment to upholding human dignity: “O Ye who believe! Render not vain your almsgiving by reproach and injury, like him who spendeth his wealth only to be

The idea of social justice is only one aspect of universal Equilibrium. The Qur’an enjoins:

“Be Ye staunch in justice, witnesses for Allah, even though it be against yourselves, or (your) parents or (your) kindreds, whether (the case be of) a rich man or a poor man, for Allah is nearer unto both (than ye are)” (4:135).

An undue concentration of wealth or of power are both inimical to the Natural Law, since both of these disturb economic and political equilibrium. The Qur’an ordains: “Wrong not mankind in their goods” (26:183). This injunction warns against producing social and economic disequilibrium. Hence equilibrium must hold in all aspects of human society. And one of the most important modes of realizing Equilibrium is precisely an accord between the sacred Law relating to man as such and the law relating to societal Free Will: Man has been endowed with a free will. This follows from the theomorphic character of man. Only God is absolutely free, but man is also relatively free since God has willed it so. Because of this faculty, man not only has the capacity to become God-like but, exercising his free will, can also deny God.¹² This freedom to accept or reject followed from man’s acceptance, even before creation, of a burden which no one else could take. The Qur’an relates this eloquently: “Lo! We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it. And man assumed it. Lo! he hath proved a tyrant and a fool.” (33:72). Man alone was thus given the power to choose between good and evil, to separate the grain from the chaff.

His theomorphic character, combined with Free Will, assigns man to the most distinguished niche in the universe. It also follows that de-

seen of men and believeth not in Allah and the Last Day. His likeness is as the likeness of a rock whereon is dust of earth; a rainstorm smiteth it, leaving it smooth and bare. . . .” (2:264).

12 This aspect has **been** pointed out in the two most profound works on Islamic philosophy by S.H. Nasr *Ideals and Realities.. .*, (*op. cit.*); and by Schuon, (1976), (*op. cit.*).

priving man of his natural freedom is to degrade him below his God-given stature and produce disequilibrium in the social framework. Any such move is, therefore, against the fundamental laws of the universe. Hence the absolute need for maintaining it in any viable social ordering.¹³

Responsibility: Within the grand Unity that lords over this universe, man is free. However, his freedom must be counter-balanced by "responsibility", if only to satisfy the dictates of nature's equilibrium. Man, having opted for the power to choose, must logically endure the consequences of this power. The Qur'an is explicit: "Remind (mankind) hereby lest a soul be destroyed by what it earneth." (6:70). The Qur'an warns:

"Say: O mankind! Now hath the Truth from your Lord come unto you. So whosoever is guided is guided, only for (the good of) his soul, and whosoever erreth, erreth only against it. And I am not a warder over you." (10:109).

The effect of the doctrine of responsibility is to curtail man's natural freedom, mainly by placing ethical constraints on his social behaviour.¹⁴ While man cannot be denied his natural freedom, the cult of unbridled individualism is also not allowed by Islam. Even pure logic should convince us that unlimited freedom implies unlimited responsibility, which is a contradiction in terms. At any rate, according to the Qur'an, man can take only limited responsibility: "Allah would make the burden light for you, for man was created weak." (4:28). It thus follows that his freedom must also be limited.

To summarize, the doctrines of Free Will and Responsibility ultimately merge with the law of universal Equilibrium to create a just and

13 Schuon has beautifully remarked: "Islam is a religion of certitude and equilibrium". *op. cit.*; p. 16. Certitude comes from unity, while "free will", if not associated with equilibrium, will result in pure 'noise'.

14 For an excellent discussion of this aspect of Islam's ethical system see Syed Ameer Ali, *The Spirit of Islam*, (London: Christophers, 1922), esp. Ch. 10.

fruitful socio-economic order, within the framework of the all-embracing Unity; and maximize material happiness, without depriving man of spiritual bliss.

IV. The Elements Of Islamic Economic Order

A practical Islamic economic system entails three inter-related issues (i) We must clearly identify the specific institutional setting, and the ideological framework wherein a distinctly Islamic economic system must operate, (ii) The economic objectives of such a system need to be clearly defined; and (iii) the policy instruments required to achieve the specified policy objective explicitly stated.¹⁵ Our search for an ethically acceptable solution to these problems must be guided by the axiom system stated above, namely, Unity, Equilibrium, Free Will and the doctrine of Responsibility. These axioms are our objective criteria set: anything that does not satisfy these must be rejected. They should also help us compare the existing economic systems from an Islamic point of view and to determine what can and what cannot be borrowed from other systems. Such an analysis is essential because indiscriminate borrowing from "alien" systems, not in conformity with basic Islamic values, is not permissible: Islam cannot be "modernized" by destroying or eroding its highly distinctive ethical base.

(i) The Economic-Ideological Framework

The Islamic system has been variously identified with capitalism, socialism, or even with welfare state, without laying down any explicit criteria by reference to which the legitimacy of these conflicting assertions can be tested. The resulting intellectual ambivalence has obscured the vision of a new Islamic economic order. Within the frame-

15 The discussion in this section **enlarges** considerably the analysis presented in my "Islamic Economic System: Fundamental Issues", *Islamic Studies* (Winter 1977). The reader may also consult the admirable piece: M.U. Chapra, "Objectives of Islamic Economic Order," in Khursheed Ahmad (ed.), *op. cit.* Ch. 11.

work of the axiomatic approach adopted in this study, we shall make an effort to find a more probable answer to this problem.

(a) Socialism: Is the Islamic framework socialistic? The temptation is great to give at least a partially affirmative answer. Not only in theory, but also in practice, socialism has come to grips with the problem of ensuring an equitable distribution of income among various social classes. Furthermore, the institution of private property, and with it the parasitic rentier class of feudal lords, has been effectively routed. The equalization of the opportunities of education, culture, medical care etc., has been carried the farthest in socialistic countries, which were the pioneers, the idea-givers and the practitioners, in this area. In terms of the Islamic axiom system, as far as the distribution of income and wealth is concerned, socialism ensures social equilibrium to a much greater degree than any other system. Furthermore, by mobilizing the labour force effectively for social reconstruction, socialism also satisfies the axiom of responsibility.

And yet the answer to the question is in the negative: socialism does not seem to be Islamic. Firstly, and most importantly, socialism negates the Islamic concept of unity in every possible manner: the notion of the mutual cooperation and brotherhood has been replaced by that of class war. The Qur'an preaches the providential oneness of human society by virtue of their belonging to one religion: "Lo! this, your religion, is one religion, and I am your Lord, so worship Me" (21:92). According to the Islamic message, even the differences of sex, religion and culture are a means to unity, based on mutual understanding: "O mankind! Lo! We have created you male and female, and have made you nations and tribes that ye may know one another." (49:13). Socialism, in sharp contrast, slices up societies into classes to promote mutual hatred and distrust. Even the so-called social equilibrium, the Marxian synthesis, is seen only in terms of cataclysmic turmoil in the passage from a thesis to its antithesis. Furthermore, man's material desires have been totally divorced from his spiritual aspirations. This is again a negation of the Islamic ideal of Unity.

Secondly, while socialism restores equilibrium in the distribution of income and wealth, it effectively destroys the most fundamental equilibrium in the distribution of power, political and economic.¹⁶ Thirdly, thanks to the concentration of all power in the hands of the State—in fact the ruling elite—the axiom of Free Will is also violated in socialistic societies.¹⁷ This is by far the most serious violation of Islam's ethical system. As a result, man is reduced in a socialist order to the degrading level of a cog in a gigantic social machine; and even the mobilization of manpower, in which socialist countries take so much pride, is brought about through draconian motives like concentration camps and the so-called community projects. Islam stands for a more even distribution of both power and wealth; but it rejects an unnatural degree of harshness in work which snuffs out all leisure and happiness from life. The Qur'an beautifully summarizes the deeply humanistic philosophy of Islam: Thus "Allah would not place a burden on you, but He would purify you and would perfect His grace upon you, that ye may give thanks." (5:6). At the same time, Islam does not tolerate indolence, irresponsibility and sloth: "And that man hath only that for which he maketh effort." (53:39). Even more emphatically: "Whatever of misfortune striketh you, it is what your right hands have earned." (42:30). Thus scapegoats, so popular in socialistic thinking (e.g., the capitalists), find no place in Islamic thinking. In this way, Islam induces an even greater personal responsibility than socialism.

16 Bertrand Russell has discussed at great length the central importance of the power motive in human affairs. "When a moderate degree of comfort is assured both individuals and communities will pursue power rather than wealth." He seeks to prove that power is to social dynamics what energy is to physics. See his, **Power: A New Social Analysis** (London: Unwin Books, 1938). p. 9. If Russell's position is right, the concentration of all power in the hands of the State destroys the social equilibrium in such a way as can never be restored by the income-distribution palliatives advocated by socialism.

17 Bertrand Russell has pointed out, "there can be no adequate individual freedom where the state is all-powerful, even if the state be a socialist one." **Roads to Freedom** (London: Unwin Books, 1918).

Socialism thus destroys social equilibrium by negating human freedom, and dissipating the essential unity of all living things envisaged by Islam. The conclusion thus emerges: Socialism is not only not near to Islam but is very far removed from it.¹⁸

(b) Capitalism: Is capitalism, then, any nearer to the Islamic ideal? One can easily be trapped, at the conceptual level, in the following logical fallacy: Having shown that Islam rejects socialism, one might conclude that capitalism may be nearer to Islam since both reject the same system with great vehemence. This is, however, a very dangerous conclusion. Any Islamic edifice raised on such a fallacious reasoning will be the greatest disservice to Islam. The falsity of such reasoning will become transparent when analysed in terms of the fundamental ethical axioms.

Firstly, like socialism, capitalism also fails to realize the unity of life, by overemphasizing man's material values at the cost of his spiritual aspirations. Indeed, the longing for material acquisitions under a capitalistic order soon degenerates into mammonism. This is bad, because worship of money and lust for material acquisitions dulls human initiative and dries up the well-springs of happiness, which comes from creative work.¹⁹ From an Islamic point of view, such an attitude is a fatal diver-

18 The system that goes under the name of "modern Anarchism", which originated with Michael Bakunin, is subject to similar criticism as far as its economic programme is concerned. However, there is an important element of truth in its political programme which seeks to replace the rule of majority by one of consensus. According to the Anarchist doctrine, the rule of majority can be as detrimental as the rule of minority. "For the divine right of majorities as a dogma is as little possessed of absolute truth as any other." See Russell. *Roads to Freebm*, *ibid*, p. 50. (This book contains an excellent analysis of socialism. Anarchism and Syndicalism). In fact, the rule of majority is *not* a divine law, according to Islam, if only because it violates the axioms of equilibrium and human freedom. Muslim political scientists ought to ponder this aspect of democracy, which has been generally held close to the Islamic ideal.

19 Bertrand Russell has denounced worship of money, because "it leads men to mutilate their own nature from a mistaken theory of what constitutes success, and to give admiration to enterprises which add nothing to human welfare." *Principles of Social Reconstruction* (London: Unwin Books. 1916). p. 79.

sion of man's efforts, which should instead be bent to the realization of his theomorphic nature. Hence, the acquisition of money has been reduced considerably in the scale of human values in the Islamic perspective. The Qur'an makes this clear: "Wealth and children are an ornament of life of the world; but the abiding things, the deeds of righteousness, are better in Thy Lord's sight for reward, and better in hope." (18-46).

Secondly, capitalism destroys social equilibrium. It allows wealth to get concentrated in few hands on the grounds that only the rich save and invest. The institution of private property deepens social disequilibrium under capitalism and sets up a vicious circle wherein opportunities for material advancement are pre-empted by the owners of wealth. As pointed out above, the Qur'an rejects the closed circle of wealth getting narrower at each turn: "Wealth does not circulate only among your rich." (59:7). The failure of capitalism to keep social equilibrium also follows from its undue emphasis on competition—indeed, cut-throat competition—as a key to worldly success.²⁰ By contrast, according to Islam, life is a matter of mutual cooperation and personal responsibility.

Thirdly, while capitalism safeguards Free Will, it violates the axiom of Responsibility. True, at the collective level, responsibility is forced on individuals through policies like progressive income taxes and death duties, yet the individual in such societies is almost entirely attuned to grabbing rather than giving. Widespread tax avoidance and tax evasion, hidden from the public eye in a labyrinth of complicated legal systems, attest to this insensitiveness of the individual to collective responsibility. In this respect, socialism does just the reverse of what capitalism practices: it overemphasizes responsibility but destroys human freedom. Islam spurns both these attitudes.

20 Many an acute social philosopher has noted this. For instance, Russell held the opinion that "all institutions, if they are not to hamper individual growth, must be based as far as possible upon voluntary combination-", *Principles of Social Reconstruction, op. cit.* p. 2.5.

Welfare State Doctrine: The development of the Welfare State doctrine in the West, particularly in England and the Scandinavian countries, was accelerated by the establishment of a Communist state in Soviet Russia. The objective was to save the West from communism. This could be achieved only by curing the main ailments of capitalism. The unorthodox Keynesian remedies—so considered in the mid 30's—focused mainly on state intervention to forestall major economic depressions. Before him, the Cambridge economist Pigou had also 'legitimized' state intervention in cases where market profitability of specific investment projects diverged from its social profitability due to the existence of various "distorting" factors—like monopolies, external economies. Under these circumstances the market mechanism cannot maximize social welfare since market prices no longer reflect their opportunity cost.

This brief review should serve to highlight the middle-of-the-road philosophy of a modern welfare state. Let us examine this philosophy in the light of the Islamic ethical axiom system. It may be noted that, like capitalism and socialism, a welfare state also fails to ensure the unity of material preoccupations and spiritual pursuits. It is exclusively oriented to material welfare. The general orientation is materialistic because of the secularistic outlook of Western societies.²¹ Such an attitude cannot last, even for a short time, in a society reorganized on the teachings of Islam. It is the only religion in the world which calls attention to the theomorphic nature of man, endowed with free will; and capable of unlimited spiritual distinction by reproducing in his individual life that unity which pervades the entire universe.

However, apart from this vital distinction, welfare state is the only institutional framework which, from among the extant economic institutions in the West, comes closest to the Islamic ideal.

21 Asad Ahmed has traced this aspect of the western thought to Christianity: inherited sin, and its mystical-redemption through the suffering of Jesus on the cross, erects a barrier between man's spiritual longing and his legitimate desire to live. "See Asad Ahmed, "The Spirit of Islam. Ch. 3 in Khurshid Ahmad, *op. cit.*

It strengthens social equilibrium by ensuring an egalitarian and democratic social order, by enhancing liberty and honour of the individual, by providing unemployment insurance, universal education and by progressive direct taxation.

(ii) Economic Objectives of Islamic Society

We next turn to elucidate the economic objectives of a social order founded on Islamic teachings. Again, the basic criteria of judging the legitimacy of these objectives will be the four ethical axioms explained above.

Social Justice: As pointed out above, social justice is an aspect of universal equilibrium, which forms the cornerstone of Islam's ethical system. It implies guarantees for man's innate freedom, with the concomitant social responsibility. Furthermore, social justice is not only economic justice but requires a simultaneous adjustment in all aspects of human life, as ordained by the axiom of Unity. It follows that a "just" society satisfies all of the fundamental ethical axioms and is, by definition, an Islamic society.

Such a society is based on two well-known maxims: it must not only secure "from everyone according to his ability", but also provide "to everyone according to his needs." This general principle forms the basis of a welfare state, but is in complete accord with the Islamic conception of what is socially just. Essentially, these maxims entail an effective 'separation' of the requirement to satisfy man's basic needs from his ability to earn it. This is exactly what Islam seeks to accomplish at the social plane. The Qur'an makes this point crystal clear: "And in their wealth the beggar and the outcast has due share." (51:19)

However, the redistributive mechanism in Islam is embedded in voluntary submission to God's will: "And bestow upon them of the wealth of Allah which he hath bestowed upon you." (24:33) Persuasion rather than coercion is the basis of the Islamic scheme of ensuring social justice. The act of giving has been exalted to be the noblest virtue

of man in pursuit of spiritual salvation. "Ah, what will convey unto thee what the Ascent is! (it is) to free a slave; And to feed in the day of hunger; An orphan near of kin; or some poor wretch in misery." (90:12-14). Such a message touches the human heart with a whiff of morning breeze. No forcible expropriation is warranted for a man prepared to part with his wealth voluntarily: "Who giveth his wealth that he may grow (in goodness)." (92:18).

It should be noted here that social justice is not an absolute objective. For justice is as much ensured by making all men equally happy, as by making them all equally unhappy.²² Also, social justice can as much be the property of a stagnant economy as of a dynamic economy. Islam cannot possibly stand for a justice with unhappiness and economic stagnation. It is a dynamic religion which seeks to maximize man's happiness, not only in the Hereafter, but also in this world.

There is another aspect of social justice. There is a sense in which all men are equal; and there is yet another sense in which they are not. All men are born equal because they all are theomorphic in nature; and have the God-given potentiality of spiritual ascent. However, this potential can only be actualized through the acquisition of knowledge; and not all succeed in doing so. Islam, instead of equalizing, differentiates between those who have knowledge and those who have not: "Allah will exalt those who believe among you and those who have knowledge to high ranks." (58:11) At another place in the Qur'an, these two aspects of man, equality and inequality, have been beautifully brought together: "He it is who hath placed you as viceroys of the earth and hath exalted some of you in rank above others, that He may try you by (the test of) that which He hath given you." (6:166).

Employment and Education: Here we consider these objectives as inter-related: better education leads to technological change, which then is directed to lowering the capital labour ratios in the case of a

22 For instance, Bertrand Russell notes: "There is equality where all are slaves as well as where all are free. This shows that equality, by itself, is not enough to make a good society." *Authority and Individual*, (London: Allen and Unwin, 1949).

labour-surplus country and raising it in a capital-rich country. If this sequence holds, more education leads in the long run to more employment. These two objectives, thus, merge into one: universal education.

An Islamic society must distinguish itself by the excellence of its educated class. The seeking of knowledge has been declared to be the sacred duty of man and finding it to be his greatest good fortune. The Qur'an extols both the process of learning and the learned: "He giveth wisdom unto whom He will, and unto whom wisdom is given, he truly hath received abundant good. But none remember except men of understanding." (2:269) Also God has advised men to pray: "My Lord! increase me in knowledge." (20:114). It is, therefore, clear that the acquisition of knowledge in an Islamic society must be subsidized and the men of learning be assigned to the highest niche. The Qur'an makes the clearest possible distinction between those who are educated and those who are not: "Say (unto them, O Muhammad): Are those who know equal with those who know not? But only men of understanding will pay heed." (39:9).

It follows that the opportunities to educate oneself should be open to all equally, without any regard to the accident of their birth. This observation has a direct policy implication: an Islamic society must provide free universal education to all. This is essential because, starting from a position where men are differently endowed with wealth and property, education has a great equalizing effect in case the opportunities to get it are open to all who deserve. In this way education contributes to social equilibrium. It guarantees human freedom; and brings up the type of people who not only know the worth of their natural freedom but also have a special conscience and are prepared to take up the corresponding responsibility voluntarily. It helps man also to unify, at least in his own person, this-worldly and the other-worldly desires and aspirations.

Economic Growth: As pointed out above, social justice has meaning only in the context of a growing economy. Economic growth enlarges national wealth, which then becomes available for consumption

and capital formation. Over a period of time, the main policy objective of an Islamic society shall be precisely to achieve an equilibrium between present and future consumption. In technical language, the policy-maker will seek to maximize an integral of the flows of consumption over a specified period of time, subject to the all-important constraint of providing enough resources for capital formation.

It must be noted that maximizing the growth rate of national income per se cannot be the primary objective of an Islamic economy. This may sound paradoxical; but is true since economic growth is a function of investment, which in effect constitutes a postponement of current consumption and amounts to sacrificing the welfare of the present generation for posterity. In Soviet Russia, for example, untold sufferings were imposed on the generation which lived on the morrow of the Bolshevik Revolution in order to let the national income grow at the fastest possible rate. High rates of reinvestment in succeeding years were used to impose a disproportionate amount of austerity on one generation after another. Most of this growth potential has however been used for defence production to stay one up in the armament race, instead of contributing positively to human happiness.

Such a strategy has nothing to do with the Islamic ideal; for it violates the axioms of equilibrium and human freedom, with an unnatural (and therefore unislamic) emphasis on responsibility. Since economic progress is bought at a very high price in terms of the sacrifice of human happiness and spiritual advance, a helter-skelter growth falls right outside the unitary scheme of things envisaged in Islam.²³ In sharp contrast to the communist strategy, the welfare states of Western Europe have settled for a lower growth rate, precisely because of their commitment to the egalitarian objectives of social policy which, in turn, set an

23 Such a growth strategy has also been ruled out in the modern economic literature, which emphasizes the optimization of the *utility* of consumption flows as the most appropriate policy objective. See for instance, Robert Dodman, "An Economic Interpretation of Optimal Control Theory." *American Economic Review*, 1967. For a discussion of alternative policy objectives, see S. Chakravarty, *Capital and Development Planning* (M.I.T. Press: 1969), pp. 19-24.

upper bound on feasible growth rates. Such a humane attitude is in full accord with the moralistic spirit of Islam.

We now come to a very important point: what should be the place of individual initiative in this growth-oriented Islamic economy? The answer should now have become obvious: Islam assigns a central role to the individual, by virtue of the axioms of Equilibrium and Free Will. At the same time, the unbridled individualism of *laissez faire* is also not acceptable since it negates the axiom of responsibility and also upsets social equilibrium. It follows that the regime of free competition must gradually be replaced by an order wherein economic cooperation and social harmony are emphasized. Again, in sharp contrast to socialism, where individual is completely stifled, and to capitalism where it runs wild, the middle-of-the-road philosophy of Welfare State is nearer to Islam than any other economic system.

The upshot of the analysis presented above can be put briefly: an Islamic society should aim at providing universal free education in order to help the individual to realize his God-given potential; and to set in motion an income-equalizing mechanism of great force. Such a policy will also activate, to the fullest extent possible, individual initiative, which in free societies constitutes the primary agent of growth and change. The policy of unbridled growthmanship will be replaced, in an Islamic state, by a more moderate policy which eschews unnatural haste and, along the growth path, makes ample provision for education, health and social welfare. It is only in a dynamic context that social justice has any real meaning. Any justice achieved by a profligate squandering of capital resources is contrary to Islamic prudence, which insists on social equilibrium and human freedom along with individual responsibility.

(iii) Economic Policies in an Islamic Economy

Having analysed the basic policy objectives of an Islamic economy, the final question concerns the choice of specific policy instruments

for their attainment. It may be noted that, as a general rule, Islam insists not only on the legitimacy of the policy goals but also of the policy instruments, since both must satisfy, or at least be not inconsistent with the fundamental ethical axioms of Islam.²⁴

The specific economic policies suitable to an Islamic society will naturally be determined by its economic objectives. Accordingly, they fall under two broad headings : (a) redistributing income, wealth and economic power; and (b) ensuring economic growth consistent with (a). The policies concerning education and greater employment will be discussed in the context of these two sets of policies. The ultimate test of the “legitimacy” of specific instruments will again be their conformity with the ethical axioms.

(a) Redistributive Policies

An Islamic society will have to devise a proper redistributive machinery to correct income inequalities not only on the margin but also intra- marginally. Equality on the margin will require, over time, an equitable distribution of the fruits of economic progress, among various classes of the society. Intra-marginal equality, at any given point of time, will be ensured by correcting the initial endowments of wealth, symbolized by the institution of private property. In economic jargon, the former is a flow concept, while the latter is a stock concept. We will begin our analysis with the latter.

The Institution of Private Property: The institution of private property has three dimensions. First is the right of the worker (in the broad-

24 However, while this principle holds generally. Islamic realism leaves room for exceptions, when “ends may sanctify the means”; also, in appropriate circumstances, “means may profane the ends.” Indeed, these exceptions are also a part of divinely revealed vision of Islam, and just one example of Islam’s ethical philosophy it never pulls in the webs of individual idealism so tightly so as to exclude collective possibilities. See Frithjof Schuon, *op. cit.*, p. 28. An example of ends sanctifying the means, is the use of force to make the recalcitrant souls see the truth. This is the philosophy behind *Jim*, which is one of the basic cornerstones of the Islamic teachings.

est of the term) to the fruits of his work. If an individual is not allowed the monetary reward of his labour, the creative instinct in him will become atrophied; though this line of reasoning, while generally correct, cannot be pushed too far, for the very best work is done for the satisfaction that comes naturally from all creative work. However, it will be legitimate, from an Islamic point of view, to concede one’s right to the income received from his work. The labour theory of value, while formally incorrect and practically unworkable because of the impossibility of “imputation”, has an element of truth which must be recognized to avoid unpleasant social consequences.

Second, the right of an individual to own some property in the form of cultivable land or a house can also be socially justified. Everyone needs some security. However, the need for security comes essentially from fear—a fear of the unforeseen. Even the so-called ordinary prudence is mostly nothing but disguised fear. Islam minimizes fear by making man to rely on God’s Mercy. The Qur’an is explicit: “Say, O My slaves who have been prodigal to their own hurt: Despair not of the Mercy of Allah, who forgiveth all sins. Lo! He is the Forgiving and Merciful”. (39:53). This soul-lifting verse destroys in one sweep fear and awakens hope; for hope is the well-spring of individual initiative on which all creative activity, including economic activity, depends. Within this frame of thought, the desire to own property will be checked, in the same measure as man conquers that fear which arises from purely psychological reasons.

Thirdly, private property is also a symbol of social distinction. What makes it worse, most of such property is not due to one’s labour. This is a controversial aspect from a social angle. “Man shall have nothing but what he strives for.” (53:39) At the same time, Islam, by the Law of Inheritance, formally recognizes the legitimacy of inherited wealth.

But should this recognition be taken as an unlimited licence for the institution of private property? The Law of Inheritance, so often cited in its support, may itself be considered as a distributive mecha-

nism designed to weaken the power base of this institution. This interpretation, read along with the Qur'anic verse just quoted above, points towards an egalitarian rather than a conservative Islamic view. Hence, steeply graduated death duties, which tend to dilute over time this institution, should be consistent with the Islamic ideal. Redistribution of income will restore social equilibrium inter-generationally, and ensure responsibility without compromising human freedom. At any rate, man's unlimited natural right to property has been rejected by Islam. "To Allah (belongeth) whatsoever is in the heavens and whatsoever is in the earth." (2:284). Man holds the right to property only as a trust. "And spend of that whereof He hath made you trustees" (7:7).

However, it must be pointed out that, in the Islamic perspective, private property is not looked upon in a spirit of class war, which is ultimately a destroyer of natural equilibrium. Forcible expropriation and unwarranted nationalization of all land negate the Islamic spirit of solving such issues in an evolutionary context. There can be no doubt, though, that steps should be taken to dilute this institution in order to defuse social tensions. If private property becomes merely a symbol of ostentation and social influence, then a social upheaval cannot be avoided. Furthermore, an Islamic society cannot tolerate a bunch of reactionaries blocking all social reform for fear that it will be directed against them; influence national outlook through their considerable political power, and obfuscate the forces of social change which leads to violence. If Islam is against violence as a solver of social problems, it is even more against the forces and policies which make revolutions inevitable. In any case, all such forces, in one form or another, violate all the ethical axioms of Islam; and must therefore be rejected on these grounds alone. It follows that a sensible mechanism for controlling private property—e.g., land reforms—is warranted if only to prevent an inevitable cataclysmic disequilibrium.

At this point it may be interesting to analyse the Islamic injunction against a positive interest rate in relation to the institution of private

property. The owners of wealth, including that which they inherit, can lend money at high interest rates to those who do not have it. The institution of interest rate, therefore, not only perpetuates the evils of the system of private property but aggravates it. Through a web of general equilibrium inter-relations the owners of wealth can live in luxury at the expense of the society.²⁵ Thus the abolition of interest rate will plug in one, but only one, source of income inequality. However, this cannot be an end in itself.

From a philosophical angle every dogma is both a "limited idea" and an "unlimited symbol" at one and the same time.²⁶ The abolition of interest rate, in this sense, is only a "limited idea". Logically, one cannot stop at this point. The institution of interest is in a deeper sense also an "unlimited symbol" of social injustices, arising out of a grossly unequal distribution of income and wealth in capitalistic societies—a disequilibrating factor increasing the 'distance' between the haves and the have-nots. If interest rate is abolished but what it symbolizes is left untouched, this "achievement" will not bear any fruit because of the inner contradictions. Even worse, if the abolition of interest rate leads to the adoption of such alternative policies which tend to aggravate income inequalities instead of reducing them, then the whole exercise will not only be self-defeating and wasteful but considerable harm will be done to the cause of propagating Islamic values in the modern world.²⁷

25 Bertrand Russell has observed: "The power of lending money gives such great wealth and influence to private capitalists that, unless strictly controlled, it is not compatible with any real freedom for the rest of the population." *Principles of Social Reconstruction, cit.*, p. 87.

26 Frithjof Schuon. *Transcendent Unity of Religions, op. cit.*, p. 7.

27 I have argued elsewhere that if additional saving and investment are generated *exclusively* through the corporate sector, i.e., by allowing corporate savings to multiply without limit on the facile assumption that only the rich save and invest, social inequalities will be even more sharply increased with a zero rate of interest. In fact, such a policy is an interest-free loan to the industrialists. In the past, industrialists misused it and contributed to overcapitalization, excess capacity, allocative inefficiency and unemployment. See my, "Islamic Economic System", *op. cit.*, esp. pp. 335-37.

Nationalization: The economic case of nationalizing industries usually rests on the argument that the market does not function optimally to maximize social consumption and production. There is an element of truth in the second part of this argument. It is clearly recognized in welfare economics that market imperfections (e.g., monopolies, and external economies),²⁸ drive a wedge between the market profitability and the social profitability of investment projects. State intervention becomes warranted since, if left to the market, social production (consumption) will be underexpanded.

The question then arises: what form should this legitimate state intervention take. It would be logically a non-sequitur to argue that the failure of the market to achieve the social optimum is by itself sufficient to prove that the market system should be thrown overboard and all industries nationalized. It must be clearly recognized that the public control of business is not the same thing as nationalization. The State can also regulate the market system, with a view to correcting its imperfections through fiscal and monetary policies. For instance, a properly-designed tax-cum-subsidy policy can remove the wedge between social and market profitability arising from external economies.

The Islamic point of view in this matter can be easily established if it is remembered that an undue concentration of economic power in the hands of the state also upsets social equilibrium, and negates human freedom. Furthermore, such a policy is an expression of distrust in man's capacity to assume social responsibility. The Qur'anic declaration that: "To God belongs whatever is in the heavens or the earth" (2:284) does not necessarily imply state control; for, according to the Islamic perspective, man, in his individual capacity, is perfectly capable of holding God's treasure in trust.

²⁸ External economies-i.e., extra benefits that are incidental to the **main** operations of the industry, but accrue free of cost to other users - drive a wedge because the private producers will **not** reckon these extra social benefits, as such since they cannot change any price for them. Social production is therefore under-expanded.

On the other hand, man's innate capacity to assume such a responsibility is no guarantee that he necessarily will: Man does not always realize his theomorphic nature. Thus *laissez faire*, or an excessive trust in the "invisible hand" guiding economic affairs, does not accord with the Islamic perspective as well. Furthermore, the assumption, on which the market system crucially depends, that consumers "reveal" their preferences through their market behaviour and hence production be reorganized to conform to these preference, does not fully agree with the Islamic view point. For just any man's preferences cannot be taken as a parameter of the Islamic economic system, without regard to their social consequences.

It therefore follows that economy-wide nationalization does not accord with the Islamic perspective. However, a considerable degree of state control of the economy through fiscal, monetary and other economic policies is in consonance with it, for the simple reason that *laissez faire* also negates the Islamic perspective.

Social Security System: There is another aspect of *laissez faire* that is not always noticed. The system of free markets fails also because it does not make an explicit provision for institutions which equalize the marginal utility of consumption among all consumers. It then follows that the state must create some such institutions. One of the most promising policy instruments is a comprehensive social security system, financed out of government's tax revenues—particularly those collected through a levy of Zakat tax. Such a system will provide a minimum economic sustenance to every individual of the Islamic society, particularly the old, the sick and the unemployed among them, irrespective of their ability to earn. Such a system is clearly Islamic since it restores social equilibrium, upholds human freedom by releasing man from the fear of destitution, and enables him to assume, with dignity, his social responsibility. To repeat the terse Qur'anic injunction; "And in their wealth the beggar and the outcast has due share." (51:19) Hence the rich are not doing any favour to the poor if they help them. However, this is not to say that the poor should not feel grateful for such help.

(b) Growth Policies:

So far we have dwelt upon the redistributive policies in an Islamic society. However, as observed above, a redistribution of income (and of power) is not by itself sufficient to maximize social bliss. It is only in a dynamic context that such redistributive policies become meaningful. For, in a growing economy, a proper redistributive policy will not only ensure the recipients an increase in their relative but also their absolute shares in national wealth. Furthermore, a social system wherein everybody gains is clearly superior to a static situation where only a few gain at the expense of others.

However, economic growth can be accelerated in a variety of ways. There are two main dimensions of this problem: first, economic growth is a function of investment, mainly financed through domestic saving. Second, the human factor in the growth process is also crucial. Both these dimensions are briefly analysed here. This discussion is followed by a brief analysis of indirect economic controls.

Saving and Investment: In a dynamic context, the processes of saving and investment are inter-related. More investment requires more saving; but acts of investment can also provoke additional saving. The latter sequence is mostly the characteristic of market economies, particularly in the initial stages of economic development. Corporate sector is relied upon heavily to generate the necessary savings to finance reinvestment activity. This investible surplus grows out of corporate (undistributed) profits, which are then allowed to multiply through a combination of liberal fiscal and restrictive import policies and the absence of any price controls. This sequence was followed in Pakistan during the 60's.²⁹

Such a policy is premised on the belief that only the rich save and invest. Thus a conscious policy of promoting saving and investment through creating inequalities of income and wealth is justified on

²⁹ For details of this strategy and its consequences, see my, *Egalitarianism Versus Growthmanship* (Islamabad: Pakistan Institute of Development Economics. 1971).

purely economic grounds, even though it is conceded to be morally reprehensible. However, this theory, which is incorrect from a purely economic point of view also, cannot form the basis of a growth policy in an Islamic society. Firstly, such a policy destroys the unity of moral and economic considerations, so essential in the Islamic perspective. Secondly, it disturbs the social and economic equilibrium. Thirdly, it frees the capitalistic class of their social responsibility; while, fourthly, it compromises the economic freedom of rest of the society. This policy must, therefore, be rejected. However, this is not to deny the corporate sector a proper place in the growth process; but only to disapprove of a more or less exclusive reliance on it.

The second sequence of generating more savings directly to finance additional investment requires, in capitalistic societies, a properly-functioning capital market to form the channel through which community's savings are made available to investors. Furthermore, depending on the relative scarcity of capital, it can be made available to prospective users only at a "price". This price, which will always be high and positive in a capital-scarce economy like Pakistan's, takes at present the form of interest rate. A positive interest rate is also required to attract saving and to make up real losses the fixed income group has to take in an inflationary context. The dilemma arises for the policy-makers because Islam prohibits *riba* (interest, usury) in all its recognizable forms.

The Abolition of Riba: There are three fundamental considerations, which must be kept in view in analysing *riba's* prohibition in an Islamic economy. First, while a zero rate of interest may be a necessary condition, it is by no means sufficient for an Islamic economic order: a zero rate of interest does not necessarily imply an Islamic economy; for socialistic societies are also marked by the absence of the institution of interest rate. However, an Islamic economy, once fully established, will have no use for interest rate as an explicit policy instrument.

Secondly, rate of interest is a policy instrument and, therefore, must not be confused with the economic objectives of an Islamic economy— which are mainly economic growth, social justice and the

achievement of free universal education. As pointed out above, the institution of interest is just one fact in the chain of events creating gross economic inequalities. This matter has been analysed in the previous section and need not be repeated here.

Thirdly, although in an Islamic economy, the rate of interest will ultimately disappear, the socially-desirable functions it performs will still have to be pandered to if the economy is to grow at all. In a static context, these functions are: (i) ration scarce capital resources; (ii) promote their economic utilization; (iii) safeguard the real value of cash balances of the savers in an inflationary context. As argued elsewhere, while the first two functions can be taken care of through a system of investment auctioning, the third can be performed by a carefully devised scheme of indexing the bank deposits.³⁰

The theories usually advocated in this context are those of *shirka* (partnership) and *mu4araba* (sleeping partnership), which remain to be tested in the real world and hence cannot be meaningfully evaluated. However, on a priori grounds, their defects seem to outweigh their merits. Firstly, it will make the economy highly sensitive to business fluctuations. A remedy may be to create a sinking fund into which will be directed the excessive liquidity flowing into the banks in an inflationary period to cushion the losses to be incurred in a depression. In practice, this sinking fund will absorb excessive profits from some industries and finance the losses of the others. On balance, the depositors may end up with a zero or very low rate of return, which will not be enough to protect the real value of bank deposits. Secondly, by the same token, these policies will fail to perform functions (i) and (ii). Thirdly, this system will be very costly to operate. Active participation in business will require recruitment of highly-trained staff to evaluate loan applications. Thus a simple system will be replaced by a complicated system, with an uncertain impact on the economy. This last consideration alone can prove to be a decisive argument against the proposed reform.

30 See my, "Islamic Economic System," *op. cit.*, p. 339.

In a dynamic context, the rate of interest equals the rate of capital depreciation, a positive rate of time preference and a secular decline in the marginal utility of saving due to its growth.³¹ An Islamic economy, to remain dynamic, will have to make enough provision for capital depreciation. To remain just it cannot arbitrarily force a zero rate of time preference on the individuals, since that would sacrifice the welfare of the present generation for posterity, giving rise to inter-generational inequities. This is a common occurrence in socialistic economies; but an Islamic economy cannot countenance such gross injustices to the present generation. Furthermore, the marginal utility of saving will decline with the passage of time even in an Islamic economy. All these considerations point to a positive "shadow" price of capital. At present, this shadow price is reflected, though imperfectly, by a positive rate of interest. If interest is abolished, then some other means must be found to reflect a hard economic fact: capital is scarce. It can be doled out at an artificial price of zero, only at the cost of a wasteful squandering of nation's capital resources, a cost which the Qur'an definitely refuses to tolerate: "O Ye who believe! Squander not your wealth among yourselves in vanity." (4:29)

The Human Factor : In development theory and practice the human factor has generally been neglected only at a heavy cost to society. The developmental efforts have run aground because of neglecting, in the developing countries, the crucial role of individual initiative in the process of economic growth.

The lack of regard for the human factor manifests itself in three main forms: (i) the employment component of investment projects remains minimal because of high capital-labour ratios. The result is "immiserizing growth"—growth adding to, instead of subtracting from, human misery, (ii) The contribution of human ingenuity, as an important contributing factor in the development process, is disregarded. Invest-

31 This is the thesis of my (unpublished) study: "Rate of Interest and Inter-temporal Allocative efficiency in a Dynamic Islamic Economy." (Paper to be presented at the Mecca Conference on the Fiscal and Monetary Economics of Islam, October 1978).

ment in education, therefore, becomes a residual and is considered to be merely consumption expenditure, (iii) The objective of maximizing growth rate is achieved through organizational efficiency, like in Soviet Russia and China, with no place left for innovative souls, acting in their individual capacities.

As pointed out in an earlier section, the individual cannot be sacrificed in the Islamic framework for the sake of organization. In the micro socio-economic unit, the individual, springs into significance charged with the task of becoming, not just a cog in a social machine, but the idea-giver and the prime mover.³² An Islamic society will, therefore, subsidize the process of expertise formation by promoting universal free education and by giving monetary and other rewards for meritorious work. The acquisition of knowledge is the highest form of prayer in Islam because it activates the mainsprings of human advancement by enhancing the level of intellectual sophistication.

The first problem of high capital-labour ratios is related to the problem of insufficient technological change, which again boils down to inadequate education. The countries which have developed the fastest in recent years are those which succeeded in innovating new techniques of production, without which no big "leap forward" can take place. The problem of unemployment is also traceable to the failure of the developing countries to invent a technique of production which suits their own resource endowment. These matters have already been discussed in the previous sections and need not be repeated here.

Indirect Economic Controls: The general picture of an Islamic economy, emerging from the analysis presented so far, is remarkably free of both the collectivizing zeal of socialism as well as of the individualistic anarchism of capitalism. The State features prominently in it; but, within the specified ethical limits, leaves completely unhindered

32 Russell observes "The chief test of an economic system is not whether it makes **man** prosperous or whether it secures distributive justice (though these are both desirable) but whether it leaves man's instinctive **growth** unimpeded." *Principles of Social Reconstructwn, op. cit.*, p. 94.

the creative instincts of the individual in order to maximize the growth impulses emanating from this source. In such a scenario, government's regulatory functions will be performed through monetary, fiscal and investment controls, to enable the market to behave in a socially desirable fashion-i.e., to maintain social equilibrium. Monetary Policy: Complexities will arise for the policymakers because the rate of interest will be practically abolished in a fully-functioning Islamic economy. The Central Bank will thus be deprived of an important policy instrument, impairing its regulatory powers to control the level of liquidity in the economy. The Bank will also have to abandon the Open Market Operations, which it undertakes mainly to keep the interest rate structure—the long term rates and the short term rates—properly aligned. For instance, the government may want to encourage domestic investment by lowering interest rates, without impairing country's balance-of-payments position through an outflow of long-term capital. This can be done by designing the open market operations in such a way that short rates are lowered while keeping up the long rates—the so-called "Operations Twist". An Islamic State Bank will have to find other indirect means of achieving such results.

However, in practice, the absence of these two policy instruments will not cripple an Islamic State Bank. In the post-war world even the Bank of England have found it difficult to manage the economy only through the manipulations of the Bank Rate and the open market operations. As a result, increasing reliance has been placed on varying the statutory deposit ratios to keep the commercial banks' liquidity at the socially desired level. Even more importantly, "moral suasion", under which occasional "advice" is given by the Bank, is used to persuade the financial institutions to follow proper monetary policies.³³ Neither of these policy instruments, which have also been used by the State Bank of Pakistan with varying degrees of success, runs counter to the Islamic ethical system.

33 For a detailed discussion, see R.S. Sayers, *Modern Banking* (London: Oxford University Press, 7th ed. 1967). Ch. 5.

Fiscal and Investment Policies: The prohibition of interest rate will also have important consequences for the role of fiscal policy in an Islamic economy. The government normally allows accelerated depreciation allowances, tax holidays etc., to encourage new investment in specific industries. The wisdom of such over-strong fiscal incentives can be questioned on purely economic and administrative grounds. Such incentives result in a significant contraction of the corporate tax base and make tax administration difficult. However, their legitimacy becomes all the more questionable, should capital resources be provided to industries literally at a zero price, which itself will be a substantial monetary subsidy—the extent of the subsidy being calculated as the differential between the shadow price of capital and the zero price. It follows that in case the monetary policy instrument is completely “frozen”, this will result in a corresponding “freezing up” of the fiscal policy instruments also. This is an undesirable state of affairs and reinforces the argument against arbitrarily driving to zero the price of capital, in a regime of widespread capital scarcity. If the rate of interest is formally abolished, means must be found to raise the price of loaned capital towards its opportunity cost, say, through investment auctioning. In that case, fiscal policy will still remain economically “operational”.

In the realm of tax policy, the emphasis in an Islamic economy will shift more towards broadening the tax base rather than increasing the tax rates. This shift in tax policy, which incidentally is in accord with modern thinking in public finance, is warranted by the increasing concern for social justice and economic growth, based on individual initiative. A broadening of the tax base—e.g., by withdrawing overstrong fiscal incentives—will permit a substantial lowering of tax rates, which alone count for the marginal investor. In an Islamic society the over-emphasis on corporate saving, usually inflated through a conscious policy of increasing income inequalities, will have to be done away with to ensure social equilibrium. Furthermore, the suggested reform will also de-emphasize indirect taxation in favour of direct taxation, again the corollary of the axioms of Equilibrium and Responsibility.

A distinguishing feature of an Islamic fiscal system should be to establish a visible link between taxation and expenditure. This is very important. If the benefits that tax payers themselves receive, or are received by the needy in the society, become visible to them, the psychological atmosphere will be much improved. This will minimize the element of tax fraud. In the Welfare States of Scandinavia the incidence of tax evasion and avoidance is the lowest in the world, by comparison with other countries, simply because the tax payers know that what they themselves get or what the poor in the society receive, is much more than what they have to pay by way of tax. In an Islamic society, Zakat, which will be one of the many other taxes imposed, possesses this characteristic par excellence: not only the tax rate but also the recipients of Zakat funds have been specified in advance.

Of course in modern societies, particularly in developing countries like Pakistan, the need for growth-oriented investment obscures the visible link between taxation and expenditure, but such things should be explained. What is being advocated here amounts to a system of public accountability, the need for which can be understood better if it is remembered that large sums of tax money are lost through fraudulent tax practices. However, such practices cannot really be eliminated unless the taxation system ceases to be unnecessarily oppressive and the public expenditure acquires a “face”—right now it is by and large “faceless”—which can be seen and recognized by the tax payers.

V. Conclusion

We conclude that the first step towards understanding the economic principles suitable to the Islamic perspective on life is to understand clearly its ethical system. However, this system must be summarized into a set of axioms which, in a mathematical sense, must be both necessary and sufficient. Unity, Equilibrium, Human Freedom and Responsibility provide such a set.

After applying this criteria set to the existing economic systems of Socialism and Capitalism we found that these systems do not seem to

be Islamic, since they violate almost all the ethical axioms. Furthermore, the Welfare State comes nearest to the Islamic ideal by satisfying three axioms of Equilibrium, Free Will and Responsibility. However, it is not entirely Islamic, since it too violates the axiom of Unity. This also confirms our hypothesis that there exists an imperative need to develop a fully Islamic economic system, because it alone can truly satisfy all the fundamental ethical axioms.

Having established this, the next step is to identify the economic objectives suitable for an Islamic system, and the specific policy instruments which can help achieve them. Social justice, economic growth, universal education and higher employment constitute such objectives, since they help the society to find a system which can satisfy all the ethical axioms. In our search for appropriate policy instruments we were led to reject abolition of private property and complete nationalization of the means of production on the one hand; and the system of free markets, with an exclusive reliance on the corporate sector, on the other. An Islamic state will also have to impose death duties to dilute inherited wealth and to provide a minimum of income to the sick and the poor and the unemployed, irrespective of their ability to earn. An Islamic government will, however, be an important regulator of the economy, using mainly fiscal, monetary and other indirect controls which regulate, but do not supplant, the market system. The rate of interest will have to go as a policy instrument in an Islamic economy. Its socially-desirable functions will, however, have to be performed, simply because the price of capital must reflect its scarcity and a mechanism be found to protect the real value of saving in an inflationary context. An important aspect of the Islamic fiscal system will be to establish as far as possible a visible link between tax policy and expenditure policy, with a marked emphasis on public accountability—on giving a recognizable “face” to government expenditure. Furthermore, a better balance will have to be achieved between direct and indirect taxes.

In this study we did not aim at providing a complete economic system. We have rather confined ourselves to introduce a scientific method of analysis, and to set up normative standards which can serve as guide-posts in our intellectual venture into the unknown. Along this perilous road there are opportunities and there are temptations. One maybe tempted to accept as gold whatever glitters in the shop window of the West; and act ostrich-like, accepting blithely and mindlessly what is there already, forgetting the intellectual storm that rages around him. The daring souls will, however, like to take up the opportunity to realize their true potentialities—as innovators and idea givers, instead of being condemned eternally to imitate blindly what others do.

In this intellectual endeavour one must always remember that the dark recesses of our thought and the blind spots of our action can never be completely eradicated unless economic systems are founded on ethics which unifies man's theomorphic potentialities and his legitimate material desires, ensures social equilibrium, guarantees human dignity, and prepares men to assume their full responsibilities towards society. Only then will individual initiative blossom forth, innovating and creating, to become the sheet-anchor of a process of change, combining economic growth with social justice.

Chapter ⑦

A Political Economy
Approach to Islamic
Economics

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I. Introduction: The Essentialisation of Islamic Economics Beyond Islamic Finance

Islamic finance, which emerged as part of Islamic economics thinking, has gained roots in the global financial system in recent years. In this novel and alternative financing method, *Shari'ah* compliance, as a mandatory aspect in terms of legal and mechanical terms, is essential and important. It is also important in a consequential manner that Islamic financing must fulfil the foundational principles and aspirations of Islamic economics. In this particular point, recent developments indicate that Islamic finance is moving in a 'capitalist' direction away from an Islamic economic value system. Therefore, the essentialisation of an Islamic economic system is necessary to assess whether Islamic finance is merely an alternative mode of capitalist production or a unique and egalitarian alternative economic order, which aims to be a 'moral economy', as coined by Tripp [2006].

This paper, thus, is an attempt to discuss the systemic nature of Islamic economics, in which it argues that the modern variant of Islamic economics is a development that began in the 1970s with an alternative system understanding to the existing capitalist modes of production. In this new discourse, Islamic economics held that the capitalist economic order was responsible for the failure of economic development and environmental issues in developing countries. Therefore, it claimed to be an alternative economic system, that, also, owed its development to the emergence of identity politics in the 1970s.

A Political Economy Approach to Islamic Economics

Systemic Understanding for an Alternative Economic System

With the rapid development of Islamic finance, research focusing on the foundational base, namely Islamic economics, has been largely ignored. However, without establishing the foundational norms, which is the ethical system of this new paradigm, it is not possible to have a robust financial system, as in Islamic finance. This paper, therefore, explores the original wisdom in revealing the systemic and alternative system discourse of Islamic economics regardless whether such a system is a possible or not.

II. Islamic Economics as a System

Before delving into discussion on the systemic nature of Islamic economics, it is important to define what a 'system' is. A 'system' is defined as the "functional components that together make certain sectors of the ethico-economic order work" [Choudhury and Malik 1992: 15], which, therefore, refers to an integrated whole as part of an order. Islam, in this respect, represents the overall order, and within that larger framework Islamic economics, as well as other systems related to everyday day life, is possible. "An 'order' is thus a totality of several systems integrated together through the bond of ethical relationships" [Choudhury and Malik 1992: 15]. Various systems, therefore, in the Islamic order are linked through the ethical propositions of Islam. Consequently, "the Islamic economy is defined within the parameters of its own ethical system, which fact, incidentally, demonstrates its originality and relativity" [Naqvi 1994: 80]. In other words, the ethical norms of Islam are fully integrated with its economic motives, as these are not voluntary actions but, ontologically, part of the revealed knowledge; and therefore its dogmatic nature makes it necessary for them to be followed.

This 'system' understanding also relates to the structural nature of an economic worldview regardless whether "theoretically articulated and recorded or traditionally practised over years" [Nomani and Rahnama 1994: 41]. This, then, rejects criticism of an Islamic economic

worldview, which is premised on the principles of revealed knowledge. Because, a lack of modern theoreticising does not negate Islamic economics, 'systemic' claim, since an economic system is a "static registration of how society organises itself to address the basic economic problems of what is to be produced, how many, how and for whom" [Nomani and Rahnama 1994: 41]. Such decision-making has existed in Muslim societies albeit it may not have been practised or understood in a manner paralleling European notions of economics or Eurocentric expectations. In other words, since the Islamic economic system has a particular moral economic understanding which governs the production, consumption, exchange and distribution patterns and norms in a society through the principles derived and rules and laws established by that system [Nomani and Rahnama 1994: 41], it is normal that Islamic economics must be perceived as a system.

The ethical base of the Islamic economic system provides the value system through which it governs all forms of economic interaction in society. The Islamic order, in other words, through its ethical economic principles provides "the economic system with its basis and objectives on one hand, and with its axioms and principles on the other" [Kahf 1989: 43]. The working mechanism of this process is managed by a set of axioms and principles derived from the Islamic order with the objective of bringing "the economy closer to the objectives of the system [which] represents the testable ground of the system" [Kahf 1989: 43].

The components expected from an economic system, thus, can be located within the Islamic economic understanding. However, in order to justify this statement Gregory and Stuart [1985:12] rightly argue that "in order to distinguish one economic system from another, we need to focus on and compare their fundamental elements". For this purpose, through a systematic and methodological manner, they provided a number of characteristics that should be sought in a system. By following their systemisation, the Islamic economic systemic construct should consist of the following pivotal characteristics for it to be

considered as a system: the organisation of decision-making arrangements; mechanisms for the provision of information and co-ordination; proper typologies; and incentive mechanism. This paper, however, further elaborates on the characteristics, which can make a viable Islamic economic system. Therefore, in order to talk about 'systems' in the economic realm the following is necessary:

- (i) Framework paradigm (with ontological and epistemological sources) in terms of point of reference;
- (ii) Value system;
- (iii) Foundational axioms;
- (iv) Operational principles/mechanism;
- (v) Specific Methodology;
- (vi) Functional institutions.

In searching whether Islamic economics proposes an alternative system, these characteristics have to be located among the components of the Islamic economic paradigm. The following sections, hence, attempt to deconstruct the Islamic economic understanding by revealing the existence of these components in arguing for its systemic nature.

2.1. Islamic Economics: Emergence of Framework Paradigm

In the opinion of the founding fathers of an Islamic economics paradigm, the failure of economic development in the post-independent states of Asia and Africa in 1960s and 1970s was attributed to flawed capitalist economic development strategies, which ignored the importance and centrality of human beings and their well-being. Their objective was, therefore, to develop an economic system understanding as part of the Islamic world order [El-Ghazali 1994]. That would, then, ultimately develop into a human-centric developmental strategy. The Islamic economics paradigm, hence, aimed at the creation of an Islamic

system of economics with its distinct values, norms, rules and institutions with a politically oriented systemic understanding as ordained in Islamic order. In other words, Islamic economics aims at a world order, where its' ontological and epistemological sources, namely the Qur'an and *Sunnah*, determine the framework of the economic value system, the operational dimension of the economy and the economic and financial behavioral norms of the individual Muslims.

The axioms and foundational principles of Islamic economics define the framework in which economic activity takes place within intra- and inter-generational social justice, that, in turn, reveals itself in the methodological framework of the Islamic economic system. Therefore it is based on a constructivist ideology, with the aim of forming an authentic Muslim identity as opposed to the global dominance of capitalism, which has in reality failed in the economic development process.

In searching rationale for a distinct discipline and system of Islamic economics, the values and the sources of Islam provides the rationale. It is, indeed, a fact that no human endeavor is value-free, which implies that reality including economic reality is socially constructed. Despite the modernist projection of universal values, in the everyday life of an ordinary individual, each action is produced and acted through a socially constructed manner, which explains the differences in each realm of life. In a similar manner, "economic systems ... do not function within a vacuum [either]. They are significantly affected and shaped by a set of 'influential factors': the level of economic development; social and cultural factors; and the environment" [Bornstein 1979: 7]. This hence implies that "religion, ideology or any strongly held set of values, ideals and mores have an impact and influence which have to be taken into serious consideration" [Nomani and Rahnema 1994: 43].

This is in accordance with the philosophical foundation of modern social sciences. Therefore, J. S. Mill, the founder of political economy, referred to different constructions of economic understandings when he argued as back as in 1836: "... in whatever science there are system-

atic differences of opinion ... the cause will be found to be, a difference in their conceptions of the philosophic method of the science, the parties who differ are guided, knowingly or unconsciously, by different views concerning the nature of the evidence appropriate to the subject. They differ not solely in what they believe themselves to see, but in the quarter whence they obtained the light by which they think they see it" [Mill 1836 (1995): 55].

Economics and finance, thus, is value-loaded, at its most elementary level and shaped by individual values derived from individual worldview, as part of individual social construct. This, hence, provides the rationale for a distinct economic system. Since factors affecting worldviews differ, different worldviews exist leading to different 'systems' for different peoples. Consequently, an Islamic economic system differs from the prevailing economic systems due to the following:

- (i) Foundations, operational principles, goals differ;
- (ii) Concepts and theories differ;
- (iii) Epistemological sources differ, as Islamic worldview based on the Qur'an, namely revealed knowledge;
- (iv) Fundamental concepts in the Qur'an are not open for changes in meaning.

Islamic economics, hence, aims at creating a new system, the features of which, as a system, can be defined as:

- (i) It is part of din (religion), Islam;
- (ii) It deals with production, consumption and distribution activities of human beings according to Islamic worldview;
- (iii) It makes economic and financial choices according to Islamic norms;

- (iv) It describes, analyses, and prescribes, as in the case of other economic systems.

Such philosophical and operational distinguishing characteristics make Islamic economics a system as defined above. Thus, it is an "approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms, laws and institutions found in, and derived from the sources of Islam" [Haneef 2005: 5]. Regarding the place of Islamic finance within this system, it is only the institutional aspect of Islamic economics, which regulates the financing of economic activity in an Islamic framework. As part of systemic understanding, hence, there is a need to have Islamic financial institutions using financial instruments according to rules and regulations of Islam, which are bound by the *Shari'ah*.

2.2. Foundational Axioms and Philosophical Foundations

Having established that Islamic economics is a systemic political economy in nature, in which epistemology, institutions and functions are all interlinked through revealed knowledge. Yet, in order to assess its systemic nature, it is also important to search for the foundational axioms or the philosophical foundations, without which it is not possible to consider an economic system. "It is these foundations which generate the behaviour of the economic agents as well as the institutions in the system; and hence effectively determine the micro-foundations of that economy" [Arif 1989: 84].

Leading Islamic economists such as A h mad [1980; 1994; 2003], Chapra [1992; 2000], El-Ghazali [1994], Naqvi [1981; 1994], Siddiqi [1981], and Sirageldin [2002] have developed an axiomatic approach that forms the conceptual foundations of Islamic economics. These conceptual foundations define an Islamic moral economy and its corresponding ethics as an ideal through which economic and social policies dealing with every aspect of human life are assessed.

It should be noted that the philosophical foundations of Islamic economics is entirely different than that of the other systems, such as capitalism and socialism, as in this approach Islam is seen as a system of ethics. This indeed provides an important pillar through which its systemic nature is established. The philosophical and conceptual foundations or the axioms of the Islamic economic system are as follows:

First, the axiom of *Tawhid* (God's unity and sovereignty): The Islamic worldview is based on *tawhid*, or the Oneness of God. This "particularly denotes vertical dimension of Islam – linking the imperfect and finite social institutions with a Perfect and Infinite Being" [Naqvi 1994: 26]. This vertical dimension and equality of the Islamic ethical system manifests itself by the inherent equality of each individual as represented by their paralleling proximity to God. *Tawhid*, as the essential part of this economic system, provides for freedom of action whereby each individual is viewed as an integral part of the whole. This principle, also, implies a continuous and sustained system through "risalah (God's Prophets as the source of divine guidance); akhira (life-after death, that is the continuity of life beyond death and a system of accountability based on divine law) [Ahmad 2003: 193]. These idioms provide the framework for economic activity to take place within Islamic norms.

Secondly, the axiom of *Al-'adl wa' l-ihsan* (Equilibrium and Beneficence or Socio-Economic Justice): Individuals are expected to establish justice (*'adl*) and promote beneficence (*ihsan*), which, consequently "denote a state of social equilibrium" [Naqvi 1994: 267]. While this axiom implies "giving everyone their due", together with *tawhid* it "results in attaining high levels of good life (*hayat al-tayyebah*), both individual and collective" [Ahmad 2003: 193]. This axiom, thus, provides for the horizontal dimension of equality "of all the virtues of the basic set of social institutions – legal, political and economic" [Naqvi 1994: 27]. In this intra-and inter-generational equality, human beings and societies are expected to establish a balance between the needs of present and future generations, develop policies to fulfil the needs of

individuals, enable them to earn a respectable source of living, develop policies for an equitable distribution of wealth and provide for growth and stability-oriented policies.

Third, the axiom of *Ikhtiyar* (Free-will): In the Islamic economic systemic understanding, humans are believed to be endowed with free-will. Although it is "both unrestricted and voluntary" [Naqvi 1994: 29], it is guided by broad guidelines in order "to interpret-reinterpret that freedom within specific societal contexts, and to suit the needs of changing times" [Naqvi 1994: 31] (emphasis is original). This, thus, constitutes functional norms of economic activity in Islamic economic system.

Fourth, the axiom of *Fard* (Responsibility): This axiom states that although 'responsibility' is voluntary, individuals and society must recognize their mutual obligations for public good, which stems from the principle of *Tawhid* and, hence, of humanity's vicegerency on earth. In addition, human responsibility towards God, to his/herself and the others in the society implies that "*these three facets of responsibility only underscores the central ethical principle that the individual, though possessing a distinctive personality of his own, becomes even more distinguished as an integral part of the totality of mankind*" [Naqvi 1994: 33]. In other words, being a conscious part of a society implies a functional responsibility towards society. Hence, in economic terms, there is a social aspect and responsibility of every asset owned or managed by private or public entities.

Fifth, the axiom of *Rububiyah*: This as an important axiom in the Islamic economic system that refers to "divine arrangements for nourishment, sustenance and directing things towards their perfection" [Ahmad 1979: 12]. This implies the necessity of sustainable economic growth and development in terms of having harmony between various components of economic and social life. It is expected that within this balanced and sustainable environment as defined by Qur'anic principles that human efforts take place.

Sixth, the axiom of *Tazkiyah*, in the Islamic economics axiom, is “concerned with growth towards perfection through purification of attitudes and relationships” [Ahmad 1994: 20]. This is natural consequence of *tawhid*, *'adl*, *fard*, and *rububiyyah* in an integrated manner, as it directs the individual towards self-development, which leads to economic and social development in harmony with the growth activity that requires purification. In other words, this principle refers to growing in harmony in every aspect of life. “The result of *tazkiyah* is [therefore] *falah*, prosperity in this world and the hereafter” [Ahmad 1994: 20].

Seventh, the axiom of *Khilafah* and human accountability before God: Allah created human beings with the role of being His vicegerent on earth. By this “his (or her) role, position and mission is described as *istikhlaf*, that is fulfilling God’s will on earth, promoting what is good, forbidding what is wrong, establishing justice (*'adl*) and promoting beneficence (*ihsan*), resulting in attaining high levels of good life (*hayat al-tayyebah*), both individual and collective” [Ahmad 2003: 193]. Thus, being a vicegerent on earth defines roles, outlines responsibilities and provides the reasons of existence for the individual. “From this follows the unique Islamic concept of individual’s trusteeship, moral, political and economic, and the principles of social organisation” [Ahmad 1979: 12]. Thus, the implications of the principle of *khilafah* include the notion of universal solidarity, sustainable consumption of resources, which are trust from God, pursuing a humble life-style and having human freedoms to conduct daily life. Also, it should be noted, that alongwith the idea of human accountability before God, or *akhirah*, an Islamic economic system is similarly based on two-dimensional utility function, operating in a positive correlation with each other. For instance, the more social good one does in the temporal world, the more *sawab* or glad tidings one will receive in the hereafter.

Lastly, the *Maqasid al-Shari'ah* or the objectives of *Shari'ah* provides the legal-rationale framework within which Islamic economic activities should be conducted. This final principle aims to interpret the text

and restore the principles of Islamic economics in relation to the objectives of *Shari'ah*. Thus, it implies that the principles of Islamic economics must lead to ‘human well-being’. Overall, the objectives of *Shar'iah*, namely the Islamic way of life and code of conduct, are described by al-Ghazali (d. 505 AD) as “to promote the well-being of all humankind, which lies in safeguarding their faith, their human self (*nafs*), their intellect (*'aql*), their progeny (*nasl*) and their wealth (*mal*)” [Chapra 2000: 118]. In other words, as can be seen, *Maqasid al-Shari'ah* provides the motivation through which economic activity should take place.

Recent re-interpretation of the *maqasid* by Siddiqi [2004] provides a more dynamic understanding to this foundational axiom. Because, the defined objectives of *Shari'ah*, as defined by al-Ghazali, clearly demonstrate individual-oriented objectives without social connotations. On the other hand, Siddiqi [2004] argues that in order to have a properly defined value system for an Islamic moral economy, it is important to examine the nature of the *maqasid*. Moreover, for a systemic and dynamic understanding “*maqasid al-Shari'ah* could not be confined only to protection (*hifz*), preserving what people had or saving them from harm, rather they must include broader measures ensuring welfare [as] asserted by Ibn Qayyim ... who emphasized justice and equity. Furthermore, he insisted that the means to justice and equity could never be captured by a finite list. Reason will guide us how to ensure justice and equity in changing circumstances” [Siddiqi 2004]. Thus, a dynamic understanding of the *maqasid* offers a better conceptualisation in our contemporary circumstances “with reference to goals of Islam as a way of life rather than being done with reference to the goals of Islamic Law. This will enable us to handle issues like poverty and inequality that a Law-based approach has failed to handle” [Siddiqi 2004], as objective of Islam refers to individual as well as societal considerations beyond the narrow definitional boundaries of Islamic law.

Consequently, each of the aforementioned axioms and foundational principles constitute the micro-foundations or the foundational prin-

ciples of the Islamic economic system, which are entirely different than the axioms and foundational principles of any other economic system. “The universal ethical system, based on these axioms, is [therefore] believed to produce policies aimed at enhancing motivation to seek knowledge and work, enhance productivity, and enhance transparency in government. They should also enhance intra- and intergenerational equity” [Naqvi 1994]. Thus, the existence and efficiency of these axioms provide the rationale for the Islamic economic system (see [Naqvi 1994; Arif 1989] among others).

2.3. Implications of Foundational Axioms

While the axioms and principles previously outlined provide the framework within which the Islamic moral economy operates, they, similarly, have implications for shaping the economic structure in relation to its operational and institutional nature in the Islamic economic system. For instance, the principle of social justice indicates social responsibility and taking care of the needy in society. Consequently, *zakah*, as an economic and social institution is proposed to meet the needs of such people in the society, which is a fard for those people who are in a position to pay [Ul-Haq 1995: 85]. In addition, *rububiyah*, *tazkiyah* and accountability before God, as part of the Islamic micro-foundations, require responsible use of “rightful earnings [by] keeping the moral purposes of [human beings] in view” [Ul-Haq 1995: 85]. This further implies that earning and production is necessary and good as long as it is conducted with balance, restricts the accepted modes of production and operates without “misuse, abuse, conspicuous consumption, wastage or *israf*...; and squandering or *tabdhir*...; ... its exclusiveness to oneself and denial of the share of the society (*zakah* and other forms of sharing); and ... the use of socially and ethically wrong or unjust means to produce it – the immoral, prohibited modes, oppressive exploitation of human beings and creation of ecological imbalance or environmental disruption” have to be avoided [Ul-Haq

1995:85]. Moreover, the axiom ‘*adl* necessitates equal opportunities for everyone, as individuals must not prevent others in society and nature from meeting their basic biological needs; “all people should have equal opportunities, without discrimination, to benefit from environmental and public resources” [Ul-Haq 1995: 85]. These examples, consequently, clearly demonstrate how axioms work to produce policies that respond to societal issues by instituting the operational dimensions of Islamic economics.

Likewise, it is important to determine the operational and institutional features of an Islamic economic system as derived from the stated axioms. An Islamic economic system is based on the understanding that societal developments are based on the active motivation of participants in a planned manner by both an individual and collective capacity. This indeed differs from historical materialism, for instance, and therefore, its corresponding development methodology is different than other political and economic ideological standings. Indeed, this difference can only be explained with the vicegerent role given to individuals, who with their free will, are perceived to be active actors of social change. Clearly, according to this analysis, every aspect of economic activity is a result of individual’s decision making within the social constraints alongside economic and financial constraints. Hence, Islam provides the framework containing the doctrine, value- judgments and ethics for the functioning of an Islamic economy, where the usual economic and financial choices are made.

In this balanced exchange, each constituent of real life activity is taken into consideration through the axioms stated above in an integrated manner. Therefore, the emergence of the homo-Islamicus, with a heart and mind shaped by Islamic values, is expected to motivate that individual to work towards the (enlarged) *maqasid al-Shari’ah* understood as human well-being. As Ahmad [2004: 194] suggests, “change has to be balanced, gradual and evolutionary. Innovation is to be coupled with integration”.

With its ethical foundation and propositions, an Islamic economic system does not deny the existence of self-interest as an important motivation for human action. However, an Islamic moral economy suggests that not only self-interest but social interest is to be served as well [Chapra 2000]. Thus, the framework provided by the Islamic economic system is constraining so that conflict between self-interest and social interest is removed. This framework also draws the line between what is permissible or not as an economic activity; and therefore lawful (halal) and unlawful (haram) ways of earnings have been defined by the *Shari'ah*. For instance, riba or usury-interest, gambling, speculation, fraud, exploitation and extortion are all banned by Islam, as they are not the result of productive economic activity.

As a natural consequence of self-interest, the Islamic economic system favours private property and private enterprise as the core of economic life as well as the legal foundation of society. However, as in circumstance of self-interest, private ownership is filtered through the moral codes contained in the *Shari'ah* dimension so that individuals understand private enterprise and private property "is a trust (*amanah*) [from Allah], and as such, property rights are subject to moral limits and used as a means of fulfilling ethical objectives – *the maqasid al-Shari'ah*" (Ahmad 2003: 195) (see also [Arif 1989: 86]).

As part of the domain of self-interest and private enterprise, the market provides the institutional framework in which economic activity, from production, exchange and division of labour, takes place. Also, the market provides the legal framework for contrast to be fulfilled, which is an essential part of private enterprise enshrined in the Islamic economic system. However, market mechanism is filtered so that social priorities are served alongside individually oriented utility and profit maximising motives [Chapra 2000]. As important, within this Islamically filtered market system "economic efforts take place through the process of co-operation and competition" [Ahmad 2003: 195]. In other words, competition does not allow for the creation of

conflict between self-interest and social interest but rather is arranged to work in co-operation so that various individual and social claims to resources can, economically and socially efficient manner, be fulfilled. The regulation of market mechanisms to produce social and economic efficiency simultaneously through the institution of hisbah is suggested by Ibn Taymiya [1985]. Thus, a moral filter is suggested to regulate the market. In addition, an Islamic economic system is content with governmental regulatory role to prevent excesses of the market mechanism. Furthermore, to overcome the market and government failure, an Islamic economic system developed waqf (voluntary organisations, pious foundations) system as a third sector to serve towards welfare needs of society. Moreover, the Islamic ethical system instituted voluntary instruments such as charity and legal obligations, e.g. *zakah*, to respond to the failures in both the mechanisms so that the needy are provided for. Importantly, filter mechanisms are endowed with systemic instruments that provide sustainable development through preventing "waste, over-utilization and the excessive exploitation of non-renewable natural resources and the ecological and environmental aspects of moral activity" [Ahmad 2003: 196]. This is precisely so, because natural resources and the environment is perceived to be an amanah, or trust from Allah to humanity. Furthermore, to facilitate the efficient working of the market mechanism, "Islam lays down an elaborate code of business ethics to ensure honesty, transparency and equity in business and financial dealings" [Ahmad 2003: 197].

In summation, an Islamic economic system, as explained in the preceding sections, aims to guarantee individual liberty, freedom of choice, private property and enterprise, the profit motive, but, in the same instance, provides effective moral filters at different levels of life and activity. Moreover, it establishes its own distinct institutions to fulfil the *Shari'ah* objectives, namely human well-being, economic development and social justice in society. Ibn Khaldun's (15th century) framework provides a summary of the interdisciplinary dynamic

model of an Islamic socio-economic system in evidencing the alternative systemic nature and the political economy of Islamic economics [Chapra 2000: 147-8]:

“The strength of the sovereign (*al-mulk*) does not become consumed except by implementation of the *Shari’ah*; the *Shari’ah* cannot be implemented except by a sovereign (*al-mulk*); the sovereign cannot gain strength except through the people (*al-rijal*); the people cannot be sustained except by wealth (*al-mal*); wealth cannot be acquired except through development (*al-’imarah*); development cannot be attained except through justice (*al-’adl*); justice is the criterion (*al-mizan*) by which God will evaluate mankind; and the sovereign is charged with the responsibility of actualising justice”.

In concluding this section, it should be noted that Islam does not prescribe a particular economic system, but does provide the core elements and principals, which form the basic philosophy of a system for an economy.

2.4. Methodology of Islamic Economics

In understanding the methodology of Islamic economics, it might be useful to recall the methodological framework of the neo-classical/conventional economic system so as to distinguish the Islamic economics methodology, which are as follows:

- (i) The point of departure is methodological individualism.
- (ii) Behavioural postulate: self-interest oriented individuals who (a) seek their own interests, (b) in a rational way, and (c) try to maximise his/her own utility;
- (iii) Market exchange.

Hence, the conventional economic system is based on a one-dimensional utility function, which leads to homo-economicus the economic individual in a market system.

The methodological postulates of Islamic economics, on the other hand, can be summarised as follows:

- (i) Socio-tropic individual, for whom not only individualism but social concern is a prerequisite;
- (ii) Behavioural postulates: socially concerned God-conscious individuals who
 - a. in seeking their interests are concerned with the social good,
 - b. conducting economic activity in a rational way in accordance with Islamic constraints regarding individual and social environment and the hereafter; and
 - c. in trying to maximise his/her utility seek to maximise social welfare as well by taking into account the hereafter.
- (iii) Market exchange is the main feature of economic operation in the Islamic system; however, this system is filtered through an Islamic process that produces a socially- concerned environmentally friendly system. In this process, socialist and welfare state oriented frameworks are avoided not to curb incentives in the economy.

As can be seen Islamic economic system envisages two-dimensional utility function based on the present and the hereafter (due to the accountability axiom) as the reflection of the actions of this world, leading to homo-Islamicus, or as Arif [1989: 92-94] terms it *tab’ay* or an obedient human-being who makes his/her economic decisions, including the allocation of resources, in a rational manner. However, “to be a Muslim is a necessary but not a sufficient condition to be a *tab’ay*” [Arif 1989: 91]. To be qualified as a *tab’ay*, one needs to operationalise Islamic principles in every aspects of her/his economic life as an affirmed Muslim.

It is also important to state that in terms of epistemological sources there is an important methodological difference between conventional

and Islamic economics. While conventional economics as part of the secular worldview does not accept any other source of knowledge other than human, Islamic economics is based on divine knowledge [Khan 1989].

This section clearly demonstrates the distinctive methodology of Islamic economics, which further, strengthen its systemic nature.

2.5. Mechanisms and Instruments of Islamic Economic System

The preceding sections lay the foundation of the Islamic economics system with an objective to validate the claim that Islamic economics is an alternative system with its distinct value system, axioms, foundational principles and institutions. As part of its systemic nature, Islamic economics provides institutions, through which economic and financial activity is conducted, with defined norms and principles. In other words, “an Islamic economy is different from the other economic systems of the world as it calls for a different institutional set-up and a unique role of government to achieve the goals of the Islamic society” [Arif 1989: 87]. Islamic institutions are related to business (*muamalat*) but also to the governance of the economy and market, such as *hisbah* as a regulative institution for the market system.

Overall, Islamic economic and financial activities are shaped by there kinds of measures and institutions.

First, positive measures, such as *zakah* (compulsory alms-giving) to respond to the needs of the poor. Methods have been developed to systematically manage the *zakah* funds to enhance its positive impact on alleviating poverty. In other words, instead of simply giving funds to those economically less fortunate for their immediate consumption, developing projects for the sustainability, survival and continuity of the economically less fortunate is the new strategy with *zakah* funds. *Hisbah* is another important positive institution in the Islamic economic system that regulates the market mechanism by responding to its failures and shortcomings and overcoming its excesses.

Secondly, voluntary measures, such as *sadaqah* (charitable giving), aims at providing the immediate needs of an individual. *Waqf*, or pious foundation, as part of the voluntary third sector, aims to provide the goods and services which either could not be provided for at all or sufficiently due to the failure of the market mechanism or the government. In addition to *awqaf* aiming at providing health services, education, and food distribution etc., the use of funds accumulated in *waqf* in an efficient manner is being developed through cash-*waqf* system and human development projects to enhance their contribution to the economic development of the societies.

Thirdly, prohibitive measures, such as *riba*, which is pre-determined interest, is prohibited, as it is unlawful gain in terms of not being result of productive economic or financial activity. Islamic economics proposes profit and loss sharing and risk taking and sharing against pre-determined capital gains to motive individuals to actively engage in the economy. The objective of the prohibition of *riba* is not only social justice but also due to achieving economic optimality alongside social optimality with participatory economic objectives.

For this, Islamic financial institutions, in the form of modern banks, have been established since late 1960s that aimed to function according to the values, axioms and principles of the Islamic economics system. The growth in the development of Islamic finance has been remarkable with over three hundred Islamic banking and financial institutions operating not only in Muslim countries but also over seventy countries in the world. The assets of these institutions are estimated to be about \$500 billion with about ten to fifteen percent growth rate, which is unprecedented in the global financial world.

Takaful or Islamic insurance is another important aspect of Islamic financial institutions, which operate on a non-interest basis. While it provides Islamic compliant insurance products for individuals and most importantly for business to secure their business and belongings, it also manages funds in an Islamic manner that contributes to economic growth.

All these essential Islamic institutions and instruments aim at enhancing human well being, or the *maqasid*, which constitute the operational dimension of an Islamic economics system. The existence and successful operation of these institutions is an indication that Islamic economics is a system of its own with its values, axioms, foundational principles, and also with its particular institutions, which work within the Islamic framework.

III. Conclusion on the Systemic Nature of Islamic Economics and Reflecting on the State of Islamic Finance: Ideals and Realities

As the preceding discussion on the analytical tools and value system of Islamic economics indicates, it aimed at creating a world order with political aspirations. As an outgrowth of identity politics, the Islamic economic system includes modern institutions and behavioural norms such as the *homo-Islamicus* or *tabaa'ya*. In other words, Islamic economics, with the conceptualisation of *homo-Islamicus*, proposes a normative world, which states 'what people should strive towards, as opposed to how people are likely to behave (the 'ought' as opposed to the 'is')'. However, the Islamic economic system is not devoid of positive economic statements or hypotheses. Several areas of economics are truly positive and cannot be different in an Islamic or in any other framework [Zarka 1989].

As the discussion in the preceding sections demonstrate, Islamic economics fulfils the prerequisites of a 'system' by having a framework paradigm; a value system; foundational axioms; operational principles/mechanism; a distinctive methodology; and its functional institutions to operationalise its framework. Add to that, a unique value system, axioms, operational principles that work according to its methodology, then it can be rightly argued that Islamic economics represents an alternative system. In addition, the axioms and philosophical foundation of the Islamic moral economy constitutes the universal ethical system,

which implies that "policies should not lead to dependency, limit opportunities that develop capabilities for the few, or reduce individual responsibilities for taking action. Policies should enhance motivation to seek knowledge, enhance productivity, and enhance transparency in government. They should also enhance intra- and intergeneration equity" [Sirageldin 2002: 27]. This indicates that the Islamic economic system's policy orientation enhances its systemic nature. Furthermore, since "the validity of an economic system can be tested by its internal consistency, its compatibility with the system organizing the other aspects of life, and its provision for improvement and growth" [Kahf 1989: 43], it can be argued that Islamic economics has a system of its own which is distinct from the other hegemonic systems. Thus, the "Islamic system per se has the capability of providing the operational norm and workable model, providing other things are equal. And these 'other things' are: (a) the degree of adherence to Islamic norms and ideals, (b) the politically strong Islamic state, (c) the lack of internal hostility from the political machinery to Islam through national governments, and externally, through international pressure, and (d) the adaptability of Islam to new changes in society, technologically and otherwise" [El-Ashker and Wilson 2006: 400]. As El-Ashker and Wilson state that the micro and macro social and political environment must facilitate the functionality of an Islamic economics system. However, since Muslims did not have the necessary global power, they failed to establish their political and, hence, economic order. Therefore, Chapra [1992: 118] himself accepts that "political factor is one of the most important factors responsible for the failure of the Muslim countries to implement the Islamic strategy for development with justice."

The reality of this Islamic economics system based on a particular constructivist ideology is tested by developments that have taken place in Islamic finance, which by forsaking the value system, identity-politics and systemic understanding of Islamic economics and become part of the international financial system. This has serious consequences for

the viability of Islamic finance, which is the operational tool of Islamic economics, as in an aspirational sense, Islamic finance is expected to operationalise and fulfil the economic system and moral economic imperatives of Islam. Despite such a system understanding, a critical approach to the development of Islamic finance, however, indicates a very pragmatic development. In other words, since the systemic understanding of Islamic economics could not be achieved in real life, Islamic finance has developed its own working framework that is located within the neo-classical paradigm. Thus, in its current state, Islamic finance does not seem to share the foundational claims of Islamic economics, despite the fact that the founding fathers of Islamic economics, in a modern sense, aimed at creating an Islamic economic system with Islamic finance being the operational aspect of that system.

The result, therefore, has been the divergence between the assumptions, normative principles and aspirations of Islamic economics as a system and Islamic finance as an instrument of that system. In other words, “a distinctive feature of the recent discussions on Islamic banking has been the growing wedge between its conventional theory and current practice” [Hasan 2005: 11]. In particular since the 1990s, while the operations of Islamic finance and the nature of Islamic modes of financing have expanded, the lives of individuals have not been touched upon by this enormous growth. The realities of financial markets which prioritise economic incentives rather than religious behavioural norms has forced Islamic finance to become part of the international financial system, in which it is recognised as heterogeneity of financial products deprived of their value system. Since the 1990s, therefore, Islamic finance represents hybrid financial products of the international financial system. Thus, the difference has been reduced to technicality, and the value system is no longer mentioned beyond describing the prohibition of *riba* by quoting verses in the Qur’an. This situation has been criticised by Islamic economists for its failure for economic development in the Muslim world and also for being materialistic.

Indeed, this epistemological difference is related to a modern interpretation of the Qur’anic verses and Islamic injunctions. The pragmatist position of Islamic finance as opposed to the foundational and aspirational position of Islamic economics is based on the notion that “the revealed word of God in the Qur’an itself embodies rational economic principles that are quite in line with the modern assumptions of neoclassical economic theory. As a form of universally applicable theory about human beings’ economic behaviour, economic theory necessarily is in accord with and confirms the source of universal knowledge, the Qur’an: homo-Islamicus and homo-economicus are one and the same” [Maurer 2005]. On the contrary, Islamic economics’ reading of the same *Shari’ah* rules emphasize social justice, need fulfilment and redistribution, namely a socio-political reading within a political economy framework.

Despite the mentioned deviance, this paper does not suggest that Islamic banks and financial institutions (IBFs) should be restricted to incorporate the authentic appeal to ethics and social justice. On the contrary, they should be perceived as the second best solution, which is a consequence of the inability to achieve the framework provided by an Islamic economic system. IBF institutions, therefore, should remain to respond to the market in the capacity of commercial banks, as “the current Islamic experience, notwithstanding its limitations, has proved to offer an invaluable service for both consumer and producer needs and it may well remain for this particular purpose” [Tag El-Din 2004].

Accepting the current state of Islamic finance as the second-best solution requires new models of development within the authentic notion of Islamic moral economic system. In other words, the failure of Islamic finance should be moderated. In this new model of development or reorienting “the brand name of Islamic finance [should] emphasize issues of community banking, microfinance, socially responsible investment, and the like” [El-Gamal 2006: xii], namely social banks as experienced in the West. This probably is not something entirely novel; as

the very first experience in Egypt was a social bank. Such an institutional solution, aiming at correcting and moderating the consequences of Islamic finance, will contribute to the development of individual lives by focusing on micro dynamics of society rather than affecting the financial equilibrium. In checking the extent to which social banks complement Islamic banks, it is clear that *maslahah* provides the moral standard for social good, and *Shari'ah* requires justice and benevolence.

In reorienting towards an Islamic economics' system understanding, "the 'Islamic' in 'Islamic finance' should relate to the social and economic ends of financial transactions, rather than the contract mechanics through which financial ends are achieved" [El-Gamal 2006: xiii]. Thus, as Siddiqi (2004) argues a move towards goals and policy rather mechanistic and legal structure of Islamic finance will serve the human well-being much better. Islamic banking, thus, can provide the "new identity based on substantive and ethical religious tenets" [El-Gamal 2006: 191] by responding to the aspirations of Islamic economic system and the realities of developing economies. Consequently, such a reorientation will operationalise the fundamental axioms and principles of Islamic economic system leading to *falah*, namely "prosperity in this world and the hereafter" by achieving *tazkiyah*, which is "concerned with growth towards perfection through purification of attitudes and relationships" [Ahmad 1994: 20].

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Chapter ⑧

An Islamic Approach to
Economics

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Muhammad Nejatullah Siddiqi

Introduction

This paper begins with a brief look at the development of economics through the last two centuries, focusing on the major methodological approaches, although we have something to say about the earlier periods also to set the perspective right. We try to identify the issues which engaged the attention of the masters of the discipline and the problems facing man and society that engaged their attention. We note in this regard the gradual ascendancy of formalism in economic theory and the meaning and purpose of economics gradually yielding ground to tools and techniques of analysis. This would bring us to the second quarter of the twentieth century when economics was again forced to come face to face with reality and a methodological crisis ensued. We shall note the contemporary content of economics and the various methodological approaches before we pass on to the next part of the paper which deals with its major theme: relevance of Islam to our discipline. It is argued that the Islamic tradition in economics has always been free of formalism, focusing on meaning and purpose with a flexible methodology. This suits the multidimensional concern of Divine guidance with man and society. Economics must be open to contributions from other disciplines and both science and art must join hands to realize, in economic affairs, the Islamic vision of good life. Contemporary Islamic economic thought is an extension of this well established tradition. We try to elaborate upon the nature and scope of

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Islamic economics by evolving a framework designed to accommodate its contemporary content and capability of explaining its development through history. This would bring us to the third and the last part of our paper which reviews the progress of Islamic economics in behavioral analysis, policy studies, and system building. This account of the current state of the art, examined in the context of the current state of conventional economic theory and policy, provides an opportunity for making some suggestions on priorities for research in Islamic Economics as a program for the future.

I. History and Method of Economics

A. Early Economic Thought

The thinking man has always paid attention to economic matters: poverty and riches; barter, money and trade, price fluctuations, taxes and interference by the rulers. Sometimes they also pondered over rise and fall of civilizations, accompanied by prosperity and economic backwardness. In doing so, they described as well as prescribed. They were, generally speaking, not bound by any particular method though induction may be regarded as the more popular one. During the periods when large populations were inspired by one of the great religions, namely Hinduism, Buddhism, Judaism, Christianity or Islam, scriptural injunctions and religious law dictated policies or recommended approaches which were interpreted and debated by scholars providing fresh food for thought. This applies even to the devices for circumventing some of the prohibitions like that of interest. But the religious inspiration accounted for much more than that in the evolution of economic thought. It provided a point of reference for well meaning critiques of social institutions, the rulers and the dominant classes of society.

This was the situation, broadly speaking, till Adam Smith and the birth of 'classical' economics. Mercantilism, the strand of thought preceding the classical school, was devoid of the tendency to abstract gen-

eralize or to deduce a priori notions about human behaviour. The Mercantilist writers did not construct imaginary models nor did they strive after discovery of universal laws. They were practical people thinking and writing like participants in a process designed to realize certain ends. It never occurred to them to pose as spectators interested in giving a detached positive analysis of the reality they observed.

B. Classical Economics

Adam Smith's *Wealth of Nations*, published in 1189 AH/1776 AC, has rightly been credited with ushering in a new era in economics. Smith still shared many of the characteristics of the earlier periods, his economics being a part of a system of morality. He was concerned with the ends, the purpose, the ethical values of the society and was not averse to shaping them.¹ But the desire to abstract, generalize and arrive at universal laws had its own demands. He postulated "a logical system of economic relationships based on an underlying law of human nature (analogous to Newton's law of gravity)."² The essence of this law was self-interest, which ensured order in the apparent chaos of the exchange economy appeared to be and also propelled the system towards growth. The individual, as consumer, appeared as the chief actor on the economic scene since his wish was realized by the market mechanism. Any interference from any quarter, especially from the government, was bound to disturb the perfectly harmonious operation of the system which promised to maximize the social good through maximizing the individual good. Thus he 'provided moral defence and a scientific blueprint for the market exchange system.'³ Smith had many a disparaging aside on the traders and the capitalists but the self

1 Piero V. Mini, *Philosophy and Economics: The Origin and Development of Economic Theory*, (The University Press of Florida, Gainesville, 1974), p. 64.

2 Phyllis Dean, *The Evolution of Economic Ideas*, (London and New York, Cambridge University Press, 1978), p. 11.

3 E. Ray Canterbery, *The Making of Economics*, (Belmont, California, Wadsworth Company Inc., 1976), p. 5.

propelling system seemed to him to be too powerful either to admit a need for social coercion to thwart their manoeuvre or to assign them—or to investment as such—as prominent a role in the system as he assigned to the consumers and their demand. The heart of his economics was the theory of value of which he considered labor to be the essence. Applied to capital (goods) this posed a serious problem with which Ricardo, the second architect of the classical economics, was to grapple throughout his life, only to conclude that relative value was affected not only by labor but also by the rate of profit, which had nothing to do with it. “After all, the great question of rent, wages and profits must be explained by the proportions in which the whole produce is divided between landlords, capitalists and laborers and which are not essentially connected with the doctrine of value, he said.”⁴ Ricardo added much to the rigor of economic analysis, carried abstraction to a level higher than that found in Smith and showed a far greater predilection to logical reasoning from a priori axioms and demonstrated the determination of economic variables by economic variables. He had little use for Smith’s deep insights into a reality which was far too complex to admit such rigor and ruthless enough to allow ‘experience’ or ‘observation’ to deter him from the logical conclusions to which his Cartesian methodology led him. But his preoccupation that the ‘laws of distribution’ led the future course of economic theory, in both its Marxian and Marginalist versions, to envision a composite theory of value and distribution which was henceforth to form the core of economics for more than a century.

But before we pass on to Marx or the Marginalists, a brief mention is due to the Historical School which originated in Germany. Though it failed to change the course of mainstream economics, it did serve as a caution against sweeping generalization and abstract laws and concepts of the classical economics.

4 From a letter of David Ricardo to J. R. McCulloch, quoted by Piero V. Mini, *op. cit.*, p. 95.

C. Marxism

We do not propose to devote much space to Marx either, not because we deny him the place he has in the history of modern thought in general and of economic thought in particular, but only because time and space force us to economize and concentrate on mainstream economics which developed through the Marginalists into neoclassicism till we reach the age dominated by Keynes. Suffice it to note that the economics of Karl Marx was based on an epistemology different from the Cartesian theory of knowledge and being which inspired the classicists. He was inspired by Hegel, but he proceeded by ‘turning Hegel right side up again’⁵ ‘Marx’s theory of knowledge is empirical and historical from beginning to end’⁶ and his economics closely follows his philosophy of history. But despite its roots in the world of matter his philosophy deals very much in concepts and abstractions, sharing the heritage of the classicists and often being counted as one among them. Nevertheless, his was a totally different paradigm being “focused on the failure of orthodox political economy to prescribe for a desirable distribution of wealth.”⁷ This is the one thing that stands out from the tough and rough texts that Marx and his followers contributed to economics and the feature which still continues to attract many adherents to his system, adherents who may share neither his epistemology nor his philosophy of history.

To note another significant departure: Whereas in the classical scheme, the ideal obtained of necessity, only if the world was left uncontaminated by human interference, but for Marx the ideal must clearly be recognized and fought for. ‘This activism distinguished Marx from Hegel as well as from orthodox economists’⁸ and reinforces the capacity of his system to attract socially concerned citizens.

5 Piero V. Mini, *op. cit.*, p. 174.

6 *Ibid.*, p. 177.

7 Phyllis Dean, *op. cit.*, p. 16.

8 Piero V. Mini, *op. cit.*, p. 161.

D. Marginalism

The Marginalist revolution in economics related to the formal aspect of the analysis and not to any new vision of solving man's economic problems. All objects of desire were reduced to a common denominator, utility, which allowed for increase or decrease in infinitesimally small amounts to permit the application of differential calculus. Consumption goods were, of course, available only in units of a given size and value but the demands of the method were supreme, hence the assumption of perfect divisibility. Later the same method was applied to factors of production whose employment we assumed capable of being increased or decreased in small amounts and substitutable one for other, on the margin. The rational consumer had all the knowledge he required for a choice among the myriad options so as to equate utility on the margin and, thence, maximize it. The same applied to the producer who substituted one factor for another till the marginal productivities were equal all along the line. All the real world hurdles of indivisibility, heterogeneity, rigidity in production functions and basic qualitative differences between various units of labor, and, between labor and capital, etc., were brushed aside to perfect a technique which afforded the rational maximizer unhindered operation in a perfectly competitive world where all concerned had all the knowledge. The results were wonderful indeed: Maximum satisfaction to the consumers, maximum profits for the producers, optimum allocation of social resources with regards to distribution, the system ensured for each, a reward equal for his contribution to the joint product, factor prices being equal to marginal productivities.

More than half a century following J. S. Mill (1232-1291 / 1816-1873)- whose Principles of Political Economy was the last of the classical contributions which still had deep roots in the complex reality that was the economy of man-was required to achieve the perfection of this methodology. Jevons, Menger, Wieser, Walras, Bhoem Bawerk and Clark were thus able to dethrone the cost of production theory and

enthroned the subjective theory of value and distribution. Henceforth it was clear, in the words of Wieser that 'The theory takes its point of departure from within, from the minds of the economic man.'⁹ What mattered was the method. All that defied this method was simply abstracted away. Since the system itself ensured perfection, there was simply no room for policy. The only policy prescription that could emerge was to let things have their way unhindered by any interference.

E. Neoclassical Economics

Reviving the Smithian style of frequent references to social reality and reliance on analogies where deduction might fail, Alfred Marshall (1258-1342 AH / 842-1924 AC) assimilated Marginalism into the classical framework, reinterpreted the latter where necessary, and reinforced the theory of value and distribution by introducing the famous cross of demand and supply curves and analyzing in detail the various types of equilibria. The neo-classical school in economics symbolized the ultimate triumph of free enterprise Capitalism against its socialist detractors. The triumph of method over meaning, of means over purpose and of formal analysis over the content of what was being analyzed was now complete. The very debate on positive versus normative nature of economics indicates this triumph. Such a controversy did not arise a century earlier when analysis was a means to increase man's ability to manage his economy, not an end in itself. For this is what positive economics amounted to; its only social relevance was its ability to assure that what is, also ought to be. The analytical insights the neo-classical economics had to offer related to an imaginary world of perfect competition and perfect knowledge in which marginal techniques of analysis demonstrated maximization of utility and output, and the solution of the central economic problem as conceived by it, i.e., allocation of scarce resources. Neither time nor space disturbed this analysis, not to speak of the variety in culture and tradition and other features

⁹ Quoted by Piero V. Mini, op. cit., p. 105

distinguishing man from man, society from society, region from region and one historical epoch from another. All these were irrelevant for the universal categories with which the system dealt.

One should not conclude that economists did not talk about anything other than the theory of value and distribution. They did discuss money but only as a numeraire, (because the marginal calculus could deal only with numbers not with speculation and expectation). International trade was taken care of by the assumption of perfect mobility and the real world complexities were confronted with only one option: free trade growth and development were concepts foreign to a system which envisioned maximization of production with optimum allocation of resources and which, having abstracted away time, as well as uncertainty, could not admit technological change in any real sense. Public finance could hardly deserve any notice in a regime of *laissez faire*. Labor and industrial relations could deal only with the pointlessness of any resort to unionism. What else is left?

Marshall's Principles was the standard text in economics even beyond the first quarter of the twentieth century. But already new and disturbing thoughts were surfacing. Schumpeter's characterization of the entrepreneur and Knight's insights into the all-pervading uncertainty, hardly fit into the neo-classical wonder world. Flaws into the neo-classical theory of value (and distribution) appeared as the perfectly competitive equilibrium and a remainderless distribution of product were shown to depend on the assumption of constant returns to scale. The work of Piero Sraffa followed by those of Joan Robinson and Chamberlin shattered the harmonious edifice so diligently constructed over the last century. Goods were heterogeneous and indivisible, mobility imperfect, numbers not necessarily large, some prices were sticky, supplier could manipulate demand through advertisement and, above all, knowledge was always deficient. As a result of these fresh insights the belief in the automatism of the economic process was yielding to a recognition for the need to control this process in varying

degrees. It was not however, the academia which forced this realization upon the economists, but the rude reality intruding upon their peace in the form of the Great Depression in 1929 (1337-8 AH). 'The masses of the unemployed and the idle productive facilities, during the depression, made many economists realize that major economic problems had been excluded from orthodox economic theory and that their micro-instruments of "the logic of choice" were completely inadequate to tackle the problems society then faced,'¹⁰ to put it rather mildly.

F. Keynes' Theory

Keynes' General Theory (1355 / 1936) offered an entirely new kit of tools and broke away from the traditions of the Marginalist analysis by employing such categories as aggregate demand, aggregate supply, savings, investment and volume of employment and national income. He discarded the assumption of perfect knowledge and certainty by pointing to the ignorance that pervaded decision making and emphasized the veritable nature of the expectations of which investment was based. He denied the causal nexus between interest and savings, and emphasized the rigidity of wage rates. He regarded money to be much more than a mere numeraire by making liquidity preference a crucial factor in his analysis. He did not have much use for the classical fascination with equilibrium either. Thus the whole apparatus of neo-classical analysis was, if not declared useless, relegated to the position of being specific to certain uses and supplemented, if not entirely replaced, by a whole set of new ones. More important than these formal changes was, however, the reference to social reality which provided the justification for doing so and served as a grim reminder to the fact that, after all, economics had a purpose.

10 Sachs (ed), *Main Trends in Economics*, (London, George Allen and Unwin), p. 18. This point has been stressed by many historians of economic thought. See amongst them Sydney Weintraub, *Modern Economic Thought*, (Basil Blackwell, Oxford, 1977), p. 34.

Whereas the classicists were convinced they understood human nature, Keynes hardly pretended he did. Whereas they confidently proceeded to deduce everything else from what they thought they knew, Keynes' analysis rested on facts as he observed them. And as all that needs be known cannot be, his conclusions are often in terms of 'mays' rather than the 'musts' his predecessor's methodology yielded. Unlike the Cartesian roots of the classical methodology, Keynes' method had affinity with Existentialism. As a matter of fact it is hard to ascribe a definite methodology to Keynes. He was pragmatic, making use of deduction sometimes but mostly being guided by empirical truths and a sense of what was desirable. He looked forward to proper management of man's economic affairs, the efforts to understand and analyze were a means to this end. Many macroeconomic categories and some macroeconomic analysis can be traced back to the classical economists, but was no macroeconomic policy. Once economic policy came to the fore, the social institution primarily responsible for implementing any policy, i.e., the State, became one of the chief actors on the economic scene. Indeed one of the greatest contributions of Keynes was bringing home the realization that the Market could not always be relied upon and recourse to State action was a constant feature of economic life even in a free enterprise system.

G. The Contemporary Scene

Economics was never the same after Keynes, although neo-classicism did reassert itself by reinterpreting Keynes and introducing variables into his 'model', which his interpreters never imagined he would have deliberately left out. Time and space do not permit us, however, to trace these developments further. Nothing has happened since Keynes which could compare in significance with the advent of classicism, the rise of Marginalism, the Marxian critique and the Neo-classical synthesis. We will turn now for a brief look at the present state of the art. Three distinct stands can be noted:

(1) Mainstream economics which assimilated Keynesian contributions into neo-classicism by adding macroeconomic theory, including macroeconomic theories of distribution, to economics, and by allowing macroeconomics to dominate policy studies, but holding on to the microeconomic theory of value and distribution centred around rational choice, demand and supply, competition of various types and the equilibria and optima resulting from the market process.

(2) Revival of the historical and institutional or, to put them together, as an evolutionary methodology. It advocates a holistic approach and openness to ideas and methods from other disciplines such as sociology and political science. Instead of merely focusing on 'what is', evolutionists ask 'how' did the economy get there and 'where' it is leading us. Galbraith has drawn attention to a number of formative factors conventional economics fails to consider, 'power' being the most prominent among them. The postwar period witnessed a great spurt in literature on growth and development, analyzing the causes of under-development and exploring possible strategies of development. This brought historical and sociological considerations to the fore and exposed the limitations and weaknesses of abstract economic laws. Myrdal's *Asian Drama* is one of the best examples of this trend. Development economics has strengthened the case for mechanisms other than the market to get things done. The state has to play a crucial role in this process.

(3) The Marxist critique of capitalism also took a more positive shape in writings of authors like Baran and Sweezy. Armed with new concepts like that of 'potential

surplus' they pointed out the costs that growth through free enterprise capitalism entailed, thus joining hands with Veblen who had earlier exposed the predatory nature of competition. The Marxists did not show much of a success, however, in constructing a theory of rational organization of productive forces in a socialist society, not to speak of a distinct theory of economic behavior relevant to a socialist society. An important by-product of their efforts was, however, the almost universal acceptance for the realistic view that market and plan were complementary and economic analysis defied a dogmatic approach.

The radical economists are also important as far as their critique of neoclassical economics is concerned, but thus far they failed to evolve a viable alternative. Mainstream economics' concentration on small marginal changes and shifts within a capitalist system prevented it from a meaningful analysis of production and distribution which often required consideration of large qualitative changes. It also failed to take into account the actual socioeconomic determinants of productivity and excluded important social and political variables from its analysis. It had no method to deal with the negative costs outside the market system such as pollution and depletion of resources. These and numerous other criticisms are impressive enough to shake one's faith in the received doctrines and methods, but the question is, where do we go from here?

Though our review has been critical, two centuries of economic theorizing did add something to man's insight into his economic life and his ability to manage it for good or bad. One can lose sight of the complex reality only to his peril, but it does help to be able to grasp certain uniformities and long term trends which can be discussed despite the complex variety and vicissitudes. The supply-demand analysis, the kingpin of classical-neo-classical analysis is one such example. Focusing on the margin to trace the consequences of changes in economic variables is a useful technique in itself, only if one learns to discard it when the changes are out of the ordinary. The concept of equilibrium also helps

understanding provided one does not attach any ethical significance to it and remember the 'other things' assumed to be given. Many other examples can be cited, especially when the contemporary, often moderate and more qualified, versions of economic doctrines are considered.

We have already noted that one of the key drawbacks of the market is that it 'does not provide within itself any defensible income distribution.'¹¹ "The integration of distribution as an explanatory variable in the theoretical framework of economics has to be accomplished on both (a) positive analytical and (b) normative grounds"¹² Since "the organizing principles of economic system guided by exchange values are incompatible with the requirements of the ecological system and the satisfaction of basic human needs,"¹³ a broader approach to economic problems is called for. This led Kapp to observe that "The new task of economics would be to elucidate the manner in which collectively determined social goals and objectives could be attained in the most effective and socially least costly manner."¹⁴ "Collective determination of social goals" raises, however, an epistemological problem. The contention that the market translates individual preferences into social goals has been demonstrated to be untenable. That the democratic process can do so still begs the question whether individuals always know what to prefer. Furthermore choice involves both preferences and opportunities¹⁵; how to broaden and equalize the opportunities for every one brings the whole issue of social goals back.

Economics in its Western tradition never considered the possibility of referring to some source higher than human preferences for arriving at social goals. Ail schools of economics accepted self-interest and

11 Kenneth I Arrow, *The Limits of Organisation*, (New York W. W. Norton and Co., 1974), p. 22.

12 Kurt Dopfer (editor), *The Economics of the Future: Towards a New Paradigm*, (Westview Press, Boulder, Colorado, 1976), p. 25.

13 K. William Kapp, *The Open System Character of the Economy and its Implications* in Kurt Dopfer, op. cit., p. 95.

14 K. William Kapp, op. cit., p. 102.

15 K. E. Boulding, *Economics As a Science*, (McGraw Hill, 1970), p. 124.

pursuit of material progress as the norm despite weak efforts to discuss altruistic behavior and quality of life that involved non-material dimensions. That self-interest and pursuit of material progress alone are not in harmony with the human situation, is a realization calling for exploring the possibilities of changing the current attitudes which are largely the creation of Western sensate culture in which economics has been a major contributor.

To sum up, economics matured as an independent discipline in the West in a cultural milieu which idolized material prosperity and accepted self-interest as the normal human motivation. It extolled individualism and disfavored state intervention in economic affairs. Though the need of some state action is now admitted, attention is still focused on the theory of rational choice and the market is regarded as the main mechanism for translating individual preferences into the how or why of which economics, but does not enquire into social solutions of production, distribution and consumption. Mathematical techniques are employed to study functional relation between macro and micro economic variables. There is a strong bias against any variables which cannot be handled mathematically. Non-economic factors are generally excluded from analysis. Behavioral laws and functional relations should, in the context of minimization of costs or maximization of returns, constitute the core of economic theory. This core is surrounded by studies relating to Monetary and Fiscal Policy, Distribution, Growth and Development, Labor and Organization, International economic relations, etc., which admit of ends and policy options. Using the concepts and tools perfected in theoretical analysis these studies also admit of control and planning situations and tend to incorporate sociological and historical material. Most of the differences in their approach to current problems between mainstream economics in its conservative (Friedmanian) and liberal (Samuelsonian) traditions on the one hand and the Radical and Marxist economics on the other, relate to these areas. They do not disagree on such basic assumptions as the primacy of self-interest or supremacy of material progress, or the capacity of man to know what is good for himself.

II. Nature and Content of Islamic Economics

To be meaningful and relevant, economics must explicitly recognize its purpose. It is man's concern with survival, hence the primacy of need fulfilment, which prompts him to understand nature and society. Man is a social being and society requires a just order. Justice had always been the major concern of social thinkers, especially those morally inspired. Then come the concerns for efficient use of resources and growth with a promise of convenience, comfort and dignity which nature can well afford. These ends are to be realized within the framework of freedom which is the very essence of being human. Once the moral purpose of economics is recognized formal techniques of analysis would cease to be ends in themselves determining content of economics to the exclusion of what a method cannot handle even though its consideration may be basic for the overall purpose. To some extent the current methodological crisis in economics is a product of this realization of the primacy of ends over means of analysis.

A. The Islamic Tradition in Economics

Economic thought in its Islamic tradition has always been inspired by moral purpose. This followed from clear Islamic injunctions laying down social goals and individual norms of conduct relevant to man's economic life. The Qur'an itself outlined a definite framework for the organization of man's economic life which could and did provide a distinctive paradigm for Islamic economics.¹⁶ To note its salient features: The world of nature is there for man to make a living out of it, promising sufficiency for all human beings. Man has to ensure this through his efforts for which he has freedom of ownership and enterprise. Justice must, however, be ensured, if necessary through law. Cooperation and benevolence rather than self-centeredness and avarice should be the

¹⁶ For references on this point and what follows the reader may refer to the author's *Muslim Economic Thinking: A Survey of Contemporary Literature*, (chapters one and two and the relevant items in the bibliography appended to the same volume. The Islamic Foundation, Leicester, 1981).

norm for men in economic affairs. Allah (SWT), being its real owner, property has to be handled as a trust and all economic activity conducted in the framework of trusteeship. Poverty is an empirical reality, hence the rich must surrender a part of what they possessed to the have-nots. Trade is lawful but *riba* interest is prohibited. Waste is sinful and it is imperative to economize and be sufficient. Worldly wealth should be treated as a means to good normal life leading to eternal bliss rather than as an end in itself. The Prophet (SAAS) reinforced this approach with his elaborations. There is a clear emphasis on a cooperative attitude, the motto being: “utilize the resources given by Allah, including your own abilities, to live and help others live a well provisioned life conducive to moral excellence.” It was this motto which inspired the rightly guided caliphs in their management of the economy, the jurists in their working out the details of the *Shari’ah* relating to economic affairs and the social thinkers when they surveyed economies, and made policy recommendations. Thus we find AbuYusuf¹⁷ (123-182 AH / 731-798 AC) emphasized need fulfilment and justice and reminded the ruler of his responsibilities in this regard. He argued in favor of efficient management and elimination of waste. Individual freedom was not to be encroached upon unless inevitable and the social authority should arrange for growth and development. He derived his ends from the Qur’an and the *Sunnah* and did not hesitate to refer to the generally recognized good (*ma’ruj*) for complementing the same. His method was flexible, resorting to deductions when needed and inferring from facts of life frequently. He analyzed with a purpose, but was always faithful to facts. In making policy recommendations he frequently referred to the ultimate goals mentioned above: need fulfilment, justice, efficiency, growth and freedom. This is brought out very well by his discussions on the economic responsibilities of the ruler and on the tax system.

17 For references on AbuYusuf see the bibliography mentioned above and the author’s forthcoming paper on Recent Writings on the History of Economic Thought in Islam, to be published by the International Centre for Research in Islamic Economics, Jeddah. The best reference is, however, AbuYusuf’s *Kitab al Kharaj* now available in English, translated by Abid Ahmad Ali and published by the Islamic Book Centre, Lahore, in 1979.

What applies to AbuYusuf applies to economic thinking in Islam in general. This is not to deny variety in emphasis and scope of the economic thinking of AbuYusuf and other great scholars like Abu’ubayd, Ibn Khaldun, Ibn Taymiyyah, al Ghazzali, al Tusi and Shah Waliullah of Delhi. This, however, is not the time and place to discuss these distinctive features.¹⁸ What concerns here are the common elements shared by every Islamic thinker noted above. All these writers analyzed the existing economic reality with reference to the social goals and norms of individual behavior they derived from *Shari’ah* and proceeded to make policy recommendations designed to transform the existing reality into what they considered to be Islamic ends and values. In doing so they were also influenced by the social and political conditions of their times and their sense of what was within the range of possibilities. They had a practical approach to the problems though some of them, like Ibn Khaldun and Shah Waliullah, did strive at valid generalizations valid far beyond their time and place. The jurists among them also tried to deduce from particular traditions, rules and laws of general validity. But we do not propose to go into the details of the methods followed by various scholars. What we wish to note is that our scholars had an open mind as far as methodology was concerned. Their theory of knowledge told them that only Allah (SWT) had all the knowledge and that man’s knowledge was always deficient, even with respect to what concerned him directly. Just as human knowledge was limited, so was reason deficient to decide what was good. Man was in need of *hidayah* (guidance) from Allah (SWT) which was duly provided through the Prophets (AS) and the Books revealed to them. Divine guidance was therefore the starting point of all social thinking and economics was no exceptions. We first enquire of what is desired by the *Shari’ah* and what rules are already prescribed for its realization. With reference to the actual economic problems facing man and soci-

18 This has been attempted in the paper on Recent Writings on the History of Economic Thought in Islam mentioned above.

ety not directly covered by *Shari'ah*, we try to infer the appropriate rule by analogy wherever possible and by reasoning in the light of the public good (*maslahah*) where necessary. In order to make laws for society, or prescribe good behavior to the individual or recommend a policy to the ruler, one has to analyze the reality, unburdened by any notions that are not derived from the Qur'an and the *Sunnah*.

B. Three Components of Islamic Economics

It is possible to identify three distinct components in Islamic economics.

First, it requires an enquiry into the ends and values cherished by Islam which are relevant to economics. It involves goals of social policy as well as rules of conduct and norms of behavior for the individuals. In terms of old Islamic categorization this component of Islamic economics belongs to the *Ulum al Shari'ah* or *Naql* (tradition). But reason has a vital role to play at two levels. It is involved in analogical reasoning or *qiyas* which is a recognized method of translating the precepts of Qur'an and *Sunnah* into rules and policies applicable to situations not directly covered by these precepts. Second, reason is called upon to interpret the *maslahah* (public good) and what is *hasan* (good), categories to which frequent reference is made in the Qur'an, in situations where analogical reasoning does not help and *ijtihad* (independent exercise of judgement) is inevitable.

This is an area on which expertise in *Shari'ah* studies and economics must converge. The case for the former is obvious, the latter is required for indicating the relevance of any particular precept for economic affairs. It is the economist—one who specializes in the knowledge of the economic problems and processes—who can discern the relevance of particular *Shari'ah* rules or its general precepts for real life economic problems. Whether the two expertise are combined in the same person or persons having expertise in *Shari'ah* or economics join together is a matter of detail and organization. What is important from the view

point of defining the nature and scope of Islamic economics and its methodology is that this component is an integral part of Islamic economics. Islamic economics begins with an understanding of Divinely ordained ends and values and cannot be conceived without them.

The second component relates to the analysis of human behavior, social relations, processes and institutions which relate to production, distribution and consumption of wealth which fulfil needs, provide comfort and contribute to progress. This is the task positive economics is meant to perform, but as we have seen above, its methodology has limited its scope. Islamic economics is open to a variety of approaches including the historical and the sociological. Islamic economists may make full use of the past contributions in understanding the existing economic reality. They are, however, aware of the fact that modern economics facility assumes Western modes of behavior to have universal validity.¹⁹ As their first object of study is the economic reality obtaining in their own countries they better not start with preconceived notions about human motivation. Even where a particular motivation not in harmony with the Islamic values does exist they do take it as given but go beyond the existing reality to the historical or institutional elements responsible for it. Take for example the degree of risk aversion among depositors in the present society which has become used to interest, as compared to an equity based Islamic system where interest could not exist. While it would be unrealistic to deny the comparatively higher degree of risk aversion in the present society, it would be naive to consider it natural, or universal. The same may apply to the extent to which self interest dominates the behavior of the consumer or the firm, or to liquidity preference and the speculative demand for money. The analysis of what it must take into consideration why it is so, how it came about and in what possible ways it might change under the influence of a different environment, a different value orientation, a different institutional arrangement etc.

¹⁹ Joan Robinson, *Exercises in Economic Analysis*, (London, Macmillan, 1963), p. xvii.

This leads us to the third component of Islamic economics: an enquiry into how to transform what is into what should be. This enquiry may be conducted in two stages. We may first ask the question what would be the results if every economic agent (ignoring the state) behaves as it ought to (which is defined in the first mentioned component of Islamic economics). The state is brought in at the second stage for remedial action and activities supplementing or complementing the market under influence of Islamic values with a view to ensuring the goals defined in the first component discussed above. In other words, the goals set by *Shari'ah* have got to be realized; the strategy is to realize them through Islamically oriented actions in the market as far as possible and let the state do the rest. This again is a distinctive component of Islamic economics, being a necessary complement to its first component. It involves analysis based on a new set of hypotheses as well as policy studies.

Islamic economics is therefore both a science, analyzing its data, and an art, discussing ways of creating a new order. The two can be distinguished from one another conceptually, as we have tried to do in defining the content of Islamic economics above, but the economist cannot always keep them separated. There is in fact no need for doing so as long as one guards against the naivety of projecting into reality what in fact does not exist, his vision of the desirable order, for example. The early masters like Adam Smith, J. S. Mill and even Alfred Marshall always combined the two elements in their writings. Keynes' General Theory is as much essay on how to manage the economy as an analysis of how the economy actually functions.

III. Progress of Islamic Economics

The primary Islamic concern in man's economic life has always related to need fulfillment, justice, efficiency and growth, and freedom in about that order of priority, depending on the circumstances in which a particular thinker wrote on the subject. These goals are squarely

rooted in the Qur'an and the *Sunnah* and provide a framework which accommodates almost every past contribution to the subject. Modern economics has, on the other hand, focused primarily on efficiency and growth, the issues of justice and need fulfillment being forced upon it by economic crises or attacks from radical quarters, to which attacks, the orthodoxy has generally responded by extolling freedom as the overriding concern. These goals never got an integrated treatment by any school of economics. True to its outlook on life and society, and in continuation with its past traditions, contemporary Islamic economics has taken up the three dimensional task of defining the Islamic ends and values, analyzing the existing economic reality and exploring ways and means for transforming the existing into the desirable pattern of things. The above mentioned concern stands out clearly in the literature on Islamic economic system, but that is not what primarily concerns us here. We would rather focus on the contributions of a theoretical nature made by Islamic economists recently. As a comparatively recent survey is already available,²⁰ we will note only the main points without referring to particular authors.

Most of the theoretical work done so far answers the question: How would a particular economic agent behave under the influence of Islamic ends and values, and what would be the resulting order of things? Mostly the analyst proceeds further to discuss the remedial or complementary role of the Islamic state in order to arrive at the desired order of things.

A. Consumer Behaviour

Applied to the consumer the main conclusions have been as follows:

- (1) Abstinance from prohibited items of consumptions (e.g., pork, wine etc., hence no market demand and no resources allocated for their production (ignoring for the sake of simplicity, the non-Muslim consumer's demand).

20 Muhammad Nejatullah Siddiqi, Muslim Economic Thinking, op. cit.

(2) Moderation in consumption resulting in avoidance of waste and fall in the demand for luxury goods. The state is envisaged as ensuring a production mix that prevents resources from being spent on luxury items which the conditions of a particular society may not allow.

(3) Consumer behavior is oriented toward a welfare function which covers the well being in life after death implying a concern for the welfare of others.

(4) The rationality assumption is retained as modified in accordance with (3) above.

(5) Since the market mechanism serves only those who have purchasing power, consumer needs which are not backed by purchasing power, especially when the needs are basic for survival, necessitate social action. This may take anyone or more of the following forms:

- (a) Transfer of purchasing power from the rich to the poor, directly or through the state.
- (b) Subsidizing the production of necessities in order to increase their supply and/or bring down their prices.
- (c) Price control, rationing and other direct means of need fulfilment.

These conclusions relate to the third component of Islamic economic according to our scheme. Contributions relating to the first component; ends and values, abound in the literature. Analysis of consumer behavior as it is, which corresponds to our second component, does not make any significant departure from conventional analysis. As a matter of fact very little attention has been paid to it till now despite the general feeling that conventional analysis leaves out altruistic behavior and influence of custom and tradition.

Regarding the transformation of the existing reality into the Islamically desirable order emphasis is placed on education and inculcation of Islamic values in individuals, voluntary action on part of concerned groups and institutions in the society, and state action by way of information, direction, planning and direct intervention. Further details are lacking due to the neglect of the second component: analysis of existing consumer behavior in Muslim societies.

B. Behavior of the Producer

(1) Profit maximization subject to constraints imposed by the interests of the society (Maslahah al 'Ummah). This may involve other objectives too, such as increasing employment opportunities, keeping down the prices of necessities, increasing the supply of certain goods which have social priority etc.

(2) Cooperation with other producers with a view to achieving social objectives.

Though cooperation is frequently emphasized in the context of Islamically oriented behavior, especially among producers, it is not clear what forms it is expected to take and to what extent the outcome will be different from that obtaining in the competitive model. Cooperation in order to maximize profits would lead to monopoly. This is, therefore, ruled out as monopoly in that sense it unanimously considered to be un-Islamic. It is cooperation in order to achieve some of the other objectives mentioned above that is relevant. Insofar as these objectives are social, their pursuit requires much more information than is normally available to the individual producer. Cooperation for promoting social interest and realizing public good would therefore involve other social institutions especially the state. It may also require a different kind of interaction with the consumers and the laborers.

Case studies on the behavior of Muslim producers (past as well as present) would have helped, but none are available. How to transform

existing behavior into the desirable one is also not discussed in detail. The available material is confined to the first component and the influence of Islamic values on behavior as noted above.

C. The Price Mechanism

It is agreed that the shape of the supply and demand curves as depicted by the conventional analysis is valid, subject to the usual qualifications. But no moral approval can be given to prices so determined unless the market is free from deception, coercion, hoarding, monopoly and similar evils and the distribution of income and wealth is fair. It is noted that the latter condition is not satisfied in any contemporary society. Assuming that both conditions are satisfied the resulting prices are acceptable but not sacrosanct. The social authority may still intervene if doing so is necessary for realizing social goals, but it is preferable to try other means and let price controls be the last resort. This would suit the objectives of freedom and efficiency, exception being made only when it becomes necessary to secure justice and ensure need fulfilment.

Islamic economists emphasize the influence of Islamic values on the functioning of the market and hope to see better results in terms of allocation of resources and need fulfilment. No attempts have been made to support this contention as shown by case studies, even dating from early Islamic history.

D. Distribution

Wages are allowed to be determined by the market, subject to a minimum wage constraint. The same applies to profit and the ratios of profit-sharing (between those who supply money capital and those who employ it in productive enterprise). The same may apply to rent. Unfortunately, distribution is one of the least researched areas in Islamic economics, and this deficiency is very conspicuous concerning the nature and rationale of rent in an Islamic economy. A theory of distribution is especially called for in view of the high priority attaching to jus-

tice and need fulfilment. Islamic economists affirm that the reduction of inequality in the distribution of income and wealth is a policy objective. A macroeconomic theory of distribution applicable to an Islamic society has the potentiality of identifying the possible policy options in this regard. But the subject has been generally discussed in the context of Zakah and the Islamic laws of inheritance. A more comprehensive treatment at the microeconomic and macroeconomic level comprising all the three components of Islamic economics (ends and values, existing reality and market solutions under the influence of Islamic norms of behavior and policy directed at a transition toward the desirable pattern) is very much needed. It is on the basis of such study that a role for the Islamic state, providing a just distribution of income and wealth and in maintaining balance over time, can be envisaged. In the absence of this basic work, opinions vary from 'radical' suggestions on socialization to legalistic approaches aimed at perpetuating the status quo.

E. Theory of Income Determination

The basic Keynesian tools are employed by some writers to discuss income determination in an Islamic economy in which the rate of profit and the ratios of profit-sharing play a crucial role since interest disappears from the scene. Another significant point made recently is the integration of savings and investment decisions in an interest-free economy and the resulting close linkage between the financial and real sectors of the economy. Productive enterprise in an Islamic economy will be financed by equity debt financing playing only a marginal role. The dominant factor determining the behavior of both investors and savers will, therefore, be expectations regarding productivity. It is argued that Zakah will discourage idle savings and encourage investment. Thus productive enterprise will be encouraged due to the replacement of contractual interest obligations by an agreement to share the actual returns. The overall effect, it is argued, will be to increase the volume of investment leading to a higher level of income and employment, other things being equal.

F. Monetary Economics

Replacement of interest by profit-sharing has been shown to have far reaching consequences. Some of the important points are noted below:

(1) Money creation will become investment oriented and will cease to be based on lending as it is now. This applies to high power money created by the central bank as well as to the creation of credit by the commercial banks. This direct linkage makes¹⁷⁴ Islam: Source and Purpose of Knowledge it possible to control the supply of money *pari pasu* with the growth of the economy for more effectively than it is possible in the present system.

(2) Demand for money would be a function of the level of income and expected changes in the productivity of investment as reflected in the rate of profit. It is argued that demand for money will be more stable in an Islamic economy than it is in the regime of interest.

The same applies to such areas as labor, industrial relations and population. Discussion is generally confined to principles while the requirements of the second and third components of Islamic economics are not fulfilled. The same can be said about international economic relations. Even the goals of policy in an international context are not properly discussed. Independent analysis of the existing reality and strategies for Islamic transformation of international economic relations are attempted only with reference to Muslim countries. A more universal framework has yet to be adopted.

It may be noted that the Islamic vision has not prompted equal attention to all dimensions of economic management or all spheres of economic activity. Greater attention has been paid to Islamically oriented behavior of economic agents and functioning of the market mechanism under its influence. The monetary sector has such attention because the abolition of interest is a major Islamic contribution

to economic affairs. The second component, analysis of the existing reality, is essentially very weak. One reason may be non-availability of empirical data relevant for such studies. Most theoretical studies belong to the third component but they suffer from the dearth of material relating to the first component, i.e., derivation of Islamic ends and values specifically related to the various spheres of economic activity. This applies even to monetary economics which has high priority in contemporary Islamic economics. A major reason for this deficiency has been the inability of professional Muslim economists to acquire direct access to Qur'an, *Sunnah*, Fiqh and Islamic history. Contributions from *Shari'ah* scholars generally lack relevance because they are not fully aware of the specific issues relating to various aspects of the modern economy. Proper development of Islamic economics as a discipline or, put differently, a thorough Islamization of economics requires, besides pioneering individual contributions, organized institutional efforts which only the universities and institutes of higher learning can afford. The progress made so far, which has been mostly due to individual efforts, is both relevant and encouraging in view of the present state of economics and the unanswered needs of the society.

Chapter ⑨

Ethics and Economics:
An Islamic Perspective

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Ethics and Economics: An Islamic Perspective

M. Umer Chapra

I. Introduction

All human beings living on this planet wish to ensure their well-being. This is but natural and in conformity with human nature. Accordingly, there seems to be hardly any difference of opinion among all societies around the world that the primary purpose of development is to promote human well-being. There is, however, considerable difference of opinion in the understanding of what constitutes real well-being and the strategy to be employed for realizing it. It is generally agreed that the realization of true human well-being requires the satisfaction of both material and non-material needs of the human personality. This raises the question of whether a rise in income and wealth can be sufficient to satisfy both these needs or whether something else is also needed. While a rise in income and wealth can help satisfy the basic material needs of the human personality,¹ it may not necessarily be able to satisfy all the non-material and spiritual needs. This raises the question of what these non-material and spiritual needs are that a rise in income may not necessarily be able to satisfy.

One of the most important non-material or spiritual needs is mental peace and happiness. While the satisfaction of this need does demand 'adequate' income and wealth, it also requires the fulfillment of

1 Some of the essential material needs are: food, clean water, adequate clothing, comfortable housing with proper sanitation and essential utilities, timely medical care, transport, education, and employment or self-employment opportunities.

some other human aspirations. Among the most important of these other aspirations are justice and human brotherhood, which demand that all individuals be considered as equals and treated with dignity and respect, and that the fruits of development be shared equitably by all, irrespective of their race, colour, age, sex or nationality. Some of the other equally important and generally recognized requirements for sustained well-being are nearness to God, spiritual and moral uplift, security of life and property, individual freedom, proper upbringing of children, family and social solidarity, and minimization of crime, tensions and anomie. Historical experience indicates that the material and non-material needs are both interdependent and reinforce each other. It may not be possible to sustain even the long-term economic development of a society without ensuring the fulfillment of both these needs. This raises the question of how the non-material and spiritual needs may be satisfied if a rise in income and wealth cannot by itself satisfy them.

II. Need For A Proper Worldview

Spiritual and non-material needs may be difficult to satisfy unless the society has a proper worldview. The worldview discusses the nature of existence and tries to answer questions about how the universe came into existence, the meaning and purpose of human life, the ultimate ownership and objective of the limited resources at the disposal of human beings, and the relationship of human beings to each other and to their environment. For example, if the worldview assumes that the universe has come into existence by itself, then human beings are not accountable to anyone and are free to live as they please. Their purpose in life would then be to seek maximum pleasure, irrespective of how it affects others or their environment. The serving of self-interest and the survival of the fittest would then seem to be the most logical norms of behavior. If it is believed that human beings are pawns on the chessboard of history and their life is determined by external forces

over which they have no control, they are, then, not responsible for what goes on around them and need have no qualms about the prevailing inequities.

However, if the worldview is founded on the belief that human beings and what they possess have been created by the Supreme Being and that they are accountable to Him, then they may not consider themselves either absolutely free to behave as they please or helpless pawns on the chessboard of history, unconcerned about how their behavior affects the well-being of others and the direction in which history is moving. They would rather have the conviction that they have a mission to perform. The mission is to ensure the well-being of all. For this purpose, they must use the limited resources and treat each other and their environment in a way that would help fulfill their mission.

III. Religious Worldviews

The difference in the worldviews would not have been significant if the religious worldviews had remained in their pristine purity and continued to dominate human societies. This is because, according to the Qur'an, God has sent His Messengers, who were all human beings, to all societies around the world at different times in history.² A new Messenger came when the message of the previous Messenger was either lost or distorted. Therefore, all Revealed religions have their origin in the teachings of one or the other of God's Messengers. This is the primary reason why there is a continuity and similarity in the worldviews and value systems of all Revealed religions to the extent to which the original message did not get lost or distorted. They all emphasize belief in God

² The Qur'an does not mention the names of all Messengers of God. It rather mentions the names of only those who came in the Middle East. The names of others were not familiar to the people in this area and the Qur'an is not intended to be an encyclopedia. It, however, states clearly that: "And indeed We have sent Our Messengers to every community in every period" (al-Qur'an, 16:36). "And We sent Messengers before you, some of them We have mentioned to you, while some others We have not mentioned" (al-Qur'an, 40:78).

and the Hereafter, and provide certain rules of behavior (moral values) for ordering human relations. The basic worldview of all Revealed religions in their pristine form is, therefore, almost the same even though there are differences in details as a result of changes in circumstances over space and time. The Qur'an clearly states that: "Nothing has been said to you [Muhammad], which was not said to the Messengers before you" (Al-Qur'an, 41:43). This is what adds a dimension of tolerance to the Islamic faith. The Qur'an says: "Do not argue with the People of the Book except in the best manner unless it be those of them who have been unjust. Tell them: We believe in what has been revealed to us and what was revealed to you. Our God and your God is One and we submit ourselves before Him". (29:46-47). The Qur'an also instructs Muslim not to revile those other than Allah to whom they pray because they will revile Allah out of ignorance and spite. This is because the beliefs and deeds of every people seem attractive to them (6:108).

IV. The Enlightenment Movement and Its Impact

However, the Enlightenment Movement of the 17th and 18th centuries has influenced almost all societies around the world in different degrees by its secular and materialist worldview. Although initially it had the laudable objective of freeing mankind from the despotism of the Church and the state, it gradually went to the extreme and ended up declaring all the Revealed truths of religion as "simply figments of imagination, non-existent, indeed at the bottom priestly inventions designed to keep men ignorant of the ways of Reason and Nature"³. It denied any role for Revelation in the management of human affairs and placed great emphasis on the ability and power of reason to distinguish right from wrong and to manage all aspects of human life in a manner that would ensure human well-being. This removed the sanctity that religion assigns to moral values. These, therefore, became relative and got shoved to the private domain of individuals.

3 Brinton, 1967, p. 520.

However, moral values are not concerned with only the private life of individuals. They cover all aspects of human life, including the social, the economic, the political and the international and affect everyone's well-being. Their sphere of relevance cannot, therefore, be confined to the personal preferences of individuals. The loss of sanctity paved the way for the introduction of philosophies of social Darwinism, materialism, determinism and existentialism in economics and other social sciences and deprived society of the harmony and consistency with which the moral dimension combines all aspects of human life into an integrated whole and, thereby, ensures comprehensive well-being.

Social Darwinism injected the principle of survival of the fittest in place of human brotherhood into the spectrum of human relationships. This inadvertently provided tacit justification for the concept of 'might is right' in the ordering of human relations and of holding the poor and the downtrodden as totally responsible for their own poverty and misery. Materialism made wealth maximization, bodily gratification and sensual pleasures the objective of human endeavor. This served to provide the foundation for today's consumer culture which has turned continually increasing consumption into a virtue and led to the multiplication of human wants beyond the ability of available resources to satisfy. Determinism implied that human beings had little control over their own behavior. Their behavior was, instead, assumed to be determined by mechanical and automatic responses to external stimuli as in animals (Watson and Skinner), by unconscious mental states beyond the individual's conscious control (Freud), and by social and economic conflict (Marx). Determinism, thus, did not merely negate the distinctiveness and complexity of the human self, it also led, in step with social Darwinism, to the repudiation of moral responsibility for individual behavior. This unrealistic stance of determinism tilted the pendulum towards the other extreme of existentialism, which declared human beings to be absolutely free.⁴ There can be no justifica-

4 Sartre, 1957, pp. 38, 439 and 615. See also Stevenson, 1974 and Manser, 1966.

tion for having agreed values and for imposing restrictions on individual freedom to create harmony between individual and social interest not automatically brought about by market forces. Such a concept of absolute freedom cannot but lead to the concept of value neutrality, sensual pleasures, and *laissez faire*.

If these ideas had penetrated fully into the human psyche, they would have brought great misery to human societies. Fortunately, there have been protests against the Enlightenment worldview by a number of scholars like Sismondi (1773-1842), Carlyle (1795-1881), Ruskin (1819-1900), Hobson (1858-1940), Tawney (1880-1962), Schumacher (1891-1971), and Boulding (1910-93) during the entire history of conventional economics.⁵ The Enlightenment movement could not, therefore, succeed in totally eroding the humanitarian values of the Christian worldview even though it did succeed in undermining the authority of the Church. Some scholars even emphasized the need for a new paradigm.⁶

Secularism succeeded, however, in driving a wedge between the moral and the material and in segregating these into two separate unrelated compartments. This had two very adverse effects on human society. First, it removed the religious and moral education from schools. In the beginning this did not have a significant damaging effect because the families and the churches continued to provide the needed moral education. However, now that the families are rapidly disintegrating and the churches have been almost deserted, moral education fails to be imparted. The moral quality of the new generation is, therefore, rapidly declining, particularly when the TV and the worldwide Web are constantly promoting consumerism along with an overdose of pornography and violence. Secondly, it also severed the close link between reason and revelation, which were essentially interdependent and absolutely necessary for reinforcing each other in contributing to human well-being. Without guidance from revelation, primary reliance

⁵ See Hausman and McPherson, 1993; Rodney Wilson, 1997.

⁶ See, for example, Dupfer, 1976; Balogh, 1982; Bell and Kristol, 1981.

on reason can lead to more and more ways of deceiving and exploiting people and creating weapons of mass destruction. Similarly, without an important role for reason, religious values may be misinterpreted and misused and make it difficult to realize the humanitarian goals of religion. The severing of the link between reason and revelation gave rise in economics and other social sciences a number of concepts, which were in conflict with the humanitarian goals of the religious worldview.⁷

V. Individual Reform, Social Solidarity And General Well-Being

The undeniable fact, however, is that, if human beings are the end as well as the means of development, their reform and well-being need to be given the utmost importance. It is the religious worldview, which carries the potential of enabling the reform of the human self in a way that would ensure the fulfillment of all the spiritual as well as material needs of the human personality specified above. This it does by injecting a meaning and purpose into life, providing the right direction to all human effort, and transforming individuals into better human beings through a change in their behavior, life-style, tastes, preferences, and attitude towards themselves as well as their Creator, other human beings, resources at their disposal, and the environment. This can help in promoting not only individual reform but also social solidarity and a more efficient and equitable use of resources needed for the well-being of all.

Toynbee and the Durants have, therefore, rightly concluded after their extensive study of history, that moral uplift and social solidarity are not possible without the moral sanction that religions provide. Toynbee asserts that “religions tend to quicken rather than destroy the sense of social obligation in their votaries” and that “the brotherhood of man presupposes the fatherhood of God – a truth which involves the converse proposition that, if the divine father of the human family

⁷ For a discussion of these concepts, see Chapra 2000, pp. 19-28.

is left out of the reckoning, there is no possibility of forging any alternative bond of purely human texture which will avail by itself to hold mankind together.”⁸ Will and Ariel Durant have also observed forcefully in their valuable book, *The Lessons of History*, that “there is no significant example in history, before our time, of the society successfully maintaining moral life without the aid of religion.”⁹

VI. Rules Of Behaviour And Motivating System

This raises the question of why are moral uplift and social solidarity not possible without the aid of faith. This is because two of the foremost requisites for moral uplift are: first, the existence of values or rules of behavior which command such a wide and unconditional acceptance that they become categorical imperatives; and secondly, the observance of these rules by everyone with a sense of moral obligation. This leads us to another question of how to arrive at rules which are unconditionally accepted and observed by everyone. Is it possible to arrive at such rules by means of ‘social contract’ as suggested by some secular modern philosophers and political scientists? The answer may be yes only if all participants in the discussion are socially, economically and intellectually equal so that everyone has an equal weight in the formulation of the desired rules. Since such equality is not only non-existent but also almost impossible to create in the real world, the rich and powerful will tend to dominate the decision-making process and lead to the formulation of rules that serve their own vested interests. This would frustrate the universal acceptance and observance of these rules.

It is, therefore, necessary that an omniscient and benevolent outsider be assigned this task - an outsider who is impartial, who knows the strengths and weaknesses of all human beings, who treats them all as equals, who cares for the well-being of all without any discrimina-

8 Toynbee, Somervell's abridgement, 1958, Vol.2, p.380, and Vol.1, pp. 495-96.

9 Will and Ariel Durant, 1968, p. 51.

tion, and who is capable of analyzing not only short-term but also the long-term effects of the rules given by him. Who could be more qualified to take this position than the Creator of this Universe and human beings Himself? The Creator has done this job. There is no reason to assume that the Merciful and Beneficent Creator would create human beings and leave them to grope in the dark. Bernard Williams is, therefore, right in observing that “social morality is not an invention of philosophers.”¹⁰

However, even when we have the values that command wide and unconditional acceptance, there arises the question of how to ensure the observance of these values by everyone. Since these values try to create a balance between self-interest and social interest, living up to these values requires a certain degree of sacrifice of self-interest on the part of all individuals. Secularism which preaches liberalism and individualism and provides sanctity to the serving of primarily self-interest, has no mechanism to motivate individuals to make this sacrifice. This raises the question of how does faith help motivate an individual to live up to these values and to fulfill all his/her social, economic and political obligations that involve a sacrifice of self-interest. Faith tries to accomplish this by giving self-interest a long-term perspective – stretching it beyond the span of this world, which is finite, to the Hereafter, which is eternal. An individual's self-interest may be served in this world by being selfish and not fulfilling his obligations towards others. His interest in the Hereafter cannot, however, be served except by fulfilling all these obligations.

It is this longer-term perspective of self-interest, along with the individual's accountability before the Supreme Being and the reward and punishment in the Hereafter, which has the potential of motivating individuals and groups to faithfully fulfill their obligations even when this tends to hurt their short-term self-interest. It would be highly irrational for a person to sacrifice his long-term eternal well-being for

10 Williams, 1985, p. 174.

the sake of a relatively short-term this-worldly benefit. This dimension of self-interest has been ignored by Conventional Economics after being cast in its secularist Enlightenment worldview. It has, therefore, no mechanism to motivate individuals to sacrifice for the well-being of others. Francis Fukuyama, who in his earlier book, *The End of History* (1992), declared liberalism to be the final culmination of human achievement,¹¹ turned about face in his later book, *The End of Order* (1997), and declared that “without the transcendental sanctions posed by religion ... modern societies would come apart at the seams”.¹²

VII. Failure To Realize The Well-Being Of All

The other objective of the Enlightenment movement was to rid mankind of state despotism. While this objective was also laudable in itself, it went to the extreme of denying the role of good governance in the realization of human well-being and gave rise to the concepts of *laissez faire* and Say's law. The concept of *laissez faire* stood for government non-intervention in the operation of the market. This, however, raised the question of how order and harmony would be created in the economy, and how social interest would be protected in a *laissez faire* environment where everyone was totally free to do whatever he wishes to serve his/her self-interest. Say's Law helped provide the needed rationale. It applied the law of Newtonian physics to economics and asserted that, just like the universe, the economy will work perfectly if left to itself. Competition would enable market forces to prevent excesses on the part of both individuals and firms and thus create 'order' in the economy and 'harmony' between self-interest and social interest. Any effort on the part of the state to intervene in the self-adjusting market could not but lead to distortion and inefficiency. Production will create its own demand and there will be no overproduction or unemployment. There was no need for imposing any moral or institutional constraints on human behavior.

11 Fukuyama, 1992, p. xi.

12 Fukuyama, 1997, p. 8.

The great merit of *laissez faire* capitalism was that it promoted private ownership of property and recognized the profit motive, and, thus, enabled individuals to benefit from their creativity and entrepreneurship. It was also democratic; by their purchases of goods and services in the market place, individuals cast votes in favor of the production of those goods and services. However, since the contention that this would promote the well-being of all individuals was based on flawed logic, the system was unable to promote the well-being of all.

The reasons for this are not difficult to find. First, since the voting strength of the rich and the poor is grossly unequal, the rich are able to swing the outcome of market forces in their favour. Secondly, since the restraining influence of the moral filter was undermined, materialism took its place. Materialism, however, promoted the consumer culture which persuaded individuals through advertising to purchase a maximum amount of goods and services. Wants, thus, become maximized. The only constraint was individual income. However, even this constraint was weakened by the conventional financial system where banks act as loan pushers and constantly promote living beyond means by both the public and the private sectors. Claims on resources, therefore, multiplied and generated not only inflationary pressures but also a rapid rise in debt and debt-serving burden.

Thirdly, the excessive rise in claims has indirectly hurt the need fulfillment of the poor. This is because the rich are able to buy whatever they wish. Since luxury and conspicuous consumption goods and services constitute a substantial part of their spending, a large proportion of scarce resources gets diverted to the production of these goods and services, leaving inadequate resources for the production of goods and services that are needed to satisfy the basic needs of the poor. All the needs of the poor do not, thus, get satisfied and their well-being suffers. This can give rise to discontent, social tensions, crime and anomie, and hurt the well-being of not only the present generation but also that of future generations.

VIII. The Welfare State

Two events, however, served to wash the ground away completely from under *laissez faire* capitalism, particularly its principle of government non-intervention in the economy. These were the Great Depression of the 1930s and the socialist onslaught. They gave rise to the Keynesian revolution and the welfare state. The Keynesian revolution brought in an important role for the government in the economy, particularly to remove demand deficiency through deficit financing to correct the depression. This led to the end of *laissez-faire* capitalism, as had been forecast even by a number of non-Marxist scholars like Schumpeter and Toynbee. There were nevertheless some economists like Milton Friedman and Friedrich Hayek who continued to support it, though in a somewhat modified form. The circle of such economists, however, widened considerably in the 1980s when high doses of deficit financing around the world for not only removing unemployment during recessions but also promoting high rates of growth generated inflationary pressures along with a significant rise in debt and debt servicing burden. This has, nevertheless, not been able to undermine the role of the state in the economy and the role of 'good governance' has now become universally recognized in the form of the welfare state.

The welfare state is no doubt a welcome development in capitalist countries. It gained momentum after the Great Depression and particularly after the Second World War. Its immediate objective was to mitigate some of the most conspicuous excesses of capitalism and to serve as an acceptable alternative to socialism. Hence it attracted all sections of the population. However, since it was as secularist in its outlook as capitalism, it did not believe in the introduction of any significant change in the worldview of capitalism or the injection of a moral dimension into the management of the economy. It relied primarily on regulation, nationalization of certain key industries, a strong labor movement, and the crucial role of the government in providing welfare services, promoting growth and ensuring full employment. It did

not have any mechanism other than prices to filter out excessive claims on resources. In addition, the only motivating mechanism it has is the serving of self-interest, which may not necessarily be able to ensure social interest.

While a certain degree of regulation is indispensable to ensure competition, maintain order and standards, and safeguard the rights of others, excessive regulation can prove to be a great burden. The absence of moral dimension leads to more and more regulations. Therefore, even though regulation initially received a great deal of support in industrial countries to serve as an alternative to socialism, questions are now being raised against its long-term feasibility, and business interests have joined hands with conservative governments to push for deregulation, which is gaining momentum in many industrial countries. The movement for the nationalization of major industries has also lost momentum because of the general disenchantment with the performance of nationalized industries. The trade union movement which was considered to be a panacea for raising the incomes of labor, improving their working conditions, and providing them with a sense of economic security has now lost momentum as a result of the excesses of labor unions and relatively high rates of unemployment.

Increased welfare role of the government hence became the primary tool of the welfare state. The welfare state has, no doubt, done a valuable job in reducing inequities. It has, however, also led to an exponential growth in public spending and taxation. The ensuing high deficits in spite of high rates of taxation have created a backlash against the welfare state and the calls for rolling it back have gained momentum. In spite of high rates of government spending, rates of growth in many industrial countries have not been high enough to help realize the cherished goal of full employment. Consequently, the dream of an egalitarian society remains far from realization in spite of the great wealth of the welfare states.

IX. A Rise In Social Problems

The tragedy of the secularist philosophy of capitalism was not merely that the unhindered pursuit of self-interest by individuals did not, and could not, serve the interest of all, but that it also led to a number of insoluble social problems. The race for wealth maximization and keeping up with the Joneses has shoved all other requisites for human well-being into the background, including family integrity, proper upbringing of children, and social solidarity. There is a decline in the individuals' ability and willingness to make credible long-term commitments to their spouses, children and parents. It is not possible to keep husband and wife together in a mutually loving relationship if both of them are not willing to sacrifice their self-interest for each other's well-being. Therefore, "long-term marriage combined with child-bearing is no longer a near-universal adult experience."¹³ Consequently, almost every Western country has experienced a massive increase in divorce rates along with a rise in cohabitation rates.¹⁴ This has substantially undermined the family institution, which has historically served as the foundation of human society and civilization. Divorce adversely affects the well being of those who get divorced. "On average, divorced people are worse off – and married people are better off – financially, physically, and emotionally."¹⁵ It has had a more serious effect on women. They get impoverished.¹⁶ The disintegration of the family cannot but ultimately lead to reduced overall well-being along with social breakdown.

High divorce rate also leads to a neglect of the proper upbringing of children and exerts a very bad influence on their moral, psychological and intellectual development.¹⁷ McLanahan and Sandefur find

13 Lundberg and Pollak, 2007, pp. 4 and 23.

14 Fukuyama, 1997, p. 17; Buchanan, 2002, pp.25-49; Stevenson and Wolfers, 2007, pp. 27 and 37.

15 Stevenson and Wolfers, 2007, p. 49.

16 Ibid.

17 See Fukuyama, 1997.

that, on average, children reared with both biological parents do substantially better than those reared in other family structures.¹⁸ This is because children brought up in broken families are unable to get the love and care of both parents. Daly and Wilson have concluded from their research that children were anywhere from ten to over a hundred times more likely to suffer abuse at the hands of substitute rather than natural parents.¹⁹ Consequently, they develop psychic problems which adversely affect their moral and intellectual development and lead to juvenile delinquency. The quality of the future generation is, thus, declining. Any society where the quality of the future generation goes down cannot hope to be able to sustain development and maintain its moral, intellectual, technological and military supremacy in the long-run.

In addition to the rise in family disintegration, there is also a decline in the willingness to get married. The marriage rate is currently at its lowest point in recorded history. Many families form without any intention of begetting children.²⁰

This, combined with excessive resort to birth control, has steeply reduced the birth rate so much so that The London Times went to the extent of foreboding that "Europeans are a vanishing species"²¹ Germany's birthrate is now below what is needed to replace the present population.²² If the present German birthrate is sustained and immigration is zero, Germany's population will fall from 82 million to 38.5 million at the century's end, a drop of 53 per cent.²³ Consequently, the proportion of young people is declining and that of old people is increasing. In addition to creating problems for the pension funds of these countries, this will force them to import labour from other countries to be able to maintain their economic activity at a desired level.²⁴

18 McLanahan and Sandefur, 1994.

19 Daly and Wilson, 1968, p. 63.

20 Stevenson and Wolfers, 2007, p.27.

21 *London Times*, 16 January 2000.

22 Buchman, 2002, p. 14.

23 Buchman, 2002, p.15.

24 Buchanan, 2002.

In short, what secularism has done is to undermine the collective sanction that religion provides to moral values and ensures their unchallenged acceptance as rules of behavior for the proper ordering of social life. The undermining of religion has, therefore, led to the weakening of the crucial role that the moral filter plays in maintaining a healthy balance between self-interest and social interest and all aspects of human society. Consequently, maximization of wealth and want satisfaction has become the primary purpose of human endeavor even though it is not possible to realize real human being primarily through this. This has led to a rise in all the symptoms of anomie, which indicates a lack of inner happiness in the life of individuals. Moral philosophers throughout history as well as a number of modern scholars have rightly questioned the identification of well-being with a rise in income and wealth.²⁵ They have emphasized both the spiritual as well as the material contents of well-being.

Empirical research has also provided a negative answer to the undue emphasis on material ingredients of well-being at the cost of the spiritual. This is because, even though real income has dramatically risen in several countries since World War II, the self-reported subjective well-being of their populations has not only failed to increase, it has in fact declined.²⁶ The reason is that happiness is positively associated with higher income only up to the level where all basic biological needs get fulfilled. Beyond that it remains more or less unchanged unless some other needs, which are considered indispensable for increasing well-being, are also satisfied. Most of these other needs are spiritual and non-material in character and need not necessarily become satisfied as a result of increase in income. Single-minded preoccupation with wealth has in fact hurt the satisfaction of these needs. If the non-material needs are not fulfilled, real well-being will not be realized and the society will ultimately start declining even in economic terms.

25 Hausman and McPherson, 1993, p. 693.

26 Easterlin, 2001, p. 472. See also, Easterlin, 1974 and 1995; Oswald 1997; Blanchflower and Oswald, 2000; Diener and Oishi, 2000; and Kerry, 1999.

X. The Islamic Worldview

As a result of centuries of decline, Muslim countries are at present not in a position to serve as a model for any country. They face many of the same problems that the West faces, some more seriously and some less. This leads us to the question of whether the revival of Islam that is now taking place in Muslim societies can lead to a significant improvement in the future. It is in general the belief of Muslims that it can. In spite of the moral and material decline, Islam continues to be the only reality in the Muslim world that has the charisma to attract the masses, unite them in spite of their great diversity, and motivate them to act righteously. This is because the Islamic worldview is based on a number of concepts that strike at the roots of secularism, value-neutrality, materialism and social Darwinism. It gives primary importance to moral values, human brotherhood, socio-economic justice and family solidarity and does not rely primarily on either the state or the market for realizing its vision. It does not divide life into separate unrelated compartments but rather takes a comprehensive view and relies on the integrated roles of values and institutions, market, families, society, and the state, to ensure the realization of its vision of ensuring socio-economic justice and the well-being of all. It puts great emphasis on social change through reform of the individual and his/her society, without which the market and the state could both perpetuate inequities.

The fundamental Islamic belief is that this universe and everything in it, including human beings, has been created by the One and the Only God. All human beings are His vicegerents. Being the vicegerents of the Creator of this Universe confers on them a great honour and dignity. It makes them all equal in this dignity and honour and does not give anyone superiority over others because of his/her race, sex, nationality, wealth, or power. They belong to the same family of God and are, thus, brothers unto each other.²⁷ Their sojourn in this world is tempo-

27 The Prophet (pbuh) said, "Mankind is the family of God and the most beloved of them before Him is the one who is best to His family" (Narrated on the basis of

rary. Their ultimate destination is the Hereafter where they will be accountable before God. Their well-being in the Hereafter will depend on whether or not they lived in this world, and fulfilled their obligations towards others, in a way that would help ensure the well-being of all.²⁸

One of the things that seriously affects the well-being of all is the way scarce resources are utilized. For an efficient and equitable use of these resources, the Creator and Owner of these resources has provided certain values, rules of behavior or institutions, to all people at different times in history through a chain of His Messengers (who were all human beings), including Abraham, Moses, Jesus and, the last of them, Muhammad, peace and blessings of God be on all of them. This is the reason why, as indicated earlier, there is a continuity and similarity in the value systems of all Revealed religions to the extent to which the Message has not been lost or distorted over the ages. Since all the resources provided by God are a trust, human beings are expected to use them, and to interact with each other, within the framework of the values provided by Him for the purpose of ensuring the well-being of all.

The Messengers did not, however, bring just the values. They also struggled to reform the individuals and the institutions that affect them in the light of the Divine Guidance that they have brought. Socio-economic and political reform is, therefore, the major thrust of the Islamic message. Without such reform, it may not be possible to ensure the well-being of all. To accept what is and not to struggle for the realization of the vision or what ought to be is a vote in favor of the prevailing inequities and of doing nothing to remove them. Such an attitude cannot be justifiable within the Islamic worldview. The mission of human beings is not just to abide themselves by the Islamic values, but also to struggle for the reform of their societies in accordance with these.

Such reform would, it is believed, help promote a balance between individual and social interest and help actualize the *maqasid al-Shari'*

al-Bayhaqi's *Shu'ah al-mn* by al-Tabriz in his *Mishkt*, Vol. 2, p. 613: 4998.

28 For greater detail on the fundamentals of Islamic worldview, see Chapra, *Challenge*, 1992, pp. 201-212.

ah (the goals of the *Shari'ah*), or what may be referred to as the vision of Islam, two of the most important constituents of which are socio-economic justice and the well-being of all God's creatures (including animals, birds and insects).²⁹ Injustice cannot but thwart the realization of true well-being, accentuate tensions and social unrest, discourage individuals from rendering their best, and thus retard development. However, whereas conventional economics assumes the prevalence of self-interested behavior on the part of individuals, Islam does not assume the prevalence of ideal behavior. It believes that, although some people may normally act in an ideal manner, the behavior of most people may tend to be anywhere between the two extremes of selfishness and altruism and, hence, a constant effort (*jihad*) needs to be made on the part of both individuals and society for moral uplift.

Islam, however, rules out the use of force for moral uplift: "There shall be no compulsion in religion" (al-Qur'an, 2:256), and "Say that the Truth has come from your Lord: Whoever wishes may either believe in it or reject it" (al-Qur'an, 18:29).³⁰

It rather lays stress on a number of measures to motivate individuals to do what is right and to abstain from doing what is wrong. One of these is to create conviction in individuals through logical reasoning and friendly dialogue (al-Qur'an, 16:125). Another measure is to create an urge in the individual himself to abide by these values. This urge is expected to come from two sources. One of these is the innate goodness of the human being himself or herself. Within the framework of Islamic worldview, people are good by nature because God has created them in His own image (al-Qur'an, 30:30). The individual does not necessarily always act in his self-interest. He or she also acts in the interest of others and even makes sacrifices for them under a feeling

29 For a brief discussion of the *maqid*, see Chapra, 2008 (forthcoming), pp. 7-9

30 The Qur'an repeats the same message in a number of other places. For example: "Are you going to compel people to believe" (al-Qur'an, 10:99), and "You are not there to force them to believe. Exhort through the Qur'an whoever takes heed of the Warning" (al-Qur'an, 50:45).

of moral obligation. However, since the individual is also free, he may or may not preserve his innate goodness and may act in ways that are against his nature. This will hurt him and his society. Therefore, it is necessary to provide material and spiritual incentives and deterrents to motivate individuals to do their best for their own good as well as that of others and to prevent them from causing harm to others.

Market discipline is an important way of providing incentives and deterrents. However, while it promotes efficiency, it cannot by itself safeguard social interest. This is because competition, which is indispensable for ensuring efficiency, cannot be relied upon totally to safeguard social interest. There are several clandestine ways of restraining competition and using unfair means to enrich oneself. Therefore, governments have an important role to play. A part of their role is to pass and enforce regulations. But regulations may not be possible without having a perception of what is the right thing to do. It is the moral basis of society that serves as the foundation for regulation. Moreover, it may not be realistic to depend primarily on regulations because there are so many different ways of cheating and exploiting others without being caught that it may be difficult for governments to succeed unless there is an inner urge on the part of the people themselves to do what is right, to fulfill their contracts and other commitments faithfully, and not to try to undermine competition or resort to unfair means of earning.

It is, therefore, necessary to inculcate belief in the reward and punishment in the Hereafter. If a person abstains from wrongdoing and also sacrifices his/her self-interest for the sake of others, he/she will improve his/her well-being in the Hereafter. The concept of Hereafter thus gives a long-term perspective to self-interest by extending it beyond the individual's life span in this world. In the last analysis, therefore, it may not be possible to safeguard social interest effectively without the help of all institutions – proper upbringing, preserving the goodness of human nature, moral values, market discipline, effective government role, and belief in accountability in the Hereafter. The use

of all these may help realize human well-being better than reliance on just market discipline or the government.

This shows that the Islamic worldview does not rule out the need for market discipline or good governance for realizing human well-being. However, it introduces three mechanisms into the market system to make it more effective in realizing both efficiency and equity. These mechanisms are filtering, motivation, and socio-economic and political restructuring.³¹

For realizing comprehensive human well-being, Islam considers it necessary to filter out all those claims on resources that jeopardize the realization of comprehensive human well-being. Socialist central planning did not prove to be an effective mechanism for this purpose and almost all socialist countries have abandoned it by now. While the market mechanism helps filter out excess claims on resources by establishing an equilibrium between demand and supply, it has not succeeded in safeguarding social interest. This is because it is possible to have several market equilibria depending on which tastes and preferences of individuals and firms interact with each other in the market place. Any and every market equilibrium may not lead to the realization of comprehensive human well-being. It is the moral filter which changes individual tastes and preferences in a way that can help weed out all those ways of earning and spending that frustrate the realization of general well-being. The moral filter acquires even greater importance if the use of coercion is to be ruled out. Thus two layers of filter, moral filter as well as the price filter, get utilized to create an equilibrium between supply and demand for resources in a way that would be more conducive to actualization of the humanitarian goals of society.

The moral filter may, however, be of little use if there is no mechanism to motivate people to faithfully observe its values. This is because, as already discussed, faithful observance of moral values demands sac-

31 Chapra, 1992, pp. 213-233, and Chapra, 2000, p. 26.

rifice of self-interest on the part of individuals. The moral filter needs, therefore, to be complemented by belief in the Hereafter to ensure its effectiveness.

Since the physical, social, and political environments also influence human behaviour and the use of scarce resources, the Islamic worldview tries to complement the filter mechanism and motivating system by socio-economic and political reform which was one of the primary missions of all God's Messengers. The reform aims at making individuals, families, society and the government use the resources and cooperate with each other in such a way that general well-being gets promoted. In an environment of human brotherhood everyone is individually and collectively responsible for not just his own well-being but also that of others. All need to cooperate not only in promoting good behaviour but also curbing 'nasty' behaviour – behaviour that hurts others and frustrates the realization of general well-being. If there is no effective system for detecting and punishing the culprits, then anyone may be able to get away with dishonesty, bribery, and other unfair means of earning. Such practices may then become locked-in through the long-run operation of path dependence and self-reinforcing mechanisms. Everyone may then condemn the practice, but may not be able to eliminate it single-handedly by himself / herself being honest and fair. It may not, then, be possible to eliminate the undesired practices by just giving sermons and not undertaking comprehensive reform through socio-economic and political restructuring. What Islam, therefore, aims at doing is to inject a moral dimension into economics along with the positive role of good governance. This should help all the sectors of human society to play a positive role in the realization of human well-being.

XI. The Silver Lining

It is heartening to note that the innate goodness of the human self has led to a realization in the Western world that the anti-religions

stance of the Enlightenment Movement was a great mistake. Accordingly, religious belief is gradually gaining strength, making the editors of Religion in Contemporary Europe admit that they are seeing the beginning of the end of 200 years of hostility towards religion.³² The role of altruism, cooperation, moral values, and a host of social, economic and political institutions in furthering human well-being is being emphasized. The development of different schools which challenge the worldview and method of conventional economics has created a silver lining in its clouds. All these schools are, however, closely related, the difference between them being primarily in their degree of emphasis.

One such School is that of Grant Economics which asserts that altruistic behaviour is not necessarily an aberration from rationality.³³ It argues that equating rational behaviour with only self-interested behaviour is unrealistic. According to Hahn, "economics probably made a mistake when it adopted the nomenclature of 'rational' when all it meant is correct calculations and an orderly personality."³⁴ It is also argued that unrealistic assumptions need not necessarily yield correct theory in spite of Friedman's assertion to the contrary. It may be more appropriate to state that, if the function of economic theory is to yield reliable predictions about the future course of events, then the assumption of rational behaviour within the framework of both altruism and self-interest may probably yield more meaningful predictions. Hence, the 'Boulding optimum' has been proposed as an alternative to the Pareto optimum to bring within the scope of economic analysis a human flair assumed away in the name of value-free science.³⁵

A second School of thought is that of the need-based Humanistic Economics designed to "promote human welfare by recognizing and integrating the full range of basic human values."³⁶ Instead of basing

32 Fulton and Gee, 1994.

33 See, Janos Horvath, "Foreword", in Solo and Anderson, 1981, pp. ix-x.

34 Hahn and Hollis, 1979, p. 12.

35 Solo and Anderson, 1981, p. x.

36 Lutz and Lux, 1979, p. ix.

itself on the old psychology of utilitarianism, which emphasized wants and wealth, it looks to humanistic psychology and emphasizes need satisfaction and human development to move towards what Abraham Maslow calls 'self-realization' or 'self-actualization'.³⁷

Consequently, it takes into consideration all human needs, irrespective of whether they are physiological (food, clothing, shelter), psychological (safety, security, love, sense of self-worth), social (belongingness), or moral (truth, justice, meaningfulness).

A third School is that of Social Economics which involves a "reformulation of economic theory in the mould of ethical considerations".³⁸ Commitment to the imperative of value neutrality, the sacred ideal of the Enlightenment scientists bequeathed by economists, is here considered as both untenable and undesirable - untenable because scientific inquiry is based on assumptions which tacitly involve value judgments; undesirable because scientific inquiry cannot avoid addressing questions of public goals and social priorities in resource allocation. Any discipline committed to value neutrality cannot succeed in evaluating policies and recommendations for public choice. Such an evaluation necessarily involves value judgments. Hence, according to Sen, "the distancing of economics from ethics has impoverished Welfare Economics and also weakened the basis of a good deal of descriptive and predictive economics." His conclusion is that economics "can be made more productive by paying greater and more explicit attention to ethical considerations that shaped human behaviour and judgment."³⁹ Hausman and McPherson have also concluded in their survey article in the *Journal of Economic Literature* on 'Economics and Contemporary Moral Philosophy' that: "An economy that is engaged actively and self-critically with the moral aspects of its subject matter cannot help but be more interesting, more illuminating and ultimately more useful than one that tries not to be."⁴⁰

37 Maslow, 1970

38 Choudhury, 1986, p. 237.

39 Sen, 1987, pp. 78 and 79.

40 Hausman and McPherson, 1993, p. 723.

A fourth School is that of Institutional Economics, which argues that human behaviour is influenced by a number of interrelated social, economic, political and religious institutions that define the way individuals are expected to behave. Organizations act as agents of change by making individuals behave in the desired manner through changes in benefits and costs. This School carries great promise because it can help explain how changes in institutions over time influence the present and the future and why some economies perform better than others do. It can also help explain cooperation and coordination and a number of other behavioral patterns in human society which neo-classical economics is unable to do by concentrating primarily on self-interest and competition. These possibilities have gradually raised the conceptual and practical importance of studying the role of institutions in human society.

The problem, however, is how to derive values which command wide acceptance and which are observed with a sense of moral obligation such that anyone who violates them gets censured. Can conventional economics help bring about such a consensus? Probably not. "Social morality," as Schadwick has aptly observed, "depends on agreed standards, upon a consensus which is received as so axiomatic that it hardly ought to be discussed", and that, "except in the case of a small number of exceptional groups of people morality never had been separated from religion in the entire history of the human race."⁴¹

Utilitarianism and social contract theories do not carry the potential of providing values which everyone accepts as given and which no one challenges. Even Social Economics cannot be helpful because, in spite of its recognition of values, it is a "highly pluralistic discipline inspired and enriched by several often radically different worldviews, Schumpeterian visions, and at times even quite antagonistic social doctrines."⁴² Conflict of views and interests may lead to differences

41 Schadwick, 1975, pp. 229 and 234.

42 Lutz, 1990, p. ix.

of opinion which may be difficult to resolve. No wonder Minsky remarked: "There is no consensus on what we ought to do."⁴³

Decline in the undue emphasis on 'self-interest' and the 'economic man' and recognition of the importance of need fulfilment, value judgments, and the fulfillment of all human needs is certainly a welcome development. It shows that human beings are capable of rising to the occasion, of analyzing their problems, and of knowing what is wrong. However, what is not so easy is the remedy. It does not lie in a patchwork of cosmetic changes. It rather lies in reorganization of the whole of society and the economic system in such a way that there is a transformation of the individual from the economic man to a morally conscious human being who is willing to live up to the demands of brotherhood, socio-economic justice and family solidarity. Once this happens, Islamic economics and conventional economics will become very close to each other and together lead to the solution of a number of problems that mankind is now facing.

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43 Minsky, 1986, p. 290.

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Appendix ①

Islahi, Abdul Azim

Dr. Abdul Azim Islahi, born on 20.4.1950, has studied Arabic and Shariah Sciences at Madrasah-Al-Islah, a noted seat of learning in India. He graduated from University of Lucknow and received M.A. (Economics) and Ph.D. from Aligarh Muslim University, Aligarh. His Ph.D. thesis is on "Economic Views of Ibn Taimiyah".

Dr. Islahi started his teaching career at King Abdulaziz University, Jeddah, in 1977 where he taught Economics with Islamic perspective to the students of Engineering. He was promoted to Assistant Professor in 1982 and worked on the same position till 1988. In 1989 he joined Department of Economics, Aligarh Muslim University, Aligarh, as Associate Professor where he taught History of Islamic Economic Thought at the post-graduate level. He has also guided there Ph. D. researches on Islamic economics, banking and finance. Presently he is working at the Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah, Saudi Arabia. He knows five languages, Arabic, English, Hindi, Persian and Urdu.

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Abdul Azim Islahi

Context of This Presentation

The present discussion falls under the broad category of modern history of Islamic Economic Thought. As far as the earlier history of Islamic economic thought is concerned, we have several works starting from the first century hijrah to the 9th century hijrah (corresponding 7th century to 15th century Christian era), the age of Ibn Khaldun and al-Maqrizi. What was the situation after that period, there was no work to answer this. First time I tried to explore the subsequent centuries. After investigation of 16th, 17th, and 18th centuries, I am planning to undertake the 19th century. The 20th century will be a subject next to it, insha-Allah. The topic of discussion today and participants' valuable observations are expected to provide guidance how to deal with the twentieth century development of Islamic economics. Another reason for raising this topic is to present a summary account of the modern history of the subject, and to discuss the question who may be considered as the pioneers of Islamic economics. At certain occasions it has been seen that someone, unaware of the modern development of Islamic Economics, is calling his favorite celebrity as "father of Islamic economics" or "pioneer of Islamic Economics" while many seniors are ignored.

The present classification of generations and sorting the features of their work is important to understand the development of modern Islamic Economics since its inception during the early 20th century.

Four Generations of Islamic Economists

Time Span of A Generation

Let us first decide the time span of a generation. There are different opinions on the duration of a generation. Ibn Khaldun assigned a period of forty years for a generation of human being. To him, Children of Israil, who lived among the Copts a life of slavery in luxurious environment of a city, when fled from Egypt were kept in desert of Sinai in wanderings (... arba` in sanah yatihun fi'l-ard) for forty years so that a new sturdy generation was brought up who could face challenges of life and fulfill the Prophetic mission. But forty-years are not always and in every case a standard period. Our Prophet (be peace upon him) said the best qarn (age, generation) is my qarn, and then the qarn of those who follow me and then the qarn of those who follow them. Here the qarn is in the sense of generation. We know that the periods of his generation and those of his companions and followers were not equal. We have seen in electronic age how quickly generations are changing. Thus, it is clear that generation differs from object to object and even in time span.

Based on nature of works on Islamic economics and general characteristics of the period, we are using here a time span of 25 years for one generation of Islamic economists. We divide Islamic economists into four generations. The first quarter of the

20th century is considered preparatory period. This classification is based on scholars' treatment of the subject and over all characteristics of the period.

Since our classification is based on dominant characteristic of a time span, it does not mean that when one generation stops its functioning, then takes the charge the next generation. There will be some sorts of overlapping. Generations are never born on a particular date.

Points to Ponder

It would be nice to hear opinions of distinguished participants specially on the following questions:

- Is the division of the generations of Islamic economists into four groups appropriate?

- Is it reasonable to give 50 years for the first generation and then for each 25 years?

- Is it good to make division on the basis of writing dates and not the dates of birth?

- Are the dominant features noted below about each generation fitting?

- Should we make some relaxation regarding the border cases?

- Is better to classify development of Islamic Economics in generations or in stages or in currents of thought?

Preparatory Period - From Early 20th Century to 1925

The first quarter of the twentieth century is a "pre-take off" period for Islamic economics when establishment of modern institutions progressed. Works on conventional economics were translated from English to Urdu and from English and French to Arabic. Attention was paid to edit and publish classical Islamic literature on socio-economic issues and many leaders were born who called for reform and revival of past position, prestige and glory of the ummah. Works written in this period were in traditional style without a conscious effort to bring forth literature on Islamic Economics. They prepared ground for a new generation of conscious writer of Islamic economics.

Examples: Abd al-Qadir al-Mijawi and Umar Burayhimat from Algeria; Muhammad Abduh and Rashid Rida from Egypt; and Shibli Nu`mani, Muhammad Iqbal, Sayyid Sulaiman Nadwi and Abus-Salam Nadwi from the Indian sub-continent.

First Generation - From 1926 to 1950

The actual writing on Islamic economics started in this period, although its ground was prepared in the first quarter of the 20th cen-

tury. First time terms like “Islamic Economics” and “Islamic Economic System” were used. It may be called as “take off” period for Islamic Economics. Main factors behind this awakening were challenges faced from the West, translation of Western economic writings, and publication of the relevant Islamic classical works. This generation comprises those whose major work appeared in

1950 or earlier. The age or the date of birth has not been considered in this classification. This generation really deserves the title of founders or pioneer “scholars”.

Example of this group: Hifzur Rahman Sewharawi, Manazir Ahsan Guilani, Abul Ala Mawdudi, Muhammad Hamidullah, Anwar Iqbal Quraishi, Shaikh Mahmud Ahmad, Yusufuddin from the subcontinent. From the Arab world we can put in this category Zaki Salih, Muhammad Ali Nash'at, Ahmad Muhammad Ridwan, Abu Zaharah. Ali Fahmi Taman, Muhammad Abdullah al-Arabi, etc.

We are still unable to decide about Ali al-Khafif, Mustafa Siba`i, Malik b. Nabi, Mahmud Abu'l-Su`ud, Mustafa Zarqa, Muhammad al-Ghazali as we could not trace their writings in this period.

Main Features. With the exception of one or two all of them were from ulama category (religious scholars). They had some exposure to economics. They based their writing on the Qur'an, *Sunnah* and fiqh. Their style is generally descriptive and jurisprudential.

Second Generation - From 1951 to 1975

It came in the third quarter of the twentieth century. In this period increasing number of professionally trained economists joined hands. Generally individual scholars led the movement of Islamic economics to forward. They may be called “pioneer Islamic economists”. The end of first-half of twentieth century and the beginning of the second-half seems to be an appropriate time to start age of another generation when number of works on Islamic economics considerably increased.

The culmination of this period is the event of the First International Conference on Islamic Economics by the King Abdulaziz University. The Conference was scheduled to be held in 1975 but due to a tragic incidence it could be organized only in early 1976. The conference provided a golden opportunity for scholars working in isolation on Islamic economics to be aware of existing state of affairs in the field of Islamic economics, to exchange ideas with each other, to take stock of the existing literature on the subject and realize the challenges ahead. Islamic economics got a momentum after this conference never seen before. It led to intensive and extensive researches on various aspect of the discipline, development of curricula on Islamic economics, foundation of research centers and study departments, establishment of a chain of Islamic banks and financial institutions which were already founded in few places and issue of specialized journals on Islamic economics. “This conference ushered in a new era in Islamic economic thought as it carried the subject to the Muslim academia the world over. Simultaneously, it provided a great impetus to nascent “movement” of establishing Islamic financial institutions.’ The Conference provided “big-push” to Islamic economics. It moved towards maturity.

Example of this group

From professional economists: Muhammad Uzair, Baqir al-Sadr, Isa Abduh, Abdul Hamid Abu Sulaiman, Hasanuzzaman, Muhammad Nejatullah Siddiqi, Khurshid Ahmad, F.R. Faridi, M.A.Mannan, Ahmad al-Shirbasi, Muhammad al-Mubarak, Muhammad al-Dusuqi, Yusuf al-Qaradawi, Gharib al-Jammal, Shawqi al-Fanjari, M.U.Chapra, Akram Khan, M. Anas Zarqa, Sami Hasan Hamud, Sabhuddin Zaim, Salih Tug, Monzer Kahf, Muhammad Ahmad Saqr, Rifat al-Awadi, Abd al-Salam al-Misri, Abd al-Salam al-Abbad, Abd al-Samee` al-Misri, Abd a-Rahman Yousri, Masudul Alam Choudhury, etc.

It may be noted that these names are just for example. The list is neither comprehensive nor exclusive. There are many names about which

we could not ascertain when their first work appeared. We have also avoided here mention of names which are close to us for reasons. The same note is applicable to the following lists.

Main Features of the Second Generation:

- Lead was provided by professionally trained economists.
- Most of them were well-versed both in conventional economics and Shariah sciences.
- Their works are more analytical and modern in style.
- They guided Ph. D. scholars on Islamic Economics in Economics departments.
- Some of them started teaching students of Economics.
- Some others involved in establishment of practical institutions.

Third Generation - from 1976 to 2000

It includes those whose works appeared after 1975 but not later than 2000. Some of them, although senior in age, started late by their own initiative or were inspired by the pioneer economists of the second generation mentioned above. Younger in this generation had Ph. D guidance or attended lecture classes of their preceding generation. In this period institutions also joined hands to develop Islamic Economics. It is the period of its recognition.

For example: Zubair Hasan, Salamah Abidin, Ausaf Ahmad, Tag el-Din Seif el-Din, Hasan Abd-Allah al-Amin, Shawqi Dunya, M. Fahim Khan, Munawer Iqbal, Muhammad Abdul Halim Umar, Muhammad Aslam Haneef, etc.

Main Features:

- This generation saw chains of conferences and seminars on Islamic economics, discussion forums
- Professional journals were issued

- Teaching courses and departments were established
- A number of research centers, banking and financial institutions were founded
- Prizes were announced
- Some non-Muslims also took interests in Islamic economics
- Critics and opponents of Islamic economics surfaced

Fourth Generation - From the Beginning of the 21st Century

They may be called new generation or the young generation. They are still in the first decade. Their works appeared first time in 21st century only.

Main Features:

Generally dissatisfaction is expressed over the course of the development of Islamic

Economics in this generation due to widening gap between theoreticians and practitioners and the increasing role of the latter.

- Less dependence on original and classical Islamic sources
- Internet based researches which lacks authenticity
- Frequent organization of commercial events.
- Resentments over the role of Shar`iah Supervisory Boards
- Development of financial Engineering
- Adoption of legal stratagem, etc.

But it is also a fact that a large number of the component of this generation is distinguished in scientific presentations due to their modern academic background and their graduation from specialized Western institutions.

- They started using econometric models in their researches.
- Specialization in various aspects of the subject increased such as *awqaf*, finance, insurance, etc.

- In many cases their works have distinct combination of theoretical and applied

researches.

- They innovated financial tools applicable to financial lease and operational lease.

- They have wider audience and enjoy multicultural and multi-lingual interactions. This provided great opportunity to enrich the discipline of Islamic economics and disseminate it to others.

Thus, very much hope is attached with them. They need to be encouraged while stressing correction and drawing their attention towards keeping things in order.

Appendix ②

Glossary of Islamic Terminologies

Ahadeeth: Sayings and traditions of the Holy Prophet Muhammad (S.A.W.). Singular: Hadith.

Ahl ar-ra'y: Means people of opinion. It refers to people that are consulted on Islamic matters. These people are highly learned in Islam.

Ahliyah: Legal capacity.

Ahliyat al-add': Legal capacity for execution.

Ahliyat al-wujub: Legal capacity for the acquisition of rights and obligations.

Ajrul Mithl: A remuneration based on what is customary in the community or Salary.

Al-Wadi'ah: This refers to deposits in trust, in which a person may hold property in trust for another, sometimes by implication of a contract.

Al-Wakalah al Mutlaqa: Resale of goods with a discount on the original stated cost.

Al-Qard al-Hassan: Loans fixed for a definite period of time without interest or profit sharing.

'Alim: An Islamic religious scholar. Plural: Ulamaa.

Amanah: Something given to someone for safekeeping. Trust. The contract of amanah gives rise to fiduciary relationships and duties.

Amwal: Wealth. In business context, Amwal means wealth that is contributed as capital in a partnership. Plural: mal.

Ameen, also spelled Amin: Custodian or guardian.

'Arbun: down payment; a nonrefundable deposit paid by a buyer retaining a right to confirm or cancel the sale

Arkan: The elements or essential ingredients of an act, without which the act is not legally valid.

Aqd: A contract.

Aqd Sahih: A legal contract.

Amanah: trust.

'Ayn: a tangible (physical) asset Bai' Bithaman Ajil (Al), also spelled as Al-Bay-Bithaman Ajil (BBA) financing: In modern Islamic banking, the term refers to a buying and selling transaction between the bank (or financial institution) and the customer, whereby the former buys a property (or an asset, e.g. a house) at the prevailing market price and sells it to the customer at a mark-up price where payments are made by installments over a period of time agreed upon by both parties. The profit earned by the bank is legitimate from the *Shari'ah* point of view since the transaction is based on a sale contract rather than a loan contract. Any predetermined profit arising from the loan is prohibited in Islam as it amounts to Riba.

Bai Mu'ajjal, also spelled as Bay Mu'ajjal: Sale based on deferred payment, either in a lump sum or instalments. A form of Murahaba.

Bai Salam, also spelled as Bay Salam: This term refers to the advance payment for goods which are delivered later. Normally, no sale can be effected unless the goods are in existence at the time of the bargain. But this type of sale is the exception to the general rule provided the goods are defined and the date of delivery is fixed. The objects of this type of sale are mainly tangible but exclude gold or silver as these are regarded as having monetary value. Barring these, bai al-salam covers almost all things which are capable of being definitely described as to quantity, quality and workmanship. One of the conditions of this type of contract is advance payment; the parties cannot reserve their option of rescinding it but the option of revoking it on account of a defect in the subject matter is allowed. It is also applied to a mode of financing adopted by Islamic banks. It is usually applied in the agricultural sector, where the bank advances money for various inputs to receive a share in the crop, which the bank sells in the market.

Baitul Mal: An Islamic treasury intended for the community development as well as provision for Masakeen (needy Muslims).

Baligh: One who has reached the age of maturity.

Batil: Null and void.

Dhaman: liability

Dhaman al-'Amal: Liability underlying a partnership formed on the basis of labor, where the partner is liable for performing the contract or completing the work accepted by either partner.

Dhaman al-Thaman: Liability underlying a partnership formed on the basis of creditworthiness where each partner is liable, jointly and severally, for paying the price of goods bought on credit.

Dharar: harm, damage

Dayn: Loan or debt.

Diminishing Musharakah: Another form of Musharakah (a financing mode), developed in recent years. According to this concept, a financier and his client participate either in the joint ownership of a property or equipment, or in a joint commercial enterprise. The share of the financier is further divided into a number of units and it is understood that the client will purchase the units of the share of the financier one by one periodically, thus increasing his own share until all the units of the financier are purchased by him so as to make him the sole owner of the property, or the commercial enterprise, as the case may be.

Fadl (Riba): A type of interest. Taking something of superior quality in exchange for the same kind of thing of poorer quality. Allah Subhana wa Ta'ala has strictly prohibited any kind of Riba and has warned of severe punishment for those who have any association with it. See the Holy Qur'an, Surah Al-Baqara (2):275-280

Fa'idah: Benefit. In investment context it means return on investment.

Falas: Bankrupt

Faqeeh: An Islamic scholar who can give an authoritative legal opinion or judgement.

Faqir: A poor person.

Fard: Obligatory. An act which is obligatory on Muslims.

Fard ‘Ain: An action which is obligatory on every Muslim.

Fatwa: A legal verdict given on a religious basis. The sources on which a fatwa is based are the Holy Qur’an, Sahih Bukhari and Muslim, and all other authenticated Ahadeeth. Plural: Fatawa.

Fidyah: Compensation for missing or wrongly practising necessary acts of worship. Fidyah usually takes the form of donating money or foodstuff, or sacrificing an animal.

Fiqh: Islamic jurisprudence.

Fuqahaa: Jurists.

Gharar: Uncertainty, hazard, chance or risk, ambiguity and uncertainty in transactions. Technically, the sale of something which is not present at hand; or the sale of something where the consequences or outcome is not known. It can also be a sale involving risk or hazard in which one does not know whether it will come about or not, such as fish in water or a bird in the air; or an event where assurance or nonassurance is subject to chance and thus not known to parties of a transaction. Can also mean uncertainty or a hazard that is likely to lead to a dispute in a contract.

Gharim: A person in debt.

Halal: An act or product that is permitted by Islam.

Hadith: A saying or tradition of the Prophet Muhammad (S.A.W.). Plural: Ahadeeth.

Hadith-Qudsi: A saying of Allah Ta’ala narrated by Prophet Muhammad (S.A.W.), that is not a part of the Holy Qur’an.

Halal: permissible, lawful

Haram: An act or product which is unlawful or prohibited in Islam.

Hawala: contract of assignment of debt

Haq: Legal right.

Hijri: Name of the Islamic lunar calendar. It took its name from the early Muslims who migrated from Makkah to Madinah, and commences from the date of the Prophet Muhammad’s (S.A.W.) Hijra, which he made with Abu Bakr as-Siddiq (A.S.), in 622AC. Often abbreviated to A.H. (After Hijra).

Hudud: The boundary between what is Halal (lawful) and what is Haram (unlawful), set by Allah.

Hukum: The closest equivalent in the English language is “verdict”. It usually applies to a judgement on legal issues, especially with regard to religious matters.

Huquq: Plural of haq.

Ijarah, also spelled ijara: Literally means “to give something on rent”.

Ijarah wa iqtina: Contract of renting, hiring or leasing. This term refers to a mode of financing adopted by Islamic banks. It is a contract under which the Islamic bank finances equipment, a building or other facility for the client against an agreed rental together with an undertaking from the client to purchase the equipment or the facility. The rental as well as the purchase price is fixed in such a manner that the bank gets back its principal sum along with some profit, which is usually determined in advance.

Ijma: Consensus. What all the Ulama (people of religious knowledge) from among the Muslims agree upon.

Ijtihad: Technically, it means an endeavour of a jurist to derive or formulate a rule of law on the basis of evidence found in sources; scholarly effort through which a jurist/scholar derives Islamic law on the basis of the Qur’an and *Sunnah*.

Ishtirak: Equivocally; participation; partnership.

Istidanaah: Raising or building up credit through credit purchases. It however does not apply to the raising of cash loans.

Istisna’: This is a kind of sale, where a commodity is transacted be-

fore it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of Istisna' comes into existence. But it is necessary for the validity of Istisna' that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them. This kind of sale, used as a mode of financing, is also called 'Parallel Istisna'.

Iwad: Compensation or counter-value.

Ja'alah: a unilateral contract promising a reward for a specific act or accomplishment

Jahalah: Uncertainty in a contract that may lead to a later dispute; see gharar.

Jo'alah, also spelled Joalah: The undertaking of one party (the Jael, bank or employer) to pay a specified amount of money to another party in return for rendering a specified service in accordance with the terms of contract.

Jizya: A tax imposed on non-Muslims who are in a Muslim country.

Kafalah bi al-Thaman: Surety for paying the price or sum if unpaid by the person originally liable.

Kafil: A person providing surety or a guarantor.

Kharaj: Tax imposed on the revenue from land taken from non-muslims to ensure their equal rights under Islamic law.

Maiser: Gambling. Literally means getting something too easily.

Makrooh: Disapproved of, but not prohibited by Allah Subhana wa Ta'ala.

Manfa'ah: usufruct. Sale of usufruct is ijarah

Morabaha: Sale at a special profit margin. The seller purchases the goods desired by the buyer and sells them at an agreed mark-up price. The payment being settled within an agreed time frame, either in in-

stalments or lump sum. The seller undertakes all management needed for the purchase and also bears the risk for the goods until they have been delivered to the buyer.

Mubah: Things or acts permissible in Islamic law.

Mufawadah: A basic contract of partnership based on wakalah and kafalah. It requires full commitment from the partners. In order to achieve this purpose, the partners must try to maintain equality in the capital, labor, liability and the legal capacity and also declare each partner to be a surety for the other.

Modaraba: An agreement between two or more persons whereby one or more of them provide finance, while the other(s) provide entrepreneurship and management to carry on any business venture whether trade, industry or service with the objective of earning profits. The profit is shared in an agreed proportion. The loss is borne by the financiers only in proportion to their share in the total capital.

Mudarib: The partner who provides entrepreneurship and management in a Mudharabah agreement.

Mufti: One who passes verdicts.

Muhaddith: A scholar of Ahadeeth. Plural: Muhaditheen.

Muhaditheen: Scholars of Ahadeeth (sayings and traditions of the Holy Prophet Muhammad, may Allah bless him and grant him peace). Singular: Muhadith. Muhammad Believed by Muslims to be the Final Messenger of Allah Subhana wa Ta'ala to Ins wal Jinn (mankind and the Jinn).

Muqaradah: Another name for Modraba.

Musaddiq: The person discharging voluntary charity.

Musharika: A temporary equity participation agreement between a bank and a client for effecting a certain operation within an agreed period of time. Both parties contribute to the capital of the operation in varying degree and agree to divide the net profits or losses in proportions agreed upon in advance.

Mustahab: Recommended, but not obligatory.

Nis'a (Riba al): A type of interest. Taking interest on loaned money. An act which is Haram. See the Holy Qur'an, Al-Baqara (2):275-280 and Aali'imran(3):130.

Nisab: A threshold of wealth of which any excess is subject to Zakah.

Qabz: possession

Qarz: A loan given for a good cause in the name of Allah, in hopes of repayment or reward in the Hereafter.

Qarz al Hassan: A loan extended without interest or profit-sharing.

Quadaa: Paying in a debt.

Ra's al-mal: Capital invested in Mudarabah or Musharakah.

Rabb al-ard: Owner of the land in Musaqah or Musaqat and Muzara'ah contracts.

Rabb al-mal: A person who invests in Mudarabah or Musharakah.

Rahn: Pledge or mortgage.

Riba: Increase, addition, expansion or growth. However, not every increase or growth is prohibited by Islam. Under the *Shari'ah*, Riba technically refers to the premium that must be paid without any consideration. According to the jurists of Islam, this definition covers the two types of Riba, namely Riba Al Fadhl and Riba Al Nasi'ah.

- Example 1 of Riba: If A sells \$100 to B with \$110. The premium of \$10 is without any consideration or compensation. Therefore, this amount of \$10 will be Riba.

- Example 2 of Riba: If A lends \$100 to B (a borrower) with a condition that B shall return him \$110 after one month. In this case, the premium paid that must be paid by the borrower to the lender along with the price is Riba because the premium of \$10 is without any consideration.

Riba al-Fadhl: An extension of Riba to trade because while trade is allowed, not everything in trade is permissible. The prohibition of

Ribaal-fadl closes all back doors to Riba through trade; unlawful excess in the exchange of two counter-values, where the excess is measurable through weight or measure. According to some Ahadith, (Sayings of the Holy Prophet) if six things i.e. gold, silver, wheat, barley, dates and salt are exchanged against themselves, they should be spot and be equal and been specified. If these conditions are not found, this transaction will become Riba Al Fadhl.

Riba al-Nasi'ah: It refers to the 'premium' that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity. It is thus equivalent to interest. The 'addition' of the 'premium' which is paid to the lender in return for his waiting as a condition for the loan and is technically the same as interest.

Rukn: Pillar. Singular of Arkan.

Salam: sale with deferred delivery of exchanged good but with advanced price payment

Sarf: currency exchange

Sahib al-Mal: The financier in the modaraba form of partnership agreement. Plural of Ashab al-mal. The sahib al-mal (also, rabb al-mal) provides the finance while the mudarib provides the entrepreneurship and management. There can be many ashab al-mal and mudaribs in a given muddrabah agreement.

Shari'ah: Islamic law as ordained by Allah Ta'ala. Literally it means 'a road'. The *Shari'ah* is the legal and social modality of a people based on the revelation of their prophet. The last *Shari'ah* in history is that of Islam. It abrogates all previous Shari'ahs. It is, being the last, therefore the easiest to follow, for it is applicable to the whole human race wherever they are.

Sharikah: The term is used for joint-stock companies and corporations as well, but is qualified with an adjective to indicate its nature. Thus, sharikah musahamah for a public limited company or a corporation whose capital has been subscribed to by the general public.

Sharikat al-Wujuh: Partnership based on credit-worthiness of the partners in which the ratio of profit and loss is based on the liability borne, but the partnership has to be of the type 'inan or mufawadah.

Sharikat 'ammah: A partnership in which each partner is a general attorney for the other partner; a partnership that permits trading in all types of goods.

Sharikat khassah: Partnership for a single venture or for trading in a particular item; partnership in which each partner is a special attorney of the other partner.

Sharikat al- 'inan: A basic contract of partnership based on agency in which participation may either be on the basis of wealth or labor or credit-worthiness, and in which, equality of contribution or legal capacity is not necessary.

Sharikat al-abdan: Another name for sharikat al-a'mal.

Sharikat al-amwal: A partnership in which participation is based on the contribution of wealth by all partners, but the partnership has to be of the type 'indn or mufdwadah.

Sharikat al-jabr: Mandatory co-ownership created by an act of law, like inheritance.

Sharikat al-mafalis: A partnership between persons, whose assets have been reduced to copper coins and who have to buy on the basis of credit-worthiness; see sharikat al-wujuh.

Sharikat al-zimam: It is a term used by the Maliki school of thought to indicate a situation, where two or more persons are buying goods on credit. It is different from the Hanafi sharikat al-wujuh insofar as it requires the physical presence of all the partners at the time of purchase.

Shirikat al- 'aqd: A partnership created through contract as opposed to co-ownership that may be the result of a joint purchase or agreement or it may result from inheritance or from some other legal situation.

Shirkah: Partnership between two or more persons, whereby unlike mudarabah, all of them have a share in finance as well as entrepreneurship and management, though not necessarily equally.

Shurut: Terms and conditions in Islamic law.

Shukuk: Check, certificate of debt, certificates of investment; plural of Shak

Sunnah: All the traditions and practices of Prophet Muhammad (S.A.W.), that are recorded not only in such books as Sahih Bukhari and Sahih Muslim, but also in living people to whom these traditions and practices have been transmitted, from person to person, from then until now

Takaful: Islamic Insurance. A scheme of mutual support that provides insurance to individuals against hazards of falling into unexpected and dire need.

Tameen: Another name for Takaful.

Thimma (zimma): the capacity to accept obligations and duties.

Tijaarah: Trade. Act of buying and selling.

Ulamaa: Plural of 'Alim. The people of knowledge from amongst the Muslims who act on what they know and do what they say.

Ushr: Ten percent (in some cases five percent) of the agricultural produce payable by a Muslim as part of his religious obligation, like *zakah*, mainly for the benefit of the poor and the needy.

Wajib: Compulsory.

Wadi-ah: Deposit.

Wakalah: agency.

Waqf: Endowment. A charitable trust in the name of Allah, usually in perpetuity, and usually for the purposes of establishing the Deen of Islam, teaching useful knowledge, feeding the poor or treating the sick.

Zakah Al-Mal: The Muslims' wealth tax: One must pay 2.5% of one's yearly savings above a certain amount to the poor and needy

Muslims. The Zakah is compulsory on all Muslims who have saved (at least) the equivalent of 85g of 24 carat gold at the time when the annual Zakah payment is due.

Zakatu-rid Tijaarah: Zakah of profits of merchandise.

Zakatul Huboob: Zakah of grain/corn.

Zakatul Ma'dan: Zakah of minerals.

Zakatur Rikaaz: Zakah of treasure/precious stones.