



**Workshop on
The Future of Islamic Economics
A Call for Discussion
(Workshop Papers)**

**Islamic Economics Institute
King Abdulaziz University
Jeddah, Saudi Arabia
12-13 November 2012**





Islamic Economics Institute

Workshop on the Future of Islamic Economics

Date & Time		Function	Speakers	Commentators	
Venue: King Faisal Conference Center at King Abdulaziz University					
Monday	12 November	9 am	Opening Ceremony	KAU President Dean of IEI	
		15 min	1 st Session	Keynote Speaker: Prof. M. U. Chapra	
		15 min		Dr. A. Belabas; Dr. F. Abdulkareem; W. Mansour	
		3 hours & 50 min	2 nd Session Methodology	1. Prof. Volker Nienhaus 2. Prof. Aslam Haneef 3. Prof. Abelrahim Alsaati 4. Dr. Tarak Abdallah (b)	1. Prof. Seif el-din Tag el-din 2. Prof. Monzer Kahf 3. Dr. Necati Aydin 4. Prof. Anas Zarqa (a)
		2:20 pm	Lunch		
Tuesday to start at 9:00 am					
Tuesday	13 November	2 hours & 30 min	3 rd Session Theorizing	1. Prof. M. N. Siddiqi (a) 2. Prof. M. Fahim Khan 3. Dr. Sami Al Suwailem 4. Prof. Munawar Iqbal	1. Prof. Asad Zaman 2. Prof. Abel-Rahman Yousri 3. Dr. Usamah Uthman
		2 hours & 10 min	4 th Session Application	1. Dr. Mabid Al-Jarhi 2. Dr. Abdelazem Abo Zied (b)	1. Dr. Omar Hafiz 2. Dr. Mohammad Alsuhaibani 3. Dr. Said S Martan 4. Dr. Mohammad AIOsaimi (b)
		2:45	Lunch		
		60 Minutes	5 th Session The Way Forward?	Prof. Abel-Rahman Yousri ; Prof. Monzer Kahf Prof. Seif el-din Tag el-din ; Prof. M. Fahim Khan Prof. Asad Zaman	
		15 min		Reading the Recommendations	

(a) = recorded speech (b) = a paper has been sent but could not attend.



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Method and Substance of Islamic Economics: Moving Where?

Prof. Dr. Volker Nienhaus

*Visiting Professor, ICMA Centre, University of Reading
Adjunct Professor, INCEIF, Kuala Lumpur*

Islamic economics is not monolithic. It comprises a considerable variety of different approaches and addresses a broad range of micro- and macroeconomic topics. But in spite of many differences, the contributions should have something in common to justify their classification under “Islamic economics” or – as some people would prefer – “economics from an Islamic perspective”(both subsequently combined and abbreviated as “IE”). It should also differentiate IE from conventional economics that addresses topics relevant in IE or deals with phenomena of an Islamic economy such as Islamic banks. The following quotation meets quite well the basic tenor of many IE: IE “calls itself ethical; it regards political economy as having a high ethical task, and as concerned with the most important problems of human life. The science is not merely to classify the motives that prompt to economic activity; it must also weigh and compare their moral merit. It must determine a standard of the right production and distribution of wealth, such that the demands of justice and morality may be satisfied. It must set forth an ideal of economic development, having in view the intellectual and moral, as well as the merely material, life; and it must discuss the ways and means – such as the strengthening of right motives, and the spread of sound customs and habits in industrial life, as well as the direct interventions of the State – by which that ideal is to be sought after.”

If the above quotation this is a fairly accurate summary of the character of major IE contributions, then it is justified to say the following:

• IE has not come up with a new paradigm but follows an approach which was dominant in conventional economics more than a century ago: The original quotation does not refer to IE, but to the 19th century German Historical School⁽¹⁾.

• This school of thought was forcefully and successfully attacked by Max Weber for its commingling of analysis and value judgments, and its paradigm was replaced by that of a value-free social science. This, however, never meant that normative issues should be abolished completely, but the method to infuse them into political action is not that straightforward.

• The methodological debates in conventional economics were not assimilated in IE. This may tie resources in unnecessary repetitions of old controversies. On the other hand, it seems that the interest in methodology and in debates thereon has decreased considerably or even vanished in mainstream economics.

• The Western concept of a separation of religion and state (secularism) is often treated with hostility. However, it has an intellectual underpinning which is hard to understand without some knowledge of the methodological debates of the last century. Western economic orders are far less non- or even anti-religious than many external critics assume.

• A closer look at methodological paradigm shifts in Western economics would reveal the existence of a so-called "Christian economics" (and "economics from a Christian perspective") which has

(1) The quotation is from J.N. Keynes (1917), p. 23; compare it with the following excerpts from a kind of textbook of Islamic economics [Mannan (1984)]: "Islamic economics refers to a goal oriented public policy that concerns itself with the shaping of the behavioral patterns themselves." (p. 7). "[B]enevolence and moral preference become an integral part of Islamic economics, as it concentrates on the zone of analysis at the intersection of what is and what ought to be. Therefore, the distinction between normative and positive economics is not really important to Muslim economists." (p. 9). "The significance of the study of the Islamic economics lies in its balanced focus on the production of goods and services as well as other determinants of the 'quality of life' for which value judgement may be needed within the Islamic value framework." (p. 20).

many structural similarities with IE – including its neglect by Western mainstream.

Against this background, it looks reasonable to summarize briefly the main lines of the epistemological trends and methodological shifts in Western economics before commenting on some developments in IE.

1. Knowledge, Reason and Faith

Economics is the science of *human action*, i.e. of purposeful behavior. Human action is determined by man's *beliefs*:

- *Constative* beliefs are beliefs about what the world *is*. They inform man how he could act and what results may occur. In economics, constative beliefs are descriptions and theories (expectations). Constative beliefs can be *true or false*.
- *Prescriptive* beliefs are beliefs about how the world *should be* and on how man *ought* to act. In economics, prescriptive beliefs are ideals, goals and standards for the evaluation of alternative actions.

Economics as the science of human action (or choice) should not be confined to constative beliefs and dismiss prescriptive beliefs completely.

A precondition for believing is *understanding*: It would be nonsensical to believe a proposition is true, but not to understand its meaning. A proposition is understood but disbelieved when it is not sufficiently *justified*. A proposition about the real world can be justified by appeal to 'the facts', to empirical evidence.

The theory of knowledge is concerned with the problem of how to acquire knowledge and how to find out the truth-value of propositions. The classical theories of knowledge - rationalism and empiricism - and their methodologies were based on the idea of *rational justification*. Rational justification was expected to *guarantee* the *truth* of a proposition. In a long tradition dating back to Plato, *knowledge* had been defined as *justified true belief*⁽²⁾. However, for principle reasons we have to acknowledge that it is

(2) This definition has been challenged by philosophers in 1960.

impossible to reach certainty beyond all possible doubts for constative beliefs about empirical phenomena outside the individual's mind. Man cannot claim to have infallible knowledge from reason (alone). Therefore, to be rational means to be prepared to reconsider the own beliefs in the light of new evidence and to accept the possibility that the beliefs may be false. *Knowledge* has to be redefined as '*belief beyond reasonable doubts*'. It is mainly a question of methodology under what conditions a proposition is *accepted* as beyond reasonable doubts, and the answer depends in large parts on conventions of a particular science (*i.e.* its methodology).

The idea that *all our empirical knowledge is fallible* and not more than a non-falsified belief was emphasized by the epistemology and methodology of the *critical rationalism*, based on the writings of Karl R. Popper⁽³⁾. He emphasized the fundamental asymmetry in the logic of proving and disproving or of verification and falsification. It is logically impossible to verify a general proposition about the real world by collecting confirming evidence; there is no logic for an inductive inference from singular statements to a general law. But with the aid of deductive logic it is possible to refute a general statement by finding contradicting evidence⁽⁴⁾.

The arguments so far addressed only the epistemological status of constative beliefs. But human action is also determined by prescriptive beliefs, *i.e.* by norms and values. David Hume outlined the *epistemological difference* between constative and prescriptive beliefs, *i.e.* between is- and ought-statements.

- *Is-statements* as factual or descriptive statements can be either true or false.
- *Ought-statements* express evaluations of the state of the world. There is no interpersonal test criteria to find out their truth value, *i.e.* they cannot be true or false.

Since the epistemic qualities of is- and ought-statements are different, the methodology that was developed for rational controversies about is-statements cannot be applied to ought-statements directly and without reservations. Nevertheless, some parallels and analogies can be found.

(3) See Popper (1934/1959, 1966).

(4) "In short, you can never demonstrate that anything is materially true but you can demonstrate that some things are materially false". Blaug (1980), p. 12.

The rationalist demand for *justification* is a *general* one; it applies also to *prescriptive beliefs*. Prescriptive beliefs can only be justified by 'higher' norms and values, but since ought-statements do not have a truth-value, even the ultimate norms cannot be considered as "true". It is possible that different people have different ultimate norms. Since ultimate norms are per definition ultimate, there can be no 'super-norm' to decide *from the outside* on 'who is right'⁽⁵⁾. A rational evaluation must be made *from inside* the normative system: Taking the ultimate norms as given, one can ask whether the 'lower' norms and values are logically deduced from the ultimate norms and whether the whole normative system is coherent and consistent.

The total set of norms, values, ideals and eschatological expectations constitute a *view of life* which determines (together with expectations about the state of the world) a person's actions and way of life. Only a *consistent* normative system allows a clear orientation and can give reasonable answers to *all* questions regarding the way of life. An inconsistent normative system offers contradicting answers and cannot reasonably determine human action. A view of life must be *universal*; it must determine a person's attitudes and actions in *any* situation⁽⁶⁾. It must be *open* for a continuous accommodation of *new situations* and for meeting new demands (and challenges). A view of life must be *flexible* and must have *dynamic* qualities.

During most periods of human history, *religions* have been the basis of views of life. The basis of religion is believing, not proving – faith, not reason. We cannot rationally 'decide' to believe in God, but nevertheless we can be *convinced* that He exists. Being convinced is a state of mind which leads us to accept certain propositions as being *beyond any reasonable*

(5) This does not mean, however, that the final (personal) decisions on the acceptance of ultimate norms are arbitrary and unfounded because it is logically impossible to advance further grounds to justify ultimate norms. "Such decisions are neither unfounded nor arbitrary; on the contrary, they are as well founded as possible. There is simply no way they could be better founded or more soundly defended." Bruemmer (1981), p. 137.

(6) "A view of life becomes untenable if situations arise for which it has no practical implications, or in which the attitudes or actions that seem correct in terms of that view of life prove to be impracticable. From this it becomes clear that a view of life cannot be a static, closed system." Bruemmer (1981), p. 140.

doubt. People do not believe because of rational arguments but because of their *own impressive experiences*. These impressive experiences are *personal* and may be very different for every believer. People who had such impressive experiences may come to recognize God through His works in the real world (including the own mind and emotions). The recognition of God through His works may confirm the faith of the believers and convince them that the existence of God is (for them) beyond reasonable doubt.

That belief in God does not emanate from reason does not imply that reason is against faith. On the contrary, *reason can support faith*: Rational arguments can help to bring the faith beyond reasonable doubts, i.e. to justify religion. But on the other hand, reason may also force man to reconsider and eventually correct religious beliefs as far as *factual* propositions are incorporated. If, for example, modern natural sciences offer convincing explanations about the 'creation' which are in contrast to what was traditionally believed with reference to the Bible, then a rational believer should be willing to reconsider his constative beliefs. There is no denying that such fresh factual knowledge may require substantial and maybe even far-reaching *revisions* of doctrinal systems (*e.g.* of the church)⁽⁷⁾ and also of views and ways of life. But for a rational believer faith is not 'blind' but 'enlightened', i.e. open for revisions in the light of new convincing constative beliefs. For a *rational believer*, fresh evidence can never disprove his or her faith (because the faith is *not* based thereon); but it can challenge the understanding of God's works and his or her views and way of life which depend on his constative beliefs.

In a religious community, the believers share a common view of the qualities ascribed to God and of the meaning of things in relation to Him (and, as a consequence, to each other). The full elaboration of the *implications* of these meanings and relations, however, is a task that is typically assigned to *doctrinal experts* who formulate and elaborate a view of life which should be as complete and coherent as possible. It will comprehend not only the personal relation between man and his God, but

(7) The history knows many examples of a strong resistance of the institutionalized Christian church against such revisions of the doctrinal system in the light of fresh knowledge. But this does not prove that such revisions are impossible on rational grounds, but only that the church has been an 'irrational institution' in these instances.

since it covers the meaning of all things (and their relations to each other), it will extent to *all* dimension of human life. This view of life gives man his moral orientation, and combined with his factual expectations it will determine his *way of life* in general. The Christian religion thus offers a 'complete code of life', and its doctrinal system embodies, *interalia*, proposition for the economic life. An academic discipline emerged that can be called 'Christian economics'⁽⁸⁾.

In a nutshell, *Christian economics* combines the normative orientations and prescriptions of the Christian faith with constative knowledge which is provided by 'secular' economics. No claim is made for infallibility of the economic doctrines, and in fact, the substance of several doctrines have been revised in the light of changing circumstances or fresh evidence provided by secular economics. What is (reasonably) claimed is that answers given to concrete questions and the proposals for the solution of political problems are consistent with the overall Christian view of life. But it is not claimed - not even by the Pope - that the answers and proposals are the *only* ones that would be consistent with the Christian view of life. Christian economics does not offer a fully *determined* model of how the economy should be organized. Within certain limits, different ways of (economic) life and economic systems are compatible with the Christian view of life. Of course, priorities and principles are given (e.g. primacy of justice, priority of labour over capital, solidarity and subsidiarity). But that is hardly sufficient to define precisely and positively a *unique* 'Christian economic system'. Important demarcations can be made only *negatively* by pointing out how the economic system resp. its subsystems must *not* look like.

2. Methodology in Economics

(1) When economics emerged as an independent science in the 18th century, classical rationalism and empiricism were the dominant epistemologies. It was a widely held belief that the truth of propositions or theories could be proved beyond any possible doubts by appeal to reason. Being convinced to possess such *true theories*, many classical economists tried to apply them to explain phenomena in the real world. They were

(8) See, for example, Himesand and Cahill (2005), Harper and Gregg (2008).

looking for supporting evidence, for a '*verification*' of their ideas. Cases of disconfirming were not considered as falsifications of the theories as indications of a wrong application of the basically true theories. The truth of theories was not to be decided on the *empirical* level but on the level of *logic* and *reason*.

The methodological position in contemporary mainstream economics is nearly the opposite of the position held by the classical economists during the infancy period of economic science. Two insights gained substantially in importance during the 19th and 20th century, namely

- that positive and normative statements are of a different epistemic quality,
- that there is an asymmetry between verification and falsification of propositions.

The now established distinction between *positive* and *normative* economics was explicitly introduced during the second quarter of the 19th century by John Stewart Mill and Nassau W. Senior⁽⁹⁾.

- *Positive economics* (= science of political economy) was understood as a 'collection of truths' which "takes cognizance of a phenomenon, and endeavours to discover its law"⁽¹⁰⁾.
- *Normative economics* (= art of political economy) was considered a "body of rules, or directions for conduct" which "proposes to itself an end, and looks out for means to effect it"⁽¹¹⁾.

It is logically impossible to deduce the 'ought' from the 'is' or the normative from the positive (and *vice versa*); empirical facts do not imply and have not incorporated their moral judgment.

(9) Hutchison (1964) monitored the positive/normative distinction in the history of economic thought.

(10) J.S. Mill, quoted by Hutchison (1964), p. 24.

(11) J.S. Mill, quoted by Hutchison (1964), p. 27.

(2) The positive/normative distinction was reiterated in the first quarter of the 20th century by Max Weber who forcefully argued against the economists of the German Historical School and their practice of mingling economic studies with social reform proposals. In opposition to this basically normative approach, Weber made a case for conceptualizing *economics as a value-free empirical social science*⁽¹²⁾. A social scientist who strives for true knowledge about the factual world could and should, for methodological reasons, not disseminate value judgments.

This implied that the political economy of the 19th century loses its normative branch: The two postulates of freedom from value judgements and empirical substance can only be met in positive economics. Normative issues were excluded from economics and passed on to other disciplines. Though Weber insisted that economist *as economist* should not engage in normative discussions, he did not deny that such discussions could be 'legitimate' and fruitful. Although value judgments and normative propositions cannot be refuted as factually false, this does not mean that a rational discussion of the latter is impossible. Rationalism is "an attitude that seeks to solve as many problems as possible by an appeal to reason, i.e. to clear thought and experience, rather than by an appeal to emotions and passions", an "attitude of readiness to listen to critical arguments and to learn from experience"⁽¹³⁾.

- Despite his postulate of freedom from value judgements in *social sciences*, Max Weber considered discussions of values useful: A rational discussion of values should start with an "elaboration and explication of the ultimate, internally 'consistent' value-axioms, from which the divergent attitudes are derived", followed by the "deduction of 'implications' [for those accepting particular value judgments, V.N.] which follow from certain irreducible value axioms, when the practical evaluation of factual situations is based on these axioms alone". Then there should be the "determination of the factual consequences which the realization of a certain practical [= normative, V.N.] evaluation must have ... Far from being mea-

(12) See esp. Weber (1904, 1917); his basic argument - that is and ought statements belong to epistemologically different spheres and that the latter cannot be deduced from the former - was not new in substance.

(13) Popper (1966), pp. 224, 225

ningless, value-discussions of this type can be of the greatest utility as long as their potentialities are correctly understood"⁽¹⁴⁾.

- Karl R. Popper pointed out that "whenever we are faced with a moral decision of a more abstract kind, it is most helpful to analyze carefully the consequences which are likely to result from the alternatives between which we have to choose. For only if we can visualize these consequences in a concrete and practical way, do we really know what our decision is about; otherwise we decide blindly"⁽¹⁵⁾.

- Mark Blaug summarizes that "'oughts' are powerfully influenced by 'ises' and that the values we hold almost always depend on a whole series of factual beliefs. This indicates how a rational debate on a disputed value judgment can proceed: we pose alternative factual circumstances and ask, should these circumstances prevail, would you be willing to abandon your judgement? ... So long as a value judgment is nonbasic or impure, a debate on value judgments can take the form of an appeal to facts, and that is all to the good because here is a firmer tradition for settling disputes about facts than for settling disputes about values. It is only when we finally distill a pure value judgment [which is held under all conceivable circumstances, V.N.] ... that we have exhausted the possibilities of rational analysis"⁽¹⁶⁾.

A rational discussion of normative problems should lead to a *consistent* set of value judgments and to a *coherent* view of life. This view of life rests on certain basic or 'pure' value judgments which (by definition) are held under all conceivable circumstances.

As far as a rational discussion of normative issues can and must be based on factual arguments, economists can make substantial contributions because they are 'professionals' with respect to these factual issues. The alternative which was propagated esp. by instrumentalists - namely to leave the floor to politicians and to accept their judgments and goals - is not convincing: Politicians are not (by virtue of their political profession)

(14) See Weber (1917), pp. 20 et seq.

(15) Popper (1966), p. 232.

(16) Blaug (1980), p. 133. The distinction between basic and nonbasic value judgments was proposed by Sen (1970).

exceptionally well qualified to assess normative positions and to elaborate on morals; they are experts neither in philosophy and ethics nor in facts, but in vote maximization, group negotiations, bargaining and compromising.

Although eminent scholars such as Max Weber and Karl R. Popper had indicated how economists could contribute to normative discussions even after the dismissal of the normative branch of classical economics, Western economists were not much interested in normative issues. Notable exceptions can be found in the fields of welfare economics and to, some degree, action oriented development economics as well as in some 'unorthodox' schools of thought such as Austrian economics. Weber's postulate of freedom from value judgements in a positive science became the prevailing position in mainstream economics during the first half of the 20th century.

(3) The second half of the 20th century saw a further narrowing of the scope of mainstream economics: Positive economics was traditionally understood as an *empirical* science, *i.e.* a science that deals with observable economic realities. But the adoption of Popper's critical rationalism as the methodological paradigm gave the term "empirical" a more restricted meaning: The concept of falsifiability was initially developed by Popper for natural sciences, but it was introduced and popularized in economics by Terence W. Hutchison⁽¹⁷⁾. The basic idea was to confront theories with the observable reality and to find disconfirming *empirical evidence in data*. For this, theories have to produce *measurable* outcomes. As a consequence, mainstream reduced economics from an empirical to a *quantitative* science. Statistics and data processing technologies advanced rapidly, econometrics emerged as new discipline, and economists were expected to use applied and advanced mathematics for the design of models with testable hypotheses.

(4) Although mainstream rhetoric adopted Popper's method, research programmes rarely (if ever) followed its prescriptions. When disconfirming evidence was found, theories were not given up but "improved"⁽¹⁸⁾. Since it

(17) See Hutchison (1938, 1964).

(18) Thomas Kuhn dealt with this issue in his writings on the structure of scientific revolutions, see Kuhn (1970).

was realized that the core hypothesis of a theory cannot be tested in isolation but only in combination and interaction with a host of boundary conditions, it became common in cases of disconfirming evidence to modify not the core hypothesis but the boundary conditions and to conduct a new test with the modified bundle of hypothesis plus conditions. Sometimes contradicting theories have falsified one another, but they all lived on for decades. Other problems came up with economic phenomena that cannot be measured directly but only through proxies (such as the "comparative advantage" of countries, or the "informal sector" of an economy). Conceptual critique and problems in its application led to a fade out of the attractiveness of falsifiability since the 1970s. It was not superseded by a new concept but it simply lost its staunch supporters. What continued was the empirical testing of hypothesis and the increasing mathematization of economics. Without the landmark of falsifiability, the production of confirming evidence for new models ousted by far the testing of established models, and mathematical models took off from realities.

Looking at the state of conventional economics in the 21st century, one gets the impression that debates on epistemological and methodological systems and the observance of their respective prescriptions are a matter of the past.

- A brief look at the survey essays in the *Journal of Economic Literature* since 2000 (all available online) did not falsify the hypothesis that epistemology and methodology have disappeared from the agenda of mainstream economics.

- Another indication for this lack of interest is provided by the curricula of economics degree programmes in universities which have been revised recently: Special courses exclusively on methodology were very rare, but the courses on the history of economic thought usually included a methodological chapter. With the new focus on the student workload, the number of courses had to be reduced (at least in nearly all German universities), and the course program was restructured to catch up with new developments in economics. In most cases the courses on the history of economic thought were discarded and replaced either by courses on expanding branches of economics (such as behavioural finance or ecological economics) or by courses on "research methodology". This,

however, is usually a course on technical skills such as the use of databases, econometric modelling, or the conduct of interviews.

(5) In the years following the outbreak of the financial crisis, another long-standing methodological postulate was effectively abandoned, namely that of freedom of value judgements. Economists were continuously asked by for their opinion on what went wrong, why they did not foresee it, and what they suggest as a solution – and nearly all die spontaneously answer such questions. Ad hoc explanations and *policy recommendations* – often not based on thorough analysis but on *personal preferences* and *untested conjectures* – were omnipresent, and seemingly nobody worried much about this massive influx of untested personal value judgements and the breach of (rhetorically) long-held methodological positions by well-known economists.

In view of the practical, conceptual and strategic problems of Popper's falsifiability (and previous epistemological and methodological doctrinal systems), conventional economics seemingly soaked up Paul Feyerabend's epistemological anarchism, which he aptly summarized in the slogan "anything goes"⁽¹⁹⁾. If this is the case, then economics does not only lose its methodological backbone. Methodology can no longer be used for a demarcation between science and non-science or for the definition of a particular science.

Not the *method* but the *object* of knowledge counts. In short: science should keep its rational attitude (only), *i.e.* the readiness to challenge whatever proposition is made and to revise it in the light of convincing arguments⁽²⁰⁾. From an *epistemological* point of view, a scientist may choose whatever objects he or she wants to explore with whatever method.

(19) See Feyerabend (1975).

(20) Once the definition of knowledge as "belief beyond reasonable doubts" is accepted, this implies a strong individualistic bias: There is no supra-individual collective mind that determines for everybody in the same way what is "reasonable" and what not. It is always the individual researcher and his or her mind that determines what is – for him or her (and hopefully, but not certainly for many others) – beyond reasonable doubt. What is convincing for A may not be convincing for B, and B may have good reasons for not being convinced – which, in turn, may not be considered „good reasons“ by A, etc.

To avoid misunderstanding: A *methodological* "anything goes" must not be equated with an *ethical* or *legal* "anything goes". From an *ethical* point of view there can be strong reservations (and corresponding legal restrictions) about particular methods such as experiments on human beings, but it is hard to deny that even unethical experiments could produce knowledge.

3. Some Problems of Islamic Economics

Adherence to a particular methodology has become irrelevant for the definition of a science. Economics has become a multi-method science of choice or of human action, and it now tolerates the use *any* methodology – from empirical testing over mathematical modelling and behavioural experiments to deductive apriorisms based on 'self-evident' axioms—as long as it is "reasonable" and promises to contribute to knowledge.

3.1. Islamic Economics as a Widely Ignored Field

Islamic economics is widely ignored in mainstream economics. The (probably) largest association of economists worldwide is the American Economic Association (AEA). AEA publishes seven journals, including two which are widely read and used for references: the *Journal of Economic Perspectives* and the *Journal of Economic Literature*. The AEA website allows members to search titles and abstracts of AEA journal articles from 1999 to current (= October 6, 2012) for keywords. The keyword "Islam" yields a total of three records!

The reasons for such a marginal consideration can be manifold, even though conventional economists may well recognize that IE is economics (and not theology). For example:

- The religious background and the emphasis of a methodology with unique faith-related features are not a great excitement for conventional economists. The general interest in methodology is low, and the structure of IE is not so different from the also neglected "Christian economics" – a religiously oriented branch of economics that is based on a faith which is much closer to most conventional economists than Islam.

- The enhancement of the existing body of factual and theoretical knowledge about economics in general or Muslim societies in particular by Islamic economists is rather limited: For example, the problems of poverty

in many Muslim countries have already been analysed in conventional economics, and IE has not brought fundamentally new insights. Models of an Islamic economy in which poverty is alleviated by a set of Islamic institutions such as *zakat*, *waqf* and *riba*-free micro- and SME-finance are perceived as idealistic visions of a rather distant future.

- The addition of a new perspective to an existing discipline – e.g. welfare economics – will attract wide attraction only if, for example, it challenges long-established views with new arguments or opens substantially new fields for theoretical or practical application. It is very questionable whether a conventional welfare economist would consider the replacement of a “standard” welfare function by an “Islamic” welfare function a major advancement of the discipline. Most of the older Islamic welfare approaches were structurally close to secular models with a benevolent dictator who defines the social welfare function for the society. The fundamental problem of the measuring individual utility functions and their aggregation to a social welfare function has not been solved – it simply was circumvented or ignored. This neither challenged long-established views nor did it open new field for the discipline.

- The strong emphasis on the “Islamic” dimension of the discipline and the religious justification of many prescriptive propositions of IE lead to the conclusion that the Islamic economic model gives guidance for Muslims only and are rather irrelevant for non-Muslims.

However, it seems the near-complete ignorance of IE in Western economics gradually vanishes over the last few years: Although IE was (and still is) not of interest for the AEA and its journals, other Western mainstream journals have started publishing papers with keywords like “Islamic” in the title. In addition, a well-established international publisher – Emerald – has released four new “Islamic” journals since 2008: the *International Journal of Islamic and Middle Eastern Finance and Management*, the *International Journal of Islamic Financial Services*, the *Journal of Islamic Accounting and Business Research*, and the *Journal of Islamic Marketing*. Finally, a growing number of Western institutions of higher education have launched courses on Islamic economic topics (mostly on Islamic finance).

These developments may look encouraging at first sight, but it should be noted that many of the essays in Western journals and the new courses deal primarily or exclusively with Islamic finance, and none of the new journals has "economics" in its title; they all are related to finance and business. This raises the question whether all economic papers with "Islamic" in the title could be classified as contributions to Islamic economics –assuming a comprehensive interpretation of "economics" to include finance and business administration. There are good arguments to refute such a view.

3.2. The Potentially Deterrent Normative Dimension of Islamic Economics

Islamic economics is by its own definition normative economics. Whether it is called "Islamic economics" or "economics from an Islamic perspective", it is clear that the Islamic specificity lies in the connection of economic issues with the primary sources of the Islamic worldview – Qur'an and Sunna.

Neither the Qur'an nor the Sunna provides directly applicable economic theories or explications of present-day economic phenomena. For most current issues the primary sources do not offer more than the assertion that certain actions or practices are bad (or good) for the individual or for society, but exact cause-effect relations are usually not expounded. For example, one of the most debated economic instructions in the Qur'an is the prohibition of *riba*. The Quran spells out the consequences for someone who deals in *riba* (and is aware of its prohibition) in the hereafter, but a clear elucidation of what is bad for the person or for society in this world is not given. Even worse, there are still serious discussions on whether *riba* means only usurious practices or any kind of interest – including forms of interest that were unknown at the time of the Prophet (such as interest on savings accounts with banks). Islamic economists have come forward with many arguments why interest can be harmful to individuals and to society, but they could not read them directly from the primary sources. The sources provide general principles and normative orientations and guidance for guide people in this world,⁽²¹⁾ but that is not enough. An interpretation and

(21) If that what can be found is not a direct instruction or explanation, it can only be a normative principle. In this sense, Islamic economics is bound to have a normative character.

utilization of Qur'anic injunctions requires also the use of the "positive" knowledge at hand. The need to take guidance from the primary sources constitutes the normative and *Islamic* component, the application of the knowledge of the time the *economic* component in "Islamic economics".

The Islamic component differentiates IE from other schools of thought. It is an asset for Muslims, but a potential impediment for non-Muslims.

- Conventional economists are not particularly well-trained for rational debates on values and moral principles, or on the normative consistency of a comprehensive worldview – and the outlined state of economics is such that conventional economists do not have strong incentives to get involved with such an intellectual venture. However, Islamic economists could find some dialogue partners outside the mainstream in branches of economics which have similar structures and value orientations, for example in humanistic economics, Christian economics or Austrian economics.

- IE is based on primary sources which do not have the same status for believers and non-Muslims. The normative component of IE is deeply rooted in a faith which is not shared by the majority of conventional economists. Their methodological controversies have taken place in the past,⁽²²⁾ and conventional economists may find it hard to see what new dimensions an Islamic epistemology and methodology could add to that and what insights could possibly improve the existing doctrinal systems of conventional economics.

- But a similar question could be raised on the Muslim side, and it is far from obvious that there is a sufficiently large number of Islamic economists who find a normative debate with non-Muslims meaningful and intellectually promising. The existence of a critical mass of Islamic and non-Islamic economists who are ready to engage in a dialogue cannot be taken for granted.

(22) They did not only take place in the past, but seemingly ended with an "anything goes,"-which means for many economists not to bother oneself with such "esoteric," issues.

3.3. “IE Light” Studies

While not many conventional economists are keen to get involved in systemic debates with Islamic economists, there is a readiness to conduct studies and engage in discussions on more specific topics and sectors of an Islamic order. Islamic finance – including microfinance and finance related development policies – is the most prominent example. However, most contributions in this field are not debates on IE issues:

- One simple reason is that a considerable number of contributions to Islamic finance were made by non-Muslims who have some knowledge only of a particular segment of IE – such as the prevalent maxims for Shari’ah compliant finance.

- But also many (if not most) contributions of Muslim authors are predominantly technical and confined to sectorial topics. They do not transcend the boundaries of particular sectors and do not reflect on the significance and implications of the sectorial topics for a comprehensive Islamic economic system. For example, they discuss the proper design of a Shari’ah compliant deposit insurance scheme, but do not ask whether such a scheme supports or violates basic tenets of Islamic finance in its systemic dimension as Islamic economists have perceived it.

If a normative content or a systemic perspective is constitutive for a contribution to IE, most papers of the indicated type do not qualify as such, although they have “Islamic” in their title. They are pieces of *conventional* economics: conventional methods are applied in answering conventional questions without a systemic dimension. For example, business economists look at Islamic finance and analyse the financial performance of Islamic banks in a particular time and place. It is not to say that these contributions are irrelevant – on the contrary: They often bring to light new facets of an ever increasing “conventionalisation” of Shari’ah compliant finance. This provides food for thought and raw material for the work of Islamic economists. It also lays bare an unresolved problem of IE, namely its relation to Shari’ah scholars and their contemporary application of classical Islamic commercial law (*fiqh al-muamalat*) [see section 4 below].

The increase in the number of studies on topics with relevance for IE in a conventional framework – “IE light studies” – should be welcomed, but it does not indicate a proportionate progress of “IE proper”. “IE light” has several advantages for the authors (who may feel much sympathy for “IE proper” but did not proceed to its systemic dimension).

- To make a study on IE topics (even in a conventional framework) shows that the author is aware of issues with relevance to IE.

- The author can make a contribution to IE without getting involved in more delicate political issues which are intrinsic in “IE proper” (see below). This can be an advantage in many countries in particular for young talents at the beginning of their career.

- Young talents who aim at an academic career can demonstrate by IE light studies their mastery of conventional techniques. This is of particular importance where KPIs (key performance indicators) are used for the evaluation and promotion of academic staff and where publications in top-tier international journals rank very high. The editors of these journals are probably much more willing to publish a piece that is based on techniques they are familiar with than an “IE proper” essay which may look somewhat “obscure” to conventional economists. This could explain the large number of econometric studies in particular on (sometime very special) aspects of Islamic finance which has gained a wider attention by academics and practitioners.

- The choice of topics with IE relevance can make a person also an interesting candidate for IE institutions. But since their number (and the number job opportunities with them) is much smaller than the number of conventional institutions, it is very reasonable to qualify for both career paths. “IE light” can qualify for both worlds. And a topic related to Islamic finance can also support job seeking in an even wider field.

What looks like a problem at first sight can be turned into an asset for IE. IE should try to draw the attention of young talents to other fields than finance where Islam has developed specific institutions – e.g. to the field social security via *takaful*, *zakat* and *waqf* as specific Islamic institutions. It is not enough to highlight the history and the systemic relevance of these institutions. Islamic economists should demonstrate

how these institutions could become not only viable alternatives to secular schemes but institutions with superior qualities even in not fully “Islamized” economies. If Islamic economists succeed in giving good reasons and causal explanations for such claims, they may motivate young talents in non-IE institutions to take up the topics and may work on sophisticated abstract models, conduct comparative analyses or start empirical research. “IE light” is a great opportunity to strengthen the conceptual and empirical base of “IE proper” by tapping into the huge intellectual pool of young talents in conventional economics all over the world. What “IE proper” has to achieve is a successful agenda setting to draw intellectual capacities into under-researched areas. This should not be too difficult, given that studies in these areas can have a high intellectual, professional and social return – which should appeal to people with quite different backgrounds and motivations.

3.4. Islamic Economics as Political Economy

The constitutive systemic dimension makes IE not only a normative science, but also a political economy. Islamic economists cannot stop with an outline of institutions, structures and interdependencies of an “ideal” (contemporary) Islamic economic system. They have to compare this ideal Z with the reality X. Because Z is ideal, there will be a discrepancy between X and Z, and it is beyond any reasonable doubt that X should be moved towards Z. Since “IE proper” is defined by its systemic perspective, it is inherently a critical and action-oriented science – a political economy (in the modern sense). “IE light” lacks this quality. “IE proper” cannot stop at the description or design of the ideal world, but then it must also deal with the transition from X to Z.

While there are is a considerable number of projections of ideals, there are deficits in some other areas:

- The ideal Z is probably not a simple and straightforward system, but a complex and multidimensional system. Therefore it is necessary to unfold and present all the qualities of Z. This cannot be the mission of conventional economists, but they can give critical feedback on the coherence and consistency of the system design. Since the primary sources of IE are mainly moral principles and some economic instructions, different Islamic economists combine these elements differently and draw different

conclusions from the primary sources. Notwithstanding some commonalities between different models,⁽²³⁾ the proposed Islamic economic systems cover a wide range: from variants of a socially moderated market economy to quite authoritarian models of a welfare dictatorship. Given the paramount significance of the Islamic economic system, it is surprising how little literature exists that compares the different approaches and criticizes them from within the discipline of IE. The different schools of thought continue to refine their models individually, but it seems that there is not much discussion between the schools and little rapprochement. Much more could be done in this respect.

- It is not enough to outline an ideal without indicating how it could be achieved. References to education and the raising of moral standards in Muslim societies are certainly not sufficient. So far, IE has not developed a convincing theory of transition from the present state of affairs to the ideal system. It seems that IE has ignored the vast body of literature on systemic transformation that followed or accompanied the processes of systemic change (or systemic rigidity) after the collapse of communism since the 1990s. Insights have been gained, for example, on interdependencies of religious values and the success of an implementation of new institutions. The literature does not only cover Central and Eastern Europe, but also Central Asia with its newly independent states with Muslim populations.

- The third deficiency is the study of the evolution of “ideal systems” once they have been established. For example, from a neoliberal German perspective the systemic evolution of the model of the German Social Market Economy was actually a process of continuous erosion by political forces. Another interesting case is the deterioration and final revision of the Scandinavian welfare state models. Both types of European market economies (which are quite different from the US capitalism) have striking similarities with “mainstream” models of an Islamic economic system. In a sense, the experiences of these countries can be seen as “field experiments”

(23) For example, there should be a consensus that *riba* is prohibited, but there will be divergent ideas on how an Islamic finance system has to be designed “properly”. There should be a consensus on the implementation of *zakat*, but there can be very different views on the “right” basis for this levy in a modern economy and on the “correct” determination of the legitimate beneficiaries.

with much relevance for the Islamic political economy. On the one hand, one can study the concepts and the underlying normative theories. It may come as a surprise to many strong, for example, that the (secular) concept of the Social Market Economy in Germany was strongly influenced by Christian values and to some degree by economic teachings of the church. On the other hand, one could study when, why and how the initial concept was modified and partially given up. Such a study could reveal the systemic dynamics of an interaction of economic and political interests and forces. Knowledge about the threats for the survival of an initially well-design system could give indications for problematic institutional arrangements, required safeguards, overlooked interdependencies, and so on. Insights from a "post-mortem" of some ideal systems could flow into the design of other systems, but they could also enrich the theory of transformation.

The need to define "Islamic" economics with reference to a particular methodology puts the analysis of economic systems at the core of this normative branch of economics and constitutes it as a political economy. Now there is a historical challenge for "IE proper" - the "Arab Spring". New Muslim governments are looking for Islamic solutions of the pressing economic needs of Muslim populations. Unattainable ideals are not sufficient. Practical solutions are required. It is not so sure that "IE proper" is well prepared for this challenge, but some help may come from "IE light" – in particular from that branch which dealt with Islamic institutions and concepts in the context of economic development.

4.The Unsettled Relation between Islamic Economists and Shariah Scholars

The paper was so far concerned with the definition of IE and its implications and with the relations of IE to conventional economics. However, there is another relation that is of high importance for the identity and relevance of IE – the relation between Islamic economists and Shari'ah scholars. The relevance of the clarification of the roles of Islamic economists and Islamic jurists (or IE and Islamic law) becomes immediately apparent when one takes a look at the state of affairs and recent trends in Islamic finance⁽²⁴⁾.

(24) The following text is a slightly modified excerpt from a discussion paper for the 2nd roundtable of the Oxford Centre for Islamic Studies and the Securities =

Competitive forces and shareholders' and management's interests drive Islamic finance in the same direction as conventional finance. This is not at least due to Western financial institutions with Islamic units, subsidiaries, windows or products: They did not enter the Islamic finance market for the sake of Islam or to promote the public good in Muslim countries, they did it because of attractive profit prospects. The massive inroad of conventional actors (banks, [re]insurance companies, consultancies, lawyers, fund managers, etc.) into the Islamic finance industry has increased the number of managers of Islamic financial institutions with a conventional background and mindset substantially. It is today much larger than it was until the end of the 1990s. But while mindsets and the general business climate have changed, it is still the same group of top Shari'ah scholars who testify the Shari'ah compliance of products and instruments: Many top scholars have also become Shari'ah advisors of conventional institutions entering the Islamic finance industry. They have not changed their legalistic approach and emphasize now more forcefully than ever that Shari'ah compliance is determined on the basis of Islamic law and not of Islamic economics.

4.1.Law without Economics: Form over Substance

Such an argument implies that there is a clear separation between law and economics. If this were an acceptable position, then Islamic jurists would have a serious conceptual problem to justify legal opinions on modern-day banking and finance with reference to *maslahah*:

- *Maslahah* and *maqasidal-Shari'ah* had a certain meaning in the past, but economic, social and political circumstances have changed so fundamentally that the old concepts cannot give any concrete guidance in modern times⁽²⁵⁾. From today's perspective, the juristic literature does not

= Commission Malaysia on "Islamic Finance and the Public Good", 12-13 March 2011, Ditchley House, Oxfordshire, UK.

(25) Early 2011 differs from early 2007 insofar as we have learned:

- how far the financial sector can detach itself from the real economy,
- how profitable financial trading can be,
- how risky speculative financial trading can be,
- that particular classes of financial products can have toxic qualities,
- that particular classes of financial products can trigger or reinforce a crisis, =

offer more than very general principles and ambiguous examples⁽²⁶⁾. The old legal elaborations do not carry direct practical significance for today's commercial and economic problems. They require substantial (re)interpretations before they can be applied in today's commerce and politics.

- For the necessary interpretation, legal experts must use the expertise of other disciplines that can explain social consequences of individual behaviour, and it must be underlined that the interpretation of what may be considered as public interest or *maslahah* today requires a systemic approach. If it is not for philosophical reflection but for political or commercial action (and legal opinions of Shari'ah boards are explicitly directed towards action), then the definition of *maslahah* must take into consideration the socio-economic situation of a particular country at a particular time. Special emphasis must be laid on the institutional setup because the same individual behaviour can have very different consequences under different institutional settings and thus could affect the public interest in very different ways.

The indispensable analytical knowledge cannot be provided by jurisprudence (which does not have a suitable methodology) but by social sciences in general and (Islamic) economics in particular. In other words, Islamic jurists and Islamic economists must cooperate in order to develop a meaningful and applicable modern concept of *maslahah*.

Indeed, Islamic economists have given (explicit or implicit) interpretations of *maslahah* in nearly all of their books and essays on an Islamic economic system since the 1970s (and even before), but the substance of these writings did not have an impact on Shari'ah scholars

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- that neither disclosure and rating nor regulation has prevented the crisis,
 - that popular models of financial markets (and risk models) did not integrate sufficiently herd behaviour and other 'irrationalities',
 - that systemic crises can happen and do happen – unpredicted and very fast,
 - that a financial crisis causes real losses of huge dimensions,
 - that most of the real costs of the crisis are not borne by those who have caused the crisis, i.e. that the crisis led to excessive negative externalities.

(26) See Attia (2007), pp. 211-225; Auda (2010) pp. 236-258.

when they approve or assist the engineering of advanced Shari'ah compliant financial products⁽²⁷⁾.

Under these circumstances it is very difficult if not impossible to come to a consensus on a positive definition of *maslahah* (what it is and how it can be actively promoted) – but for many practical purposes this is not necessary. It is often easier and sufficient to demonstrate that something is *not* compatible with a wide range of conceivable interpretations of the public interest.

If the widespread use of instruments and techniques with particular characteristics contributes to the spread and reinforcement of a systemic crisis with huge negative externalities for taxpayers, workers and many other 'ordinary citizens' ("harm to others"), it is hardly possible to claim that these instruments and techniques serve the real economy or are in the public interest. At best one could say that they are neutral, and the crisis is due to their 'misuse' in the financial industry.

Another question has also not yet been answered by Islamic jurists in a way that would convince sceptical economists (and maybe also potential customers of Islamic banks): If it is the explicit or obvious purpose of legal constructs to replicate the economic characteristics and qualities of conventional instruments and products, what is the gain for society that offsets higher transaction costs and additional risks? It would not be in the public interest to waste resources for the invention of an oval wheel, if an inefficient round wheel is already in use.

Shari'ah scholars certify the Shari'ah compliance of toolboxes that can be used for leveraged (and speculative) trading of financial assets within the financial sector with no links to the real economy. This is not to say that the Islamic financial system has already become as detached from the real economy as (large parts of) the conventional banking system have been, but it could happen⁽²⁸⁾.

(27) This may not come as a surprise if one considers that only 20% of today's Shari'ah scholars had a formal education in economics; see Ünal (2011).

(28) For more details see Nienhaus (2010, 2011).

4.2. *Maslahah* and Structured Finance after the Financial Crisis

Against this background, Shari'ah scholars may face some problems when they continue to approve structured instruments and synthetic products that are functional equivalents of those classes of conventional tools which played an inglorious role in the financial crisis.

The violation of a principle may be justified (forgiven) if this is in the interest of the public good, i.e. if it promotes *maslahah*. A popular argument was that it is in the interest of the Muslim community to have a financial system that is as efficient as the conventional system. Otherwise the Muslims would be in a disadvantaged position. Now that we have seen many inefficiencies of the conventional system and their huge costs in real economic terms, this old argument is widely discredited if used without further qualification. It is no longer possible to justify the explicit replication of functional equivalents of interest-based structured instruments with reference to *maslahah*. Further, it would only be consequential to reconsider what has already been approved in the last years in the light of the recent experiences and the improved understanding of the systemic consequences of the (mis)use of complex financial products. If not disapproved completely, restrictions for the application should be formulated.

The partial suspension of a principle is particularly precarious when an alternative is conceivable, i.e. if the same desirable social services can be achieved without violating important Shari'ah principles. However, a systemic alternative was never seriously considered by most scholars who serve in the Shari'ah boards of Islamic financial institutions (and supervisory and regulatory authorities). However, Islamic economists have indicated systemic alternatives already in the mid-1970s (i.e. when modern Islamic banking had just started)⁽²⁹⁾. A debate on a more

(29) The economists at that could hardly quote any contemporary Shari'ah scholar because Islamic jurists did not publish on those macro and systemic topics which were the main concern of Islamic economists. [A notable exception was Monzer Kahf who quoted at some length Muhammad Baqr Al-Sadr, a Shiite theologian and jurist who had a basic economic education and presented a specific (disputable) model of an Islamic economic system as an alternative to capitalism and communism as early as 1968; see with further references Kahf(1978).

fundamental financial system reform should be initiated (or re-started). But now, in academia and media as well as in politics and the business community, the search for and debate on systemic alternatives has reached an unprecedented acceptance and intensity. The economic core of the early PLS models of Islamic economics (financing only for the real economy and sharing risks between financiers and entrepreneurs) can serve as guidance for a systemic reform of the Islamic finance industry. The outline of a viable alternative to conventional banking will raise the bar for Shari'ah scholars to approve complex conventional instruments.

Suppose investment account holders of Islamic banks understand fully that they are no depositors but investors (at least as long as investment accounts are based on *mudarabah* contracts) and that the nominal value of their funds is not guaranteed.

- Once the present “deposit illusion” is gone, investment account holders will become risk sensitive and concerned about the use of their funds.
- For the modest returns they have received in the past (in line with interest paid for secure conventional deposits), they will hardly accept high risks. Leverage had boosted returns for shareholders, not for investment account holders, but it went unnoticed so far due to the deposit illusion of investment account holders and the opaqueness of Islamic banks.
- Most probably “enlightened” investment account holders will ask for the disclosure of the risk profile of their investments.
- An Islamic universal bank that commingles its own funds and funds raised on the Islamic capital market with investment account holders’ funds – i.e. commingles investment banking and retail business – will have difficult times to provide the required information.

A more transparent system would be a system where investment banking and retail banking are separated as it was the case in the US until the end of the 1990s and as it was recommended very recently in the final report of the High-level Expert Group on reforming the structure of the EU banking sector⁽³⁰⁾. But one could go even further and envisage a system where the public does not place its savings in investment accounts of Islamic retail banks and leaves it to the discretion of the bank management where and with what risk/return profile this money is invested. An alternative could be a system where savers place their money through a large variety of mutual funds with different *ex ante* disclosed investment strategies and risk profiles (from very secure investments in sovereign *sukuk* with low returns over diversified portfolios of corporate and project financings to venture capital funds with high risks and chances for high returns).

- Instead of 'depositing' money with a bank, savers will purchase certificates of investment funds that could be traded on an exchange (provided some Shari'ah requirements are observed).
- The trading ensures the liquidity of the certificates, but it does not guarantee a nominal value (which depends on the performance of the underlying portfolio).
- In contrast to opaque Islamic banking practices, the saver will know in advance where his money is invested (in bubble prone markets, speculative commodity transactions, the short selling of stocks, sovereign *sukuk*, manufacturing enterprises, *etc.*), and he has knowingly accepted the associated risk.

For conventional finance the replacement of bank deposits by mutual funds may look utopian, but for Islamic finance such an approach would be more consistent with the concept of *mudarabah*-based savings and investments', and it would bring finance close to the much cherished basic principles of Islamic finance in substance. This concept of *narrow*

(30) See High-level Expert Group (2012).

banking must not be elaborated any further in this paper⁽³¹⁾. Here it is sufficient to indicate that serious alternatives to the conventional finance are conceivable. Therefore the Shari'ah approval of functional equivalents of complex instruments of conventional universal banking with a mere reference to inherent necessities or *maslahah* is no longer a convincing practice. As a result, IE would severely restrict the discretion of Shari'ah scholars for the approval of functional equivalents of conventional financial instruments.

(31) Banks would be reduced to so-called "narrow banks": They accept and guarantee deposits only for transactional purposes and keep funds received from the public in cash or highly liquid central bank papers (= 100% reserve). There is a long tradition of "100% money" reform proposals in conventional economics (from Irving Fisher in the 1930s to "narrow banking" or "limited purpose banking" concepts today) [see Fisher (1936), Kay (2009), Kotlikoff (2010)], and Islamic economists had also taken up these ideas in the past (but more under the perspective of monetary policy than banking system reform) [see Yusuf (1977), Kahf (1978), El Diwany (1997)].

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Comment on Prof. Volker's Paper
“Method and Substances of Islamic Economics: Moving Where?”

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1. Christian Economics and Islamic Economics

Starting with a quotation on 19th century German Historical School, the author argues that Islamic Economics (IE) has not come up with a new paradigm, but follows a century old approach. The refereed school of thought defended value-based social science. However, it was forcefully and successfully rejected by its opponents such as Max Weber on behalf of a value-free paradigm in social science. Since then the interest in methodology has decreased if not completely vanished among conventional economists. However, a marginal group known as “Christian economists” have made similar normative arguments in rejecting mainstream economics. In his terms, “*Christian economics* combines the normative orientations and prescriptions of the Christian faith with constative knowledge which is provided by 'secular' economics.” However, even though that they came up with priorities and principles (e.g. primacy of justice, priority of labour over capital, solidarity and subsidiarity), this was “hardly sufficient to define precisely and positively a *unique* 'Christian economic system'.” (p. 4)

Comment:

I agree with the author that Islamic economics is quite similar to Christian economics in terms of their emphasis on similar norms. Actually, one can argue that Islam is not a completely new religion. It is considered to be the last chain of Abrahamic religions. Therefore, it is not surprising to see that Christianity and Judaism have many values in common with Islam. As seen below, this is why I prefer to “moral market

system" rather than "Islamic economics". In my view, a moral economy will be embraced by the followers of Abrahamic religions.

The failure of Christian economics does not necessarily mean that that IE would fail too. In my view, if properly developed, the Tawheedi paradigm would produce a viable alternative economic system.

2. Belief and Reason

While discussing the nature of religious knowledge, the author argues that "the basis of religion is believing, not proving – faith, not reason. We cannot rationally 'decide' to believe in God, but nevertheless we can be convinced that He exists.... People do not believe because of rational arguments but because of their won impressive experiences. The impressive experiences are personal and may be very different for every believer." (p.4) On the same issue, he also argues that "reason may also force man to reconsider and eventually correct religious beliefs as far as *factual* propositions are incorporated. If, for example, modern natural sciences offer convincing explanations about the 'creation' which are in contrast to what was traditionally believed with reference to the Bible, then a rational believer should be willing to reconsider his constative beliefs." (p.4)

My Comment:

I have to disagree with the author in regard to belief and reason. I think Islam differs from Christianity and Judaism in terms of its view of reason and belief. In Islam, belief is not acceptance, it is an affirmation or bearwitnessing. Therefore, as stated by a Muslim scholar, it is not enough to accept that "Almighty God is One, He has no partner or like. This universe is His." The true affirmation requires to bearwitness "on everything the stamp of His power, the seal of His dominicality, and the inscriptions of His pen and to open a window directly onto His light from everything and to confirm and believe with almost the certainty of seeing it that everything emerges from the hand of His power and that in no way has He any partner or assistant in His Godhead or in His dominicality or in His sovereignty, and thus to attain to a sort of perpetual awareness of the Divine presence" (Nursi, *The Words*, 22nd Word, p.300) That is why the declaration of faith (*shahadah*) in Islam does not say "believe" or "accept", rather "bearwitness to" the oneness of God.

3. Normative Economics and Islamic Economics

The author defines economics as the science of human actions which are determined by his beliefs of two kinds: constative and prescriptive. While the former is about what the world is, the latter is about the world should be. The author thinks that economics should not be confined to constative knowledge. He argues that "the classical theories of knowledge- rational and empiricism - and their methodologies were based on the idea of rational justification." (p. 2) He cites Karl Popper's theory of falsification to make a case for prescriptive beliefs in economics.

The author cites the established distinction of positive and normative economics since the second quarter of the 19th century. However, starting from the early 20th century, normative issues were excluded from economics and passed on to other disciplines." (p.6) Despite some efforts, "Western economists were not much interested in normative issues. Notable exceptions can be found in the fields of welfare economics and to, some degree, action oriented development economics as well as in some 'unorthodox' schools of thought such as Austrian economics. Weber's postulate of freedom from value judgments in a positive science became the prevailing position in mainstream economics during the first half of the 20th century."(p.7) He argues that after the 2008 financial crisis, economists began taking normative issues more seriously.

My Comment:

I agree that Islamic economics gives a great importance to norms, however, it is a mistake to limit IE to normative economics. I argue that economic systems are the product of certain paradigm dealing with being, reality, nature, human, etc. "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, p.7). Capitalist economic system is no exception. It emerged as an economic pillar of the Enlightenment through which people were disconnected with the God promising paradise. Instead, capitalism promises an earthly paradise through free market mechanism. This is same for socialist economic system as well. Despite disagreement between the two, in reality capitalist and socialist systems are two twins

who prefer different means to the same ends. In other words, both capitalism and socialism see human pleasure as the final ends. The disagreement is about how to produce goods and services for human pleasure and who to please among human beings. The well-being is defined in a purely materialist and hedonist sense. While free market capitalism envisions the fulfillment of social interests within the free pursuit of self-interests, socialism gives priority to social interests. Both capitalism and socialism aim for "worldly paradise" through material well-being of people. The disagreement is in the tools they suggest for the final end. They both reject the spiritual realm of human being and the universe. For them, there is nothing beyond material world. The life is strictly limited to this world. However, they both have failed to fulfill their promise. The search for an alternative has been underway for a while. I argue that while capitalist free market economy relies on a secular paradigm which is shaped by its ontological, epistemological, and anthropological perspectives, we should develop Islamic economics ("moral market system") based on Tawheedi paradigm.

In a recent paper, I offer the following ten axiomatic reasons to have Islamic economics as an alternative paradigm rather than "old capitalism":⁽¹⁾

1. Islamic economics/finance pursues different goals as ultimate end/outcome.
2. Wealth is "preferred indifference" for Islamic (G-donic) happiness model.
3. Islamic Economics is not based on self-interest alone.
4. Islamic Economics values social, moral and spiritual capital.
5. Islamic economics offers moral and spiritual filters.
6. Islamic economics eliminates duality in favor of spirituality.
7. Islamic economics offers an antidote to material indulgence.
8. Islamic economics offers moderation in fulfillment of sensual and egoistic desires.
9. Islamic economics assumes that human is "predictably irrational".

(1) Aydin, Necati (2012) "Islamic Economics: New Paradigm or Old Capitalism?" was presented at *10th Harvard Forum of Islamic Finance*, Harvard University, March 24-25, 2012, Boston, USA.

10. Islamic economics offers antidote against alienation and animalization through capitalism.

4. (Re)defining Islamic Economics

The author states that "Islamic economics is by its own definition normative economics" Therefore, it does not matter whether is called "Islamic economics" or "economics from an Islamic perspective." (p.10) Therefore, the author suggests that Islamic economists should engage in dialogue with partners "outside the mainstream in branches of economics which have similar structures and value orientations, for example in humanistic economics, Christian economics or Austrian economics." (p.11)

My Comment:

I think there is confusion on the very definition of Islamic economics mainly due to the lack of clear understanding of Islamic worldview. As mentioned above, I do not think IE should be constrained to normative economics. In a recent paper⁽²⁾, after reviewing the existing definitions, I attempted to come up with a new definition of IE based on the Tawheedi paradigm. To me the distinctive features of Islamic economics come from the Islamic worldview, particularly its ontological, epistemological, and teleological differences from the materialist worldview. Therefore, it is important to highlight multi-dimensional well-being goals and morally guided market mechanism in definition: **"Islamic economics foresees an economic system based on the Islamic worldview aiming to realize spiritual, moral, intellectual, social, and material well-beings of individuals in this life and the hereafter through allocation and distribution of scarce resources in a morally guided market system."** Thus, the answers to the core questions in economics could be as follows: what to produce? Produce goods and services which help human beings to excel spiritually, intellectually, morally, and socially. What to produce? Produce the basic goods and services for everyone, but others for those who could afford. Accumulate spiritual, moral, and social capital in addition to physical and financial capital. How to produce? Produce through efficient and fair market mechanism.

(2) Aydin, Necati (2012) "Redefining Islamic Economics as a New Economic Paradigm", *IRTI Journal of Islamic Economic Studies*, forthcoming.

5. Positivism, Empiricism and Islamic Economics

The author further refers to the methodological problem in economics due to empiricism and positivism. "The basic idea was to confront theories with the observable reality and to find disconfirming *empirical evidence in data*. For this, theories have to produce *measurable* outcomes. As a consequence, mainstream reduced economics from an empirical to a *quantitative* science. Statistics and data processing technologies advanced rapidly, econometrics emerged as new discipline, and economists were expected to use applied and advanced mathematics for the design of models with testable hypotheses." (p.7) He mentions the lack of studies since 2000 in Journal Economic Literature on epistemology and methodology in addition to discarding courses on history of economic thought from the curricula.

My Comment:

I think after the 2008 financial crisis, the trend has been reversed. We now hear loud discussions on the assumptions, theories, and models of conventional economics. The rise of behavioral and experimental economics is the product of the critical views of existing paradigms. Having said that, we should not ignore positivism and empiricism have influence the minds of Muslim scholars as well due to the dominance of Western secular paradigm in science and education. Therefore, it might be quite difficult for Western educated Muslim scholars to come up with an alternative paradigm.

6. Islamic Economics and *Maqasid al-Shariah*

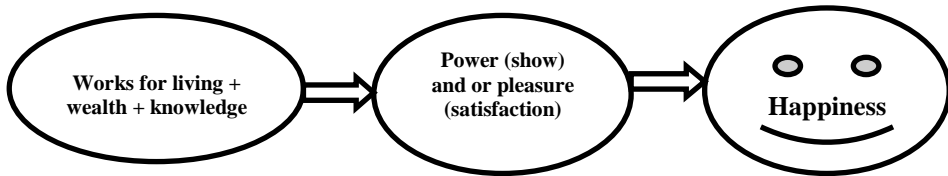
He also addresses the need for re-interpretations of key concepts in IE such as *maslahah* and *maqasid al-Shariah* to make the discipline more relevant. (p.15) He highlights the importance of IE for the growing Islamic finance if we do not want to create pseudo Islamic toolboxes.

My Comment:

I agree with the author that we need to come up with re-interpretations of key concepts such as *maqasid al-shariah*. Indeed, in my view, the distinctive feature of Islamic economics should come from its Tawhidi paradigm which sets very different *maqasid* (ultimate goals) for people in compare to the secular paradigm. As I argue in a recent

paper⁽³⁾, the capitalist economic system which relies on the secular paradigm encourages works for living, wealth and knowledge as means to the intermediate ends which are power (show) and pleasure (satisfaction). Therefore, the system promotes the functional and positional goods and services to satisfy animal desires and ego. The ultimate goal or final end is considered to be happiness through consumption. Even knowledge is a means for either wealth or ego-satisfying positions. Scientific and technological advancement are not for understanding truth or virtue, they are for power and pleasure.

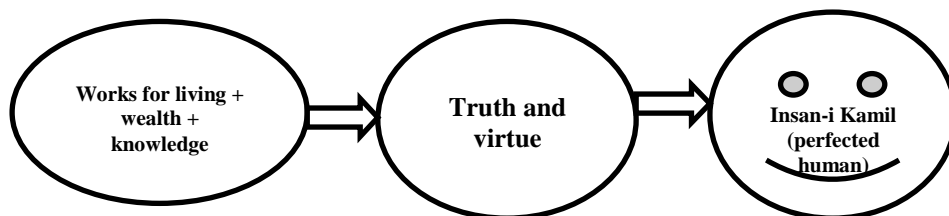
Chart 1: Means and Ends for the Capitalist Economic System



In the Islamic (moral) economic system which relies on the Tawhidi paradigm, it is not only permissible but worship to work for living, wealth and knowledge. However, unlike capitalist system, they are not means for power and pleasure; they are means for truth and virtue. In other words, the pursuant of wealth is for performing virtuous actions while the pursuant of knowledge to learn virtue and truth. In the following hadith, the Prophet (pbuh) clearly states that wealth and knowledge are just means: *"Envy is permitted only in two cases: A man whom Allah gives wealth, and he disposes of it rightfully, and a man to whom Allah gives knowledge which he applies and teaches it."* [Al-Bukhari and Muslim]. The ultimate goal is not happiness, but excellence or perfection as a human being. It is to be real human being who is portrayed in the Qur'an as being potentially superior to all creatures including angels. Therefore, the ultimate goal is to realize God's human project as described in the Quran by raising insan-i kamil (perfected human). Happiness is the byproduct of such accomplishment.

(3) Aydin, Necati (2012) "Luxury Consumption and Role of IBF in the GCC", the paper will be published in an edited book on Islamic Economics and Finance in GCC by Gerlach Press.

Chart 2: Means and Ends for the Islamic Economic System



In short, the current discussion of *maqasid* within the context of Islamic finance is largely limited to the means rather than the final end. However, even if the means are in line with the Sharia, the final end might not be. Therefore, the actual focus should on the final end as defined above. Of course, we need to develop indicator such human development index based on the concept of *insan-i kamil* to assess the progress toward the *maqasid*. Then, it would be possible to measure the net effect of Islamic finance toward the *maqasid*.

7. The Future of Islamic Economics

The author forcefully argues that Islamic economics is not being taken seriously by mainstream economics. He supports his argument by citing the number of articles in AEA journals as being only three since 1999. He notes several reasons for the marginalization of Islamic economics. First, the structure of IE is not so different from the neglected "Christian economics" Second, welfare models of IE such as zakat, waqf, *riba*-free finance are considered as idealistic visions of a rather distant future. Third, the arguments are not unique enough to be added to an existing discipline such as welfare economics. Fourth, the impression is that IE gives guidance to Muslims only. It is not relevant to non-Muslims. However, it seems like there is a positive trend in the recent years. Furthermore, the author suggests, the normative component of IE is deeply rooted in a faith which is not shared by the majority of conventional economists.

The author cites the increasing interest in IE in the last few years. He mentions several new journals on the topics which have been released in recent years. Even though they are related to Islamic Finance, the author still thinks they will give opportunity to raise issues regarding IE.

The author argues that most papers in IE "do not qualify as such, although they have "Islamic" in their title. They are pieces of *conventional* economics: conventional methods are applied in answering conventional questions without a systemic dimension. (p.11) He calls them "IE Light" studies. He urges the need for "IE proper" studies to develop IE as a distinctive discipline. He suggests that this can be done by "tapping into the huge intellectual pool of young talents in conventional economics all over the world. What "IE proper" has to achieve is a successful agenda setting to draw intellectual capacities into under-researched areas." (p.12) He outlines step by step approach to develop IE as a distinct discipline. He mentions the "Arab Spring" as an evidence for the increasing demand for the development of IE as alternative economic paradigm.

My Comment:

I agree with the author that mainstream economists do not take IE seriously. However, if we develop a sound paradigm and conduct theoretical and empirical studies, we would eventually attract their attention. Even though new journals mentioned are good sign for the interest in IE, none of them provide venue to the mainstream economics. There is an urgent need for ISI indexed journal to attract the attention to topics and bring great intellectual minds on the board. I agree with the author that we should take advantage of great interest in Islamic economics due to the crisis in conventional economics and the political changes in the Muslim world. In my view, there are many tasks ahead of those who work to develop Islamic economics and finance into an alternative economic paradigm⁽⁴⁾. First, they need to go beyond the existing paradigm and create their own concepts and models whenever it is necessary. They need to go beyond narrowly defined *maqasid-i sharia* by establishing Tawhidi paradigm based on Islamic ontological, epistemological, anthropological, and teleological perspectives. Second, they need to begin from microeconomics. As Yalcintas pointed out over two decades ago "construction of microeconomic theory under the

(4) Aydin, Necati (2012) "Islamic Economics: New Paradigm or Old Capitalism?" was presented at *10th Harvard Forum of Islamic Finance, Harvard University*, March 24-25, 2012, Boston, USA.

Islamic constraints might be the most challenging task for Islamic economics.”⁽⁵⁾ They need to establish “a separate theory of consumer behavior and a separate theory of firm in the context of Islamic economics.”⁽⁶⁾ This should not be just the relabeling the existing microeconomics literature. As Chapra suggests, it should reflect “the radical differences in the worldviews of Islamic and conventional economics.”⁽⁷⁾ Third, they need examine the existing empirical and theoretical studies to gather evidence for new concepts and models of Islamic economics and finance. Fourth, they need to conduct experimental and empirical studies to gather data and test economic assumptions and models from Islamic perspective. Most of existing papers on Islamic studies do not offer any scientifically acceptable evidence for their arguments. Therefore, they are more rhetorical, rather than scientific. Scholars of Islamic economics now have more measurement tools to gather qualitative data in order to test concepts, assumptions, and models from the Islamic economics. Fifth, they need to expand certain tools such as human development index to measure the outcome of economic system in terms of contributing to human excellence based on Islamic worldview. Sixth, they need develop moral, intellectual, and spiritual responsibilities index in addition to corporate social responsibility index to assess Islamic financial institutions and other economic entities. Seventh, they need to comparatively study the impact of materialist versus spiritual and moral values to provide evidence regarding virtuous and moral life being the path to happiness in this world as well. It is even to possible to use functional MRI to examine the brain activities of people with different life styles to see the impact of moral and spiritual values on subjective well-being. Eighth, they need to define Islamic financial instruments based their expected outcome within the Tawhidi paradigm, not just based on prohibition of *riba* and gambling.

(5) Yalcintas, Nevzat (1986) *Problems of Research in Islamic Economics: General Background*, IRTI, p.38.

(6) Ahmad, Khurshid (1986) “Problems of Research in Islamic Economics with Emphasis on Research Administration and Finance,” in IRTI, p.79.

(7) Chapra (1996) What is Islamic Economics, IDB Prize Winners’ Lecture Series No.9, p.50.

Preliminary Thoughts on Diagnosing Some Methodological Issues in Developing Islamic Economics⁽¹⁾

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Abstract. The recurring economic crises over the last two decades have provided the opportunity for a lot of soul searching. This is happening in both conventional economic circles and slowly, but surely, among Islamic economists. Section one of the paper presents, albeit briefly, the debate in the west and tries to ascertain the nature and scope of the situation in Islamic economics. While there are serious problems in Islamic economics that need to be addressed, the view taken is that it is not in the same crisis mode as modern neoclassical economics. Section two of the paper presents and surveys some methodological approaches taken by Islamic economists and concludes that very little serious work on methodology has been done. Section three argues that interaction with modern economics is not only acceptable but should be a part of developing a genuine Islamic economics framework. For this to happen, clearer understanding of how interaction should take place and on what terms this is to be done as well as a better understanding of 'Islamization of knowledge' can assist in clarifying the methodological principles/guidelines that will form the basis for developing contemporary Islamic economics. Section four concludes.

(1) Paper presented at a Workshop Organised by the Islamic Economics Institute, King Abdul Aziz University, Jeddah, November 12-13, 2012. Please take note: The paper as sent in on 15th October is still being modified, especially the sections in yellow and the concluding comments.

Section 1- Introduction

- Brief comments on the contemporary evolution of IE, with reference to points raised on pp. 1-5 of the 'Call for Discussion' paper
- Brief comments on selected issues raised on pp. 6-9 of 'Call'
- Overview of my subsequent paper, that will focus attention on pp. 9-12 of 'Call'

Section 2- Methodology of Islamic Economics: Overview and Issues

- Brief survey of some definitions of methodology
- Brief overview of writings of 'methodology' in contemporary Islamic economists
- Critical Review- 'methodology' not really addressed

Section 3- Developing Islamic Economics- Genuine Integration of *Turath al-Islamiyy* and Modern Knowledge

- Interaction/Integration of *Turath al-Islamiyy* with Modern Knowledge
 - Understood correctly, this is the prophetic preference
 - Basis must be revelation and Islamic worldview
 - Critical evaluation of both Islamic heritage and modern sciences (esp. In the form of disciplines)
 - These disciplines have two types of knowledge i.e. *substantive* and *methodological*
 - simplistic integration/Islamization has not discerned and differentiated this very important distinction
- Scope of Substantive Knowledge
 - What is substantive knowledge in that *turath al-Islamiyy* relevant for the development of contemporary Islamic economics? Limited to only '*fiqh*' (mis-understood and narrowed to legal knowledge. What about falsafah, kalam, history etc?
 - What is the substantive knowledge in modern economics sufficient to develop contemporary Islamic economics? Limited to neoclassical economics? What about others

- schools of economics? What about other disciplines such as sociology, politics, etc.
- Need to understand the different components of turath and modern knowledge and what it takes to be a ‘good and qualified Islamic economist’.
 - However, fundamental Challenge is epistemological/methodological
 - Substantive knowledge is developed by a certain legitimate/authoritative process i.e methodology, hence knowledge of this is central
 - what is the methodology/ies used to develop turath al-Islamiyy vs. Methodology of modern knowledge?
 - Since revelation is the primary source of knowledge in Islam, challenge becomes how to refer to and use revelation in developing contemporary Islamic economics that must also try to integrate turath with modern knowledge
 - Calls for new methodology since *usul al-fiqh* may also be insufficient. Is there a need for an *usul al-Iqtisad* or *usul ilm al-umran* or *usul ilm al-maash*, basically methodology for a social science
 - Some differences in what economics tries to do compared with law/fiqh and how this will impact methodology, hence the need for a ‘separate’ methodology for Islamic economics

Section 4- Some Concluding Comments

Preliminary Thoughts on Diagnosing Some Methodological Issues in Developing Islamic Economics

ROBERT LUCAS, one of the greatest macroeconomists of his generation, and his followers are “making ancient and basic analytical errors all over the place”. Harvard's Robert Barro, another towering figure in the discipline, is “making truly boneheaded arguments”. The past 30 years of macroeconomics training at American and British universities were a “costly waste of time”. To the uninitiated, economics has always been a dismal science. But all these attacks come from within the guild: from Brad DeLong of the University of California, Berkeley; Paul Krugman of Princeton and the *New York Times*; and Willem Buiter of the London

School of Economics (LSE), respectively. The macroeconomic crisis of the past two years is also provoking a crisis of confidence in macroeconomics. In the last of his Lionel Robbins lectures at the LSE on June 10th, Mr Krugman feared that most macroeconomics of the past 30 years was "spectacularly useless at best, and positively harmful at worst". These internal critics argue that economists missed the origins of the crisis; failed to appreciate its worst symptoms; and cannot now agree about the cure. In other words, economists misread the economy on the way up, misread it on the way down and now mistake the right way out.

Economist July 16 2009

Our dissatisfaction with the explanatory power and logical consistency of neo-classicaleconomics has exercised our minds for the best part of two decades, and the discourse that follows has been refined over countless morning tea discussions, dinnerconversations and email exchanges. There is no question that this paper is long overdue, and we have had to nurse our consciences having not attempted, before now, to fulfilour social responsibility as academics to persuade others in their scientific communityof our views. The simple fact of the matter, however, is that a range of obstacles havebeen in existence that would have rendered ineffective any attempt to profferalternative views in any case. **Now things are different**, and one of the objectives of thisarticle is to elaborate on this theme, and explain why circumstances have contrived tomake this paper a reality.

Jeremy Williams and Judith McNeil (2005)⁽²⁾

(2) The Current Crisis in Neoclassical Economics and the Case for an Economic Analysis based on Sustainable Development, U21Global Working Paper.

Section 1- Introduction: Is Islamic Economics in ‘crisis’?

Before we attempt an answer, let us briefly take a look at the word itself. Generally the word brings these three inter-related meanings

- a time of intense difficulty or danger
- a time when a difficult or important decision must be made
- the turning point (of a disease) when an important change takes place, indicating either recovery or death.

These three inter-related meanings for Islamic Economics would be represented by the following statement ‘Islamic Economics is in a state of crisis because we are in intense difficulty and are in danger (of ‘dying’), hence we must make a decision that will take us to recovery (if we make the right decision)’. Hence we need to identify

- a. what is the intense difficulty/danger we are facing (if it is a crisis)
 - i. what is the nature of the ‘intense difficulty’ (and is it the same danger faced by modern economics)
 - ii. what are the grave implications of the crisis
 - iii. why are we in this situation
 - iv. what are our options
- b. what decision do we make
 - i. which option do we take and why
 - ii. is there only one option or can there be more than one
 - iii. what to do and how to do it

When I read the introductory paper by the Institute, I generally concurred with many of the observations and congratulate the Institute for taking this bold step to discuss this very ‘sensitive’ topic. Sensitive because what we decide will have tremendous implications not only on the direction of Islamic economics (if we choose something different), but will also have ripple effects on other related areas such Islamic Banking and Finance.

Crisis in Modern Neoclassical Economics vs. Islamic Economics

As the two quotations at the beginning of the paper show, much has, and can be written on this topic. Soul searching is definitely taking place and that is one of the lessons we learn from Chinese wisdom that sees 'opportunities in times of crisis'. In essence the main difficulties being faced by modern neoclassical economics is that it is increasingly being seen as being 'autistic' or deficient since it is not able to explain reality; it overuses and abuses mathematics and statistics; it has not been able to solve real problems, and in fact is being blamed for aiding in manifestations of problems faced by the majority of the people; and that in general it has become 'out-dated', teaching theories that have been disowned by their authors as well as being based on unrealistic assumptions.

Is Islamic economics 'as developed over the last 40 years or so', also 'autistic' in the same way? Is Islamic economics able to explain human behaviour, able to solve the economic problems of the people, has it abused mathematics and is it 'out-dated'? While the position paper prepared by the institute gave some views of our respected pioneers covering various 'problems' of Islamic economics, I do not think sufficient attention has been paid to these questions by Islamic economists as a whole. These questions by themselves would make an interesting Masters, if not doctoral thesis.

While the critics of modern neoclassical economics point to solutions in the writings of other non-neoclassical scholars such as Keynes or even want to promote ideas of other heterodox schools, Islamic economists who agree that there is 'something wrong' with contemporary Islamic economics say that we have to 'go back to our religion and its sources', implying that contemporary, mainstream Islamic economics has not correctly developed the discipline, being happy to make minor modifications to modern neoclassical economics⁽³⁾. Just as defenders of

(3) See the numerous works of M.A. Choudhury and more recently, writings of Asad Zaman (2011), 'The Crisis in Islamic Economics: Diagnosis and Prescriptions', paper presented at the 8th International Conference on Islamic Economics and Finance, Doha, Qatar, December 2011.

modern neoclassical economics would disagree with the propositions of ‘going back to Keynes’, many supporters of contemporary mainstream Islamic economics would think that the critics of Islamic Economics are too harsh.

As a brief conclusion to this section, let us agree that the nature of the problems in Islamic economics are not the same as diagnosed for mainstream neoclassical economics. All the problems in the Institute’s paper cited by our pioneers such as Siddiqi, Chapra, and Kahf may be true, but these are seen by critics to be due to mainly to the ‘replication’ argument, i.e. IE has not broken out of the neoclassical mould. However, the nature of problems (not to the level of crisis) in IE is certainly not the same as in modern neoclassical economics. IE did not cause the problems of today, at the same time was never touted as being able to provide any ‘solutions’ to problems, it has not really ‘misused and abused math’, as can be seen from the literature over the last 40 years. The nature of the problem in IE is that it does not seem to be moving forward. It seems to be stagnating. If in the late 1960s and 1970s to early 1980s, the ideas were ‘fresh’ and inspiring, developments of those ideas into theories did not take place; new ideas did not flourish and too much focus has been given to Islamic Banking and Finance (as pointed out by the position paper). Hence, the crisis occurring in modern neoclassical economics has also allowed Islamic economists the opportunity to take a critical look at where our problems are and to take the necessary remedial action.

What are decisions that need to be taken? Although IE may not be in ‘crisis’ as modern neoclassical economics, improvements can be made so that IE can move forward. What are the options that we have? I hope to answer these questions by looking at some methodological issues that face IE.

Section 2: Methodology of Islamic Economics: Some Issues⁽⁴⁾

In this section, we briefly present an overview of the definition of methodology, a brief survey of what Islamic economists have written in the area of methodology and point to some major methodological **challenges that need to be addressed if we want to develop IE.**

What is Methodology?

Methodology can be seen as a specific part of that branch of philosophy called epistemology. In epistemology, we study the theory of knowledge, the sources of knowledge, the application of knowledge and the limitations of knowledge; whilst in methodology, the study is narrower and more specific on how to develop knowledge (theories) and how to evaluate the knowledge (theories) produced.

Blaug (1993)⁽⁵⁾ defines methodology of economics as the branch of economics where we study how economists justify their theories, and the reasons they offer for preferring one theory over another. Machlup (1978: 55)⁽⁶⁾ also clarified that

although methodology is *about* methods, it is not *a* method, nor a set of methods, nor a description of methods. Instead it provides arguments and rationalizations which support various preferences entertained by the scientific community for certain rules of intellectual procedure, including those for forming concepts, building models, formulating hypotheses, and testing theories.

(4) Much of this section is taken from Haneef and Furqani (2011), Methodology of Islamic Economics: Overview of Present State and Future Direction, IIUM Journal of Economics and Management, 2011.

(5) Blaug, Mark. *The Methodology of Economics: Or How Economists Explain*. Crambridge: Cambridge University Press, 1993; Dow, Sheila C. *The Methodology of Macroeconomic Thought A Conceptual Analysis of Schools of Thought in Economics*. Cheltenham, UK: Edward Elgar, 1996.

(6) Machlup, Fritz. *Methodology of Economics and Other Social Sciences*. New York: Academic Press Inc, 1978.

Methodology implies not merely the technical procedures (modeling techniques) used, the choice of categories and preferred integration procedures, but the underlying conceptualization of reality (the worldview) in relation to the preferred mode of reasoning as well as the standards used to appraise theories (Dow, 1996; Machlup, 1978).

Again Machlup (1978: 55) states that

Methodology is neither a study of good methods nor a study of methods used *per se* (emphasis added) but rather a study of the reasons behind the principles on the basis of which various types of propositions are accepted or rejected as part of the body of ordered knowledge in general or of any special discipline⁽⁷⁾.

Methodology analyses the process through which knowledge about economic phenomena is authenticated. Methodology does not simply mean methods, techniques or several procedural steps needed for appraising theories. Methodology is beyond that. Its interest is to investigate the criteria, rationalization, arguments and justifications for theory appraisal as well as testing and proving the reliability of that theory. The techniques, methods and steps of interaction come much later after the criteria and arguments are clearly established. This meaning and understanding of methodology is not fully reflected in the works of the Islamic economics scholars reviewed. A survey of writings is summarised below:

(7) Machlup (1978: 61) then distinguishes between methodology (as defined above) and description of methods used in academic papers/research (what he terms as methodography or simply notes on methods). He takes to task many ignorant writers today who have 'debased' the term to the latter (1978: 7-8) and cautions that in the name of steering away from 'abstract' discussions, we should not be infected with 'methodophobia', a disease that creates a negative over reaction to the mention of the term.

Table 1: The Process of Theory Appraisal in Islamic economics: A Survey of the Scholars' View

Scholar	Year	Objective	Approach
M.A. Mannan	1983	To produce economic theory based on Islamic framework	<ul style="list-style-type: none"> • Identify the economic issues/problems • Search for the explicit and implicit guiding principles of the Shari'ah • Theoretical formulation of the problem • Prescription of policy • Implementation of policy • Review and evaluate the policy implemented • Results of the evaluation
Muhammad Anwar	1990	To promote growth of knowledge of economics within an Islamic framework by: <ul style="list-style-type: none"> • Islamizing modern economic theories • Developing economic theories independent of Western thought 	<ul style="list-style-type: none"> • Contrast component of conventional theory with selected components in the Islamic <i>corpus</i> and <i>nucleous</i> • Apply ijtihad to classify components of conventional theory into Islamic and neutral elements. • Discover substitutes of the un-Islamic elements through ijtihad
M. Umer Chapra	1996	To produce Islamic economic theory that fits within the logical structure of the Islamic paradigm as defined by the Qur'an and Sunnah	<ul style="list-style-type: none"> • Methodological Pluralism • Scrutinize the economic hypothesis whether it fits within the logical structure of the Islamic paradigm • Yes. Evaluate the hypothesis through logical reasoning in the light of the teachings of Shari'ah • Yes. To test and provide empirical evidence continuously.
Mohammed Aslam Haneef	1997	To produce Islamic economic theory by using its own framework and its own criteria	<ul style="list-style-type: none"> • Identify all the verses of the Qur'an and Sunnah which relate to economics • Systemizing into principles, postulates, hypothesis, precepts and assumptions • The process of integration,

Scholar	Year	Objective	Approach
			<p>examination, and filtering the contemporary Western economic thought</p> <ul style="list-style-type: none"> • Evaluation the strength and reliability of the theories appraised by using contemporary scientific method as well as Islamic framework and criteria
M. Anas Zarqa	2003	To produce an “Islamic science of economics” by the interaction and integration of “Islamic assumptions” and “economic assumptions”	<ul style="list-style-type: none"> • Replacing the preconceived values of conventional economic theories by Islamic values. • Adding the Islamic descriptive statements about economic life into contemporary economic theory • Product: <ul style="list-style-type: none"> ○ Islamic normative statements and assumptions ○ Islamic descriptive statements that are related to economics ○ Descriptive economics assumptions and statements that is not against Islamic principles
Monzer Kahf	2003		<ul style="list-style-type: none"> • Elaboration of Islamic economic system that consists of philosophical foundations, principles, axioms, assumptions and sets of operational rules by: <ul style="list-style-type: none"> ○ Theoretical discovery of all the components of the system and its internal coherence ○ The investigation of economic validity and applicability of the system including the way variables and behaviour are affected • Revision of Conventional economic theory: <ul style="list-style-type: none"> ○ <i>Takbilyah</i>: Identify and isolate the biased postulate ○ <i>Tabliyah</i>:

Scholar	Year	Objective	Approach
			Incorporate the positive postulates derived from <i>Shari'ah</i>
Baqir al-Sadr	1983	To discover the doctrinal basis of Islamic teaching concerning economics, Eg ownership, production, consumption, distribution, and etc.	<ul style="list-style-type: none"> To study all the economic laws injunctions that related to economics to discover the doctrine as the upper structure of Islamic economics which is to be the base where numerous theories can be derived Approach is similar to <i>Fiqh</i>
Zubair Hasan	1998	<ul style="list-style-type: none"> To "rediscover" the Islamic doctrines and systems To sets the goals for Islamic economists To prescribe behavioral norms for their achievements To formulate rules for evaluating the results 	<ul style="list-style-type: none"> To discover the doctrine can adopt <i>fiqh</i> approach "Step by step" approach by sifting, pruning, and modifying, where possible, conventional economic theories to conform to the <i>Shari'ah</i> tenets
S.H. Naqvi	1981	To develop a systematic analytical framework of the ethico-economic teachings of Islam into a set of axioms from which the professional economist can deduce policy-relevant conclusions	<ul style="list-style-type: none"> Axiomatic approach Islamic economic theories is derived from the four axioms of unity, equilibrium, free will and responsibility

The Missing Dimension of Contemporary Islamic Economics: Methodology

A majority of scholars reviewed tend to prefer an integrative approach for theory building in Islamic economics, i.e. a process involving interaction between Islamic and modern sciences. The basic argument is that the positive side of the advanced development of modern economics could be worthwhile and can be utilized for the purpose of developing Islamic economics. The body of Islamic economics that is intended to be created, and later on developed into a new discipline with a distinct body of knowledge, methodology/ies as well as theories, should not necessarily start from zero by ignoring all the wisdom of modern economics which have been generated through the long process of intellectual interaction and debate/discussion.

The exceptions to this approach may be Choudhury and Zaman. The former's meaning of 'integrative' may be quite different. Judging from his writings, it would seem that he does not support the use of existing concepts as well as the possibility that their meanings could be merely modified. Integrative to him would mean starting with developing original concepts, with unique meanings that represent a 'reality' that encompasses both the physical and spiritual realms. A new math, a new symbolic logic and formalism is needed. The latter argues for a rejection of neoclassical economics since he says that they are two 'conflicting bodies of knowledge' that have very different worldviews and fundamental notions of existence.

While I agree that the worldviews vary, and are in certain aspects in conflict, I am still of the opinion that we can utilise modern economics, provided we have clear criteria that enables us to know what we can accept, what we have to reject and what we need to modify and of course, how to do that, in line with Islamic criteria. For this, it is imperative that genuine 'methodology' research be done and we have 'principles/criteria on which we can argue for validity or otherwise of legitimate knowledge'. The Islamic economic methodology discussions over the last 30 years clearly indicates that Islamic economists have not really discussed 'methodology' and much more research needs to be undertaken especially to set the 'criteria' for theory appraisal in Islamic economics and how to evaluate the reliability of theories in an Islamic framework so that a clear methodology of Islamic economics and a strong foundation of Islamic economics can be established.

Whenever Islamic economists have attempted to talk of methodology, they have always referred to *usul al-fiqh*. In papers written in the early 1980s⁽⁸⁾, Abu Saud called for the need to develop a methodology for the behavioural sciences rather than depending on *usul al-fiqh*. Idris (1987) also discussed certain methodological principles he thought were the basis of a methodology that would have to take into consideration both revelation and the universe as sources of knowledge. Safi (1992) stated

(8) For citations on these issues, please refer to Haneef, Mohamed Aslam (2009), *A Critical Survey of Islamization of Knowledge* (2nd Edition), IIUM Press, KL.

that the Islamization of knowledge agenda- which is supposed to be primarily an epistemological and methodological agenda- was, after nearly 20 years, still in a 'pre-methodological stage'! This is because works written by scholars, including Islamic economists, never discussed methodology as defined earlier. Those who were trying to talk of methodology, referred to *usu al-fiqh*, that was understood as methodology of Islamic law/jurisprudence.

Section Three: The Need for Genuine Interaction Between Turath al-Islamiyy and Modern Sciences

While we mentioned that a majority of the scholars writing in Islamic economics favor 'interaction' between Islamic heritage and modern sciences', the understanding of this highly complex task varies considerable from good insights to mere superficial patchwork. In addition, the process of 'corruption of knowledge' used by Al-Attas (1978) to explain among others, the narrowing down of important terms and concepts in Islamic scholarship to meanings that are focused only to law (as *shari'ah*. *Fiqh* etc) has had serious adverse implications for the understanding of Islamization of knowledge efforts (in this case economics, and finance) as well as the development of proper methodological foundations for Islamic economics. *Shari'ah* is meant to be total guidance for human beings and comprises of values, norms, principles and laws that should guide our every action.

One can see the problem mentioned by al-Attas in the practice of Islamic Banking and Finance. The whole process of 'shari'ah advisement' and the composition of 'shari'ah advisory boards/committees' are made up almost exclusively of people who have an Islamic law background. The views expressed are hence limited to the legal dimension and to legal requirements. Even if due to repeated criticism, this is acknowledged, the capacity for existing boards to give qualified and meaningful 'shari'ah guidance' may be too much to expect.

Recently the new shariah governance framework (SGF) introduced in Malaysia has required that shari'ah committees consist of 5 members (from 3 previously) and from preliminary studies, it seems as if the composition of these new committees has been widened to include

people from finance, accounting and economics. While welcome, the more important issue is the capacity of these members to integrate both the turath and modern sciences, rather than merely their numbers or stated areas of expertise.

The Need for Uṣūl al-iqtiṣād

As far as methodology is concerned, the present author has argued the need to develop *uṣūl al-iqtisad* or something that deals with social sciences. *Uṣūl al-iqtiṣād* would involve a much wider scope of subjects than *uṣūl al-fiqh* as understood in today's narrowly legalistic perspective. On the contrary, *uṣūl al-iqtiṣād* would have to include knowledge of areas such as the Islamic worldview, its Islamic economic vision, philosophy, including its ontology, axiology, and especially epistemology (including methodology) relevant for Islamic economics and other social/human sciences (Hannef and Furqani, 2007).

Uṣūl literally means "origin", "roots", "principles", "fundamentals", "rudiments" or "elements" of a particular thing. *Iqtiṣād* literally means "moderation", "in the middle" and also means economics. Nowadays, economic science is translated into Arabic as *ʿilm al-iqtiṣād*. Putting both these meanings together would therefore mean the principles, fundamentals or even foundations of economics, including its methodological dimension.

For the purpose of this paper, we can focus more on methodological aspects and define *uṣūl al-iqtiṣād* as the methods of how to derive and appraise the organizing principles, concepts and theories of Islamic economics from the primary sources of Islam (*naqliyyah*) i.e. the *Qur'ān* and *Sunnah*, as well as the secondary sources (*ʿaqliyyah*)- through *ijtihād*, - that would include reasoning, experimentation, and observation. Whereas the former provides the basic evidence and indications from which detailed rules may be derived, the latter is needed for the elaboration and detail of the former, including procedural guidelines to ensure correct utilisation of the primary evidence.

In brief, several characteristics and purposes of *uṣūl al-iqtiṣād* as the methodology of Islamic economics can be delineated as follows;

1. *Uṣūl al-iqtiṣād* is an integration of methodology developed in our Islamic heritage (including *uṣūl al-fiqh* and other *uṣūl* of sciences developed in our heritage) and contemporary economics (which may involve the whole spectrum of conventional economics and not just the neoclassical school). *Uṣūl al-iqtiṣād* would have to deal with the primary sources of Islam (*naqliyyah/revealed*) i.e. *Qur'ān* and *Sunnah* as well secondary sources ('*aqliyyah/reason*) i.e. reasoning, experimentation and observation of both our legacy and of modern economics.
2. As a methodology of Islamic economics, *uṣūl al-iqtiṣād* aims at delineating the principles that could be used to appraise Islamic economic theories. It would have to develop principles that would have to deal simultaneously with both types of knowledge, *naqliyyah* and '*aqliyyah*. Rather than treating the heritage and modern economics separately, these principles must be integrated through a methodological dialectic and creative synthesis.
3. One thing should also be noted is that Islam has revealed sources (*Qur' ā n* and *Sunnah*) and non revealed sources, such as analogical reasoning (*qiyās*), consideration of public interest (*istiṣlāh*), juristic preference (*istiḥsā n*), presumption of continuity (*istishāb*), and so forth. Whereas the revealed sources may have clear injunctions and command permanent validity, their interpretation via *uṣūl al-iqtiṣād* and its non-revealed sources are not permanent, for they are mainly the product of an *ijtihād*. .

Keeping the previous paragraphs in mind, it is relevant to mention that Fox (1997: 16)⁽⁹⁾ suggests that discussions on methodology have to keep four questions in mind: what is the purpose of economic inquiry, what are the legitimate sources of economic inquiry, what is the scope of application of economic knowledge and what is the appropriate structure of an economic theory? Of the four, Islamic scholarship seems to have focused only on the second question. Consequently, the other equally

(9) Fox, Glen. *Reason and Reality in the Methodologies of Economics*. UK: Edward Elgar, 1997.

important ‘methodological’ discussions that should also be undertaken do not really exist in the works of Islamic economists. Most works purported to be on methodology lack discussion on the principles and criteria that would justify ‘Islamicity’ of a theory in the process of interaction and assimilation of conventional concepts/theories into an Islamic framework. Even this article merely surveyed briefly the writings and pointed out the issues and challenges, but does not discuss methodology of Islamic economics itself. It is probably here that Choudhury’s and Zaman’s writings appeal to some in that they are calling for rather fundamental reforms bordering on a ‘revolution’ in approach.

Whether you agree with Choudhury and Zaman or not, what is needed next can be divided into three tasks: first, Islamic economists should critically review the methodological principles or criteria that are widely discussed in conventional economics such as falsification, verification, rhetoric, etc. These have not received responses from Islamic economists writing on the subject so far. Second, principles on dealing with the heritage especially its economic/social science dimension, needs to be elucidated. Third, integrating the results of the first two tasks in an organic manner should be attempted. The ‘creative synthesis’ talked about in the Islamization of Knowledge agenda, should include methodological principles and criteria.

In addition, in attempting to build an Islamic economic methodology, there may also be a need for Islamic economists to answer the first question put forward by Fox, i.e. ‘what is the purpose of economic models and theory’. Is the purpose for understanding, description, explanation, prediction, or persuasion; or something else; or all of the above? More than 30 years ago Dugger (1979)⁽¹⁰⁾, in his study comparing institutionalist and neoclassical economic methodology, showed that their purposes of building models were different. In neoclassical economics, prediction is the main goal of economic models and theory, hence basic postulates (such as assumptions of utility maximization) in a

(10) Dugger, William. “Methodological Differences Between Institutional and neoclassical Economics”. *Journal of Economic Issues*, 13(4) (1979).

predictive model is tested i.e. by empirically comparing deductions (quantitative predictions) with observations, *i.e.* seeking 'empirical validity'. However, in institutional economics, the main aim is to understand behavioural patterns given certain institutional settings. Hence 'pattern models' are tested by comparing hypothesized institutional structures with observations. The former could be characterised as more 'outcome' focused, while the latter is more 'input focused'. Hence the approach, unit of analysis, principles and criteria used in both schools legitimately vary. Very few, if any Islamic economist asks this question or is aware of its implications for developing Islamic economic methodology.

What adds to the challenge faced is that those principles or criteria (that are discussed in mainstream economics) are taken as 'given' although they only represent one school of economics. Hence may have been designed in accordance with a framework in mind. This mainstream methodology may need to be critically evaluated from Islamic perspectives as it may be unable to cope with contemporary complex realities, nor with the richness and multidimensional nature of Islamic concepts (Sardar, 1988:212)⁽¹¹⁾. The resurgence of methodological studies among academic circles in the west over the last 40 years is a reflection of their uneasiness with hegemony of mainstream economics. However, many in the west have realized their 'foundational' mistake. Islamic economists should take cue.

If this critical evaluation is not done, it will leave the young Islamic economists who are involved in the process of developing Islamic economics unaware of what is 'acceptable' or 'unacceptable' *and why this is so*. If the Islamic methodological principles to establishing good theory over bad theory is not developed, one can only see 'palliative' works or worse still, patchwork efforts being undertaken since Islamic economists would unwittingly use 'Western criteria' for building and evaluating economic theories and that too of neoclassical economics. Hence, this would distort the potential of Islamic economics as a distinct

(11) Sardar, Ziauddin. *Islamic Futures: The Shape of Ideas to Come*. Kuala Lumpur: Pelanduk Publication, 1988.

discipline. By highlighting these points, we hope that future research agenda will include the methodology agenda.

***Is Islamization of Economics Possible?*⁽¹²⁾**

In the discussion of methods rather than methodology and in the absence of Islamic criteria in methodological discussions, the process of Islamization of economics is more likely to be represented by a series of steps or stages or processes that should be followed in creating Islamic economics, as seen from the writings of the scholars discussed in Section 2⁽¹³⁾. The approach which now has become dominant in developing Islamic economics is criticized as unable to produce a distinct Islamic economics (Sardar, 1988; Kirmani, 1989; Alatas, 2006).

The Islamization of economics seems to be done ‘dichotomously’ between the conceptual (theoretical) and the empirical dimensions. In the conceptual part, Islamic economists attempt to find Islamic justification based on Qur’anic verses over certain theories, while in the empirical part, Islamic economists just utilize and apply the common statistical methods into an Islamic/Muslim case, assuming no contradiction to Islamic heritage. Islamic economics heavily depends on conventional economics especially the dominant neo-classical paradigm as far as the empirical part of economics is concerned.

Even the empirical side, since it is not based on ‘Islamic normative frameworks’ cannot give much contribution to developing Islamic economics. It remains within the mainly neoclassical framework fails to offer alternative paths to modernization. Sardar (1988) earlier also warned that

(12) Please see Haneef (2009) for this section.

(13) While many scholars have contributed to the Islamization of Knowledge (IOK) discourse over the years, all attempts at IOK are by definition, ‘step-by-step’, involving interaction between Islamic turāth and modern bodies of knowledge/disciplines. Hence, there is no ‘all or nothing’ approach in the IOK process (Hasan, 1998). There may be some scholars who viewed all modern knowledge as ‘unislamic’ hence the need to take nothing; some who saw all modern knowledge as ‘islamic’, hence, take all, but this is not the view of any serious proponent of IOK.

“Islamic economics is little more than one huge attempt to cast Islamic institutions and dictates, like *zakāh* and prohibition of interest, into a western economic mould. The dominant models guide the analysis and shape the inquiry: everything is compared and contrasted with capitalism and socialism, highlighting the fact that there is an underlying apologia at work.”

This observation nearly 25 years ago betrays a form of ‘simplistic Islamization of economics’. It is also a wrong understanding many well meaning Islamic economists find themselves in and they often get trapped into the conventional paradigm. They may actually be contributing to the ‘westernization of Islam’, by fitting Islamic teachings into the neo-classical framework rather than the opposite, which is what ‘genuine Islamization of economics’ would entail. The simplistic Islamization/integration program of modern economics and Islamic teachings has often led into ‘replication’ of conventional theory with no clear supporting evidence of Islamicity. At most, the current development of Islamic economics is working within the boundaries of neoclassical theory, with some adjustments to incorporate teachings/norms/values that reflected certain requirements of Islam

However, if Islamization is understood as it should be, as primarily a epistemological and methodological concern, interaction between Islamic heritage and modern knowledge has to be cognizant of the methodological similarities and differences between the two. Attention must be given to developing those Islamic methodological principles that would be able to guide the process of dealing with the naqliyyah and aqliyyah sciences and their sources. These principles must also be principles that apply to both simultaneously. The present author has to admit that what and how these principles will look like and how they will be applied, is still very unclear. As a start, Furqani (2012)⁽¹⁴⁾ has attempted to highlight these principles and guidelines. I would like to think that our idea of interaction with modern science can be reconciled with the need to have Islamic frameworks as the basis of interaction.

(14) Ph.D. Thesis, Department of Economics, IIUM

Section 4: Concluding Comments

There are problems in Islamic Economics but they are different from those faced in modern neoclassical economics. Our problems relate to the apparent inability to develop 'genuine' Islamic economics. However, what this means and how to go about it- i.e. discussing and debating the philosophical aspects of the discipline- are areas that have not really been given sufficient attention by Islamic economists. This workshop is one good effort to draw attention to these problems. However, getting consensus on the nature of the problems and the appropriate steps to take may need much more discussion. For the moment, we should accept a pluralist approach since we are still 'hearing views'. This paper has argued that the methodological framework for Islamic economics can be supported by a proper understanding of the need to intergrate *turath al-Islamiyy* and modern sciences. While worldview differences are acknowledged, critical interaction with different frameworks with wisdom is what we have to develop in-line with the Prophetic saying that wisdom is the lost treasure of the Muslims and Muslims should reclaim it.

Comment on Prof. Haneef's Paper “Preliminary Thoughts on Diagnosing Some Methodological Issues in Developing Islamic Economics”

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I would like to comment on four main issues addressed in the paper. I will first highlight the author's argument for each issue, then, provide my own comment.

1. Comparing Crises of Conventional and Islamic Economics

The author starts with comparison between crisis in modern economics and Islamic economics. He thinks they are not related to each other. While both are in soul searching process, they face different problems. Modern economics is seen deficient because it could not predict and prevent economic crises. It overuses and abuses math and statistics. It is not able to explain reality. It relies on incorrect or incomplete assumptions and models. On the other hand, Islamic economics faces a crisis because it fails to make right connection with its roots. It fails to be an alternative paradigm. It fails to escape from the influence of modern neoclassical economics. In the author's term, “the nature of the problem in IE is that it does not seem to be moving forward. It seems to be stagnating. New ideas did not flourish and too much focus has been given to Islamic Banking and Finance.” (p. 4)

My comment:

I agree that the crises of conventional and Islamic economics are different. The author is right in diagnosing the crisis of Islamic economics as stagnation. However, I think the crisis of conventional

economics creates a golden opportunity for Islamic economics to be offered as an alternative paradigm. As I discussed in one of recent paper⁽¹⁾, with the recent global financial crisis of capitalism, Islamic economics and finance has attracted some attention as a possible alternative paradigm. However, it seems like Islamic economists would miss this opportunity at least in the short run. Despite few decades of its development, Islamic economics is still in its early stage. Once fully developed, it is not clear whether it would be an old (morally improved) capitalism or a new economic paradigm. The more recent literature on Islamic economics is largely about Islamic financial instruments and institutions. This gives an impression as if the main difference between conventional and Islamic economics is in the instrumental part, rather than fundamental aspect. As Nasr indicates the theoretical works in Islamic economics has "failed to escape the centripetal pull of western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace"⁽²⁾. As currently done, mimicking conventional economics and finance is only creating Islamic economics and finance by name. The essence and soul of capitalist system is largely untouched. Indeed, the differences between Islamic and capitalist financial institutions are getting blurry every day. As Asutay points out, "The realities of financial markets which prioritizes economic incentives rather than religious behavioral norms has forced Islamic finance to become part of the international financial system, in which it is recognized as heterogeneity of financial products deprived of their value system... 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"⁽³⁾.

(1) Aydin, Necati (2012) "Islamic Economics: New Paradigm or Old Capitalism?" was presented at *10th Harvard Forum of Islamic Finance, Harvard University*, March 24-25, 2012, Boston, USA. The paper is under review to be published in an edited book by Harvard University.

(2) Nasr, Seyyed Vali Reza (1991) "Islamisation of Knowledge: A Critical Overview", Islamic Studies, Autumn 1991, p. 388.

(3) Asutay, Mehmet (2007) A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System, *Kyoto Bulletin of Islamic Area Studies*, 1-2(2007), pp. 3-18.

Indeed, just recently, a Royal Society study led by a Nobel Laureate highlights the dangers waiting people and planet if the current capitalist consumer culture is not stopped⁽⁴⁾. The report warns that “Rapid and widespread changes in the world’s human population, coupled with unprecedented levels of consumption present profound challenges to human health and wellbeing, and the natural environment.” Twenty-two scientists who contributed to the report offer nine recommendations to prevent “social, economic and environmental failures and catastrophes on a scale never imagined” within 30-40 years. They explicitly called for a new economic system. The report says that collaboration between National Governments is needed to develop socio-economic systems and institutions that are not dependent on continued material consumption growth. It suggests that the most developed and the emerging economies must stabilize and then reduce material consumption levels. It calls to governments to play more active roles in reducing material consumption and environmental impact through efficiency measures. Ironically, while the Western scientists are explicitly calling for a new socio-economic system, some Muslim scholars are working to present “old capitalism” under the brand of Islam.

2. Methodological Problem in the Development of Islamic Economics

The author provides a survey of scholars’ views on the development of Islamic economic economics within the last three decades to support his argument that the main problem is methodological. While majority of the scholars reviewed prefer an integrative approach for developing Islamic economics. In other words, they benefit from the advanced development of modern economics in the process of developing Islamic economics. However, a few scholars such as Choudhury and Zaman suggest radical approach by rejecting the existing concepts and methodology of neoclassical economics and offering an alternative one from the scratch based on the Islamic worldview. The author sides with the first group of scholars and suggests that we should benefit from the experience of conventional economics in developing of Islamic

(4) People and the planet, The Royal Society Science Policy Centre report 01/12, Issued: April 2012 DES2470

economics. Epistemologically speaking, we should benefit from revelation and as well as the universe as sources of knowledge.

My Comment:

Again, I agree with the author that the root cause of stagnation in developing Islamic economics is methodological. Indeed, conventional economics emerged within secular worldview. In order to come up with Islamic economics as an alternative paradigm, not disguised capitalism, we need clearly define Islamic worldview with its ontological, epistemological, anthropological, and teleological perspectives. Inserting Quranic verses or hadiths into secular worldview would not make it Islamic. For that matter, I tend to lean toward Choudhury and Zaman because we fail to recognize embodied worldview within conventional economics. Of course, we do not need to reinvent the wheel. However, we need to establish sound framework for the Islamic worldview before importing compatible tools of conventional economics.

Choudhury is one of few Muslim economist who offers an alternative economic model based on Tawheedi paradigm. He argues that Islamic economics relies on different epistemological paradigm which is significantly different from the western secular paradigm. He asserts that "the prevailing Islamic socio-scientists" are distance from "any substantive reference to the Qur'anic worldview, it's epistemology of Oneness of the Divine laws (Tawheed), the causal understanding of unification of knowledge in world-systems by the epistemological methodology embedded in ontology and ontic learning domains." (M. A. Choudhury, 2007, p.76) He strongly criticizes the current efforts in Islamic economics due to its lack of epistemological foundation and required data. He argues that the existing literature on Islamic economics has become trapped in the neoclassical framework which is based on secular western epistemology. He suggests that Islamic economics should be upon Islamic paradigm which requires different "methods" and "methodology" in terms of gathering and analyzing data about reality.

As I discussed in a recent paper⁽⁵⁾, free market capitalism did not emerge in vacuum. It is the product of the western materialist worldview. Therefore, it is hard to establish an Islamic economic system based on the secular paradigm. It is important to remember that Islam is not a marginal religion dealing with dealing spiritual life alone. It is a religion providing guidance and well-being for both this life and the hereafter. Therefore, the word *falāh* (real well-being) and its derivatives have been used in the Quran many times. In the five time daily azan (call to prayer), people are also invited to *falāh*. Islam aims to achieve its goal through its value-based and God-centered moral and spiritual worldview.

3. The Proposed Solution to the Methodological Problem in Islamic Economics

According to the paper, the development of Islamic economics could not be considered in isolation. It is part of Islamization of knowledge which should be done through genuine integration of Turath al Islamiyy and modern knowledge. For Islamic economics and finance, the author argues that the Islamization of knowledge is one sided mainly focusing on the legal dimension. Therefore, it is not surprising to see the composition of “shariah advisory boards/committees” being almost exclusively from legal experts. The author welcomes recent development in Malaysia to include experts from finance, accounting and economics in such boards.

The author argues that the integration needs to be done both through substantive knowledge and methodological. He calls for new methodology (*usul al Iqtisad*) to overcome the problem. According to the author, the *usul al Iqtisad* should include “knowledge of areas such as the Islamic worldview, its Islamic economic vision, philosophy, including its ontology, axiology, and especially epistemology.” (p.11) Methodologically speaking, the author argues that Islamic economics should be developed from “the primary sources of Islam (*naqliyyah*)” and “the secondary sources (*aqliyyah*) through *ijtihad* that would include

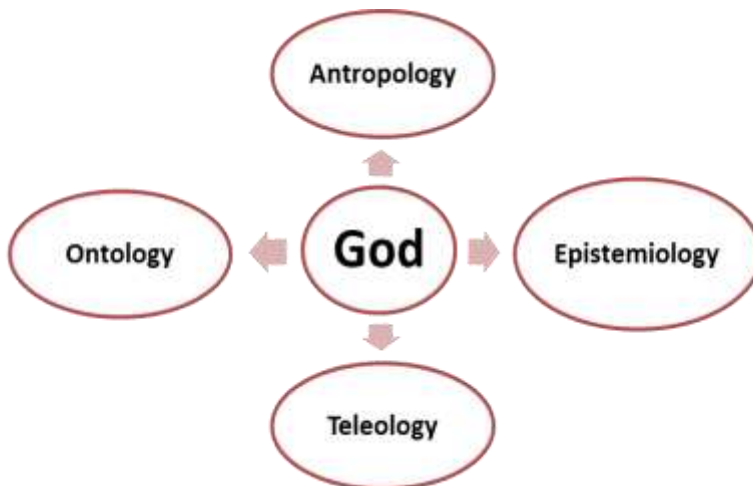
(5) Aydin, Necati (2012) “Tawheedi Paradigm and “Moral Market” from Nursi’s Perspective”, Brill Companion to Said Nursi Studies, Edited by David J. Goa and Bilal Kuspinar, Brill Academic Pub, Forthcoming.

reasoning, experimentation, and observation.” (p.12) However, he suggests that we should develop “principles that would have to simultaneously with both of knowledge, naqliyyah and aqliyyah.” He particularly emphasizes the importance of defining the purpose of economic models and theory to guide genuine development of Islamic economics. He cites differences between two branches of conventional economics (institutional and neoclassical) in terms of their ultimate goals. He claims that “very few, if any Islamic economist asks this question (what is the purpose of economic models and theory) or is aware of its implications for developing Islamic economic methodology (p.13).

My Comment:

I strongly agree with the author that Islamization of economics is part of Islamization of knowledge. As I stated above, we should develop Islamic paradigm for the Islamization of knowledge and develop Islamic economics within this paradigm. I argue that Islamic worldview is based on Tawhid. Therefore, I call it Tawhidi paradigm. As seen in Chart 1, the Tawheedi paradigm is central around the existence and oneness of God. The ontological and epistemological views of reality are shaped by Tawheed. The anthropological and teleological views of human being are also shaped by Tawheed.

Chart 1. Tawheedi Paragim



I would like to briefly highlight the essence of Tawheed paradigm and moral market theory I came up with in a recent paper⁽⁶⁾.

Ontologically speaking, God is real and the source of reality. We know about His existence through his words and works. For that matter, knowing God is different than believing His existence. While the latter is a form of belief in the existence of God, the former is much more than belief in God. It is to getting to know God who is one, eternal, necessary existent, self-sufficient, all-good, all-knowing, all-powerful, all-wise, most-merciful, most-kind, etc. For that matter, the reality of everything in the universes is the Divine names. The names come from the Divine attributes and the Divine attributes come from the Divine quality (shu'unat). According to the Tawheedi paradigm, God is the only Power directly handling everything. For that matter, it does not make sense talking about intervention. He is the Doer of everything. No one and nothing has any power other than Him to do anything.

Epistemologically speaking, objective truth does exist. In order to find the truth, following the Divine guidance, we should start reading ourselves first. Then, we could accurately read the universe. We should read ourselves only in the name of God, meaning with His infinite light and guidance. In this regard, the Qur'an is a "study guide" which shows how to read ourselves and the book of the universe. Indeed, God makes Himself known to us in three major and universal ways. One is through his works which is called the book of the universe. The second is through messengers. And the third is through revealed books (Nursi, *The Words*, 19nd Word, p. 243). In other words, it can be said that God makes Himself known to humanity through His words and works. If we listen to the Divine Revelations and read His works in the universe, we will know His attributes. Once we understand that we are absolutely impotent and needy before God, we will realize that nature could not produce anything on her own. Everything from an atom to galactic systems is the works of God and under His control at every moment. He is not the god of gaps. He is the God of everything at every moment according to the Quran. He

(6) Aydin, Necati (2012) "Tawheedi Paradigm and "Moral Market" from Nursi's Perspective", Brill Companion to Said Nursi Studies, Edited by David J. Goa and Bilal Kuspinar, Brill Academic Pub, Forthcoming.

is the source of ontological-epistemological knowledge. In other words, the Tawheedi paradigm provides the unity between ontological and epistemological level of reality.

Anthropologically speaking, the main error of secular paradigm stems from its understanding of human nature. In order to correct this mistake, we need to begin with ourselves. As famously said by Aristotle, "Knowing yourself is the beginning of all wisdom." From the Islamic perspective, knowing self is even more important, as the Prophet says, "he who knows himself knows his Lord." The knowledge of "self" is the key to both knowing God with His names and attributes, and knowing the reality of everything in the universe. However, it is not easy to know the reality of the self because it is quite illusionary. I recently developed a new theory of human nature based on the views of Nursi and Ghazali: "A Grand Theory of Human Nature (GTHN)" (Aydin 2012a). Even though Nursi uses a palace as a metaphor for human body and residents as human faculty, I used a recreational vehicle (RV) and its residents as metaphors which include *King*, *Judge*, *Wazir*, *Elephant*, *Showman*, *Dog*, and *Driver*. The *King* is the spiritual heart that is the source of love and inspirational knowledge. The *Judge* is the conscience that is the source of positive feelings after performing "good things" and negative feelings experienced after doing "bad things". The *Wazir* (*prime minister*) is the mind. The *Elephant* is the animal spirit, which is the source of animalistic desires. The *Showman* is the self-centric ego that pursues power and possession to show its importance to others. The *Dog* is an inner drive for protection of personal belongings with potential to oppress others for their possessions. The *Driver* is the deciding self (free will) that drives that the vehicle under the influence of the residents.

Teleologically speaking, according to the Tawheedi paradigm, as everything in the universe is created for certain purposes, human being is also created for certain purposes. The main purpose of human is not to boost the self, turning him to an inner god. The purpose is also not to serve the animal soul, as becoming his slave. Rather, the purpose is to understand our nature embedded with infinite impotence and poverty, and act accordingly. It is to disclose our almost infinite potential by relying on the Divine power and mercy through understanding our true nature. It is to excel spiritually, intellectually, and morally and be "insan-

i kamil (perfect human)" by disclosing our human potentiality as much as we can. From the Qur`anic perspective, human being is a (perhaps the) major project of God. The Islamic worldview is built upon this project. The Qur'an provides detail information about the initiation of the project and its expected outcome. The Quran states that human beings were created in the best form (*ahsan-i taqwim*): "Surely We have created human of the best stature, as the perfect pattern of creation" (95:5). This refers to the potential in human beings. Indeed, the Qur'an clearly indicates that human beings are potentially superior to all creatures, even angels. Therefore, when Adam was created the angels were asked to "prostrate before Adam!" The superiority of Adam was not coming from wealth, pleasure, fame etc. It was coming from his ability of learning the names of God in comprehensive manner. Thus, the ultimate purpose of life for human is to excel in virtuous and sincere deeds in order to fulfill his mission of vicegerent and earn God's pleasure.

In my view, Islamic economic system (moral market) should be based on the Tawheedi paradigm above. As seen in the table below, "moral market" differs from "capitalist free market" economy from ontological, epistemological, anthropological, and teleological perspectives (Aydin 2012b). Ontologically speaking, the two systems differ on three key issues. First, God is not real, but man-made in capitalist economy while God is real and the source of reality in "moral market". Second, while free market ignores/denies the life after death and aims for establishing the earthly paradise, the moral market perceives dual paradise is real and reachable. Third, capitalist free market considers beings as self-sufficient within material causal chains, while moral market perceives beings as contingent upon the Infinite Power every moment.

Epistemologically, the two economic systems differ on four major points. First, in the free market, truth is the product of mind alone; in the moral market system while hearth and mind both play central role in finding the truth under the Divine guidance. Second, market decisions are made by the animal soul, ego, and mind in the free market economy, while they are made by hearth, mind, and conscience in the moral market. Third, in the free market, resources are owned and used at discretion of their owners; while, in the moral market, resources are trust and have to be used according to the Owner's wills. Fourth, the free

market is driven by money/profit while the moral market is driven by virtue/morality.

Anthropologically, the two systems differ on the understanding of human nature, needs, and want. First, free market economy assumes human nature being consist of animal soul, ego, and mind while the moral market consider hearth, conscience, and free will as other important elements of human nature. Second, due to its limited understanding of human nature, free market economy recognizes needs and desires from the animal soul, ego at the cost of hearth and conscience while moral market gives priority to the hearth, conscience by restraining animal soul and ego. Third, while the free market economy relies on secular norms the moral market relies on religious norms in deciding what to produce in response to consumer wants.

Teleologically, the two systems differ in five major points. First, free market economy aims for "homo-economicus" while the moral market for "homo-virtuous". In other words, a person in the free market always thinks about his/her economic benefit in his/her decisions, while a person in the moral market considers virtue. Second, in the free market, work is a hardship compare to leisure while in the moral market work is considered "worship". For instance, according to Nursi, for a believer who takes care of his garden, "whatever is eaten of the garden's produce, whether by animals or man, cattle or flies, buyers or thieves, it will become like almsgiving" (Nursi, the Words, 21st Word, p.279). Third, in the free market, the pursuit final end is "self-pleasure" while in the moral market "God's pleasure". Fourth, in the free market, the utility maximization is the goal for individuals while in the moral market virtue maximization. Fifth, in the free market economy goods and services are produced for "functional" as well as "positional" purposes while in the moral market they are produced for "functional" purpose only.

Free Market vs. Moral Market

Free Market Capitalism	Variables	Moral Market
	Ontological	
Not real, man-made	God	Real and the source of reality
Not real. Establish earthly one	Paradise	Real and reachable
Self-sufficient	Beings	Contingent
	Epistemological	
Secular human mind	Truth by	Divinely guided human mind and hearth
Animal soul, ego, and mind	Decision Makers	Hearth, mind, conscience
Ownership	Resources	Trustee
Guided by money	Market	Guided by morality
	Anthropological	
Animal soul, ego, mind	Human nature	Hearth, mind, conscience, animal soul, ego, and free will
Restrictive	Needs	Comprehensive
Secular norms	Wants	Religious norms
	Teleological	
Homo-economicus	Human	Homo-virtuous
Hardship	Working	Worship
Self-pleasure	Goal	God's pleasure
Utility maximization	Consumption	Virtue maximization
Functional and positional	Goods/services	Functional only

4. Islamization of Economics vs. Westernization of Islam

The author also argues that in the Islamization of economics is done dichotomously. In the conceptual part, it is established based on Qur'an and hadith, while in the empirical part, it utilizes similar tools in conventional economics assuming no contradiction. He adds that, even in the empirical side, it could not offer an alternative because it is not based on "Islamic normative frameworks". He concludes that Islamic economics has been trapped within the conventional paradigm, therefore, Islamic economists "might actually be contributing to the 'westernization of Islam', by fitting Islamic teachings into the neo-classical framework rather than the opposite, which is what 'genuine Islamization of economics' would entail." (p.14) He forcefully argues that "if the Islamic methodological principles to establishing good theory over bad theory is not developed, one can only see 'palliative' works or worse still, patchwork efforts being undertaken since Islamic economists would

unwittingly use 'Western criteria' for building and evaluating economic theories and that too of neoclassical economics." (p.13)

My Comment:

I agree with the author that we should consider the Islamization of economics within the broader context of Islamization of knowledge. I agree with the author that if we do not develop Islamic worldview, we would serve the "Westernization of Islam". Indeed, in a recent paper⁽⁷⁾, I argue that Islamic financial institutions currently serve the goals of capitalist economic system rather than Islamic one particularly in terms of its role in supporting consumer culture. I further argue that global consumer culture is both threatening human happiness and the future of the planet. It is hard to prevent the upcoming disaster with the materialist secular paradigm because it offers happiness through more material consumption. According to the Tawhidi paradigm, our authentic happiness depend on how fulfill the needs and desires of the key elements of our nature. We could not reach happiness by pursuing the interests of animal soul and self-centric ego as suggested by capitalist consumer culture. Rather, we should give priority to our spiritual, intellectual and moral needs. We should learn the ways to control our animal and egoistic desires while nurturing our spiritual, intellectual, and moral potential. We should expand the maqasid-i sharia to include the ultimate goal as truth and virtuous actions which lead to the God's pleasure. We should make sure that Islamic economics and IBF are in line with the ultimate goal.

(7) Aydin, Necati (2012) "Luxury Consumption and Role of IBF in the GCC ", the paper will be published in an edited book on Islamic Economics and Finance in GCC by Gerlach Press.

ISHKALIYAT al-TANZIR fil IQTISAD al-ISLAMI

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Abstract. We need a re-statement/re-formulation of the Islamic economics project launched in early twentieth century. Rather than confronting rival ideologies as was done in the beginning, Islamic economics today should be responding to the challenge of living by Islamic teachings in economic life that are being actually faced by the people. In doing so we should be learning from our predecessors' experiences, their achievements as well as their failures. Among the cardinal weaknesses of Muslims are lack of self-criticism and the capacity to change and adapt to changing conditions. This must go. The current endeavors of other faith-based communities, also of non-religious but well intentioned people, to escape from tyranny of ideologies by making economics serve humane objectives, deserve our involvement at the local as well as the global level. This approach, applied to finance, calls for reducing the role of debt in the economy and freeing finance from gambling. At the social level it calls for empowering the poor by imparting skills that could increase the income-share of those at the bottom of the pyramid resulting in restoring dignity to hundreds of millions. For the Muslim peoples it calls for restructuring the administration of zakat-awqaf-Hajj and philanthropy sector by allowing goal oriented innovative practices. Lack of openness and inclination towards autocracy, the other fatal flaws in the built up of the *ummah*, must be rectified by introducing transparency and democratic decision-making. Islam is accommodative enough to allow a variety of models in Islamic economic management. Even in theorizing there is wide scope for creative imagination. A tantalizing model of economic behavior could be built by making our starting point not the market's self-advantage- focused individual economic agent in a supposedly scarcity-constrained world but the human being raised in a family defined by caring and sharing, operating in an environment of expanding possibilities. The author emphasizes the need of empirical studies complementing textual ones that venerate logical and analogical reasoning and allow text and logic based methodologies to elbow out intuition and imagination.

* *Insightful comments by Dr. Frank Vogel are gratefully acknowledged.*

Introduction

Fadul Abdul Karim Al-Bashir and Abderazzak Said Belabes have done a wonderful job in their write-up: *Islamic Economics at Cross Roads*, issued as a call for discussion. However, no single paper can handle all the issues or answer all the questions raised by them. I try to pick up some priority ones, adding flavor based on personal observations. Section One highlights the chasm between the world then and now, contrasting the confrontational posture of the Islamists towards powers that be with the humility now imposed on all concerned by the threats to humanity's survival coming from within and outside, *i.e.* from the ecology and the environment. Section Two highlights the mind-set required for success in ensuring morally infused behavior and conducting policy serving social goals, in an environment where not everybody cares. Emphasis is laid in this connection on learning from past attempts at doing so. Section Three calls for teaming up with other faith groups and value oriented peoples in the efforts to usher in a world inviting greater cooperation and end of hegemonic machinations. Section Four focuses on the application of the new strategies in the light of new priorities. It is in the interest of humanity at large to reduce the role of debts and eliminate gambling from finance. Muslims must try to enlist the cooperation of the international community in doing so. Section Five urges upon Muslims fully to utilize the potentiality of zakat-Hajj-Awqaf and philanthropy in empowering those at the bottom of the income/wealth pyramid, reducing the rich-poor gap and restoring dignity to hundreds of millions by creating jobs. Researchers should study the evolution of these and other Islamic economic institutions from the days of the Prophet till the present and across all the regions with sizeable Muslim presence. This agenda calls for a strong empirical base for Islamic economics. The next section emphasizes the importance of economic history of Muslim peoples. We need a closer focus on the economic policies of the Prophet, peace upon him, leading his followers through *Sha 'b Abi Talib*, emigrations to Ethiopia, *Muwakhat* in Madinah, organizing the market in Madinah, and managing the revenues generated by conquest of Khayber, followed by the triumphal entry of Muslims in Makkah. Section Seven responds to one of the questions in Fadal-Belabes write up by affirming the possibility of alternative models of Islamic economy within the broad framework provided by *maqasid al Shariah*. We pick up one such model that may be built on the basis of the

personality that family relationships build before an individual enters the ‘market’ as an economic agent.

SECTION ONE : Us and Them; Then and Now

Islamic economics grew in an environment characterized by tension between the world as we would like it to be and the world as we find it in reality. For us reviewing matters after about a century to its recent origin, there is an added tension between the ideal as conceived at the origin and the reality as perceived in this first quarter of the twenty-first century. Are we any closer to our goals? Have we deviated from the path blazed open by the founders? Has the world grown more insensitive to the Call? We feel betrayed by a world that won’t listen and disappointed from ourselves on not living up to our professions. Before we proceed to examine aspects of this tension relevant for the day’s discussion, let us find the way to relax so that we are able to think properly. The way to relax is always to remember the nature of our existence. Life on earth is a test to which our Lord has put us :

For He it is Who has appointed you vicegerent over the earth, and has exalted some of you over others in rank that He may try you in what He has bestowed upon you. Indeed your Lord is swift in retribution and He is certainly All-Forgiving, All-Compassionate.[6:165]

Blessed is He in Whose Hand is the dominion of the Universe, and Who has power over everything, Who created earth and life that He might try you as to which of you is better in deed.[67:1-2]

The way to success is to try our best. Actual transformation of the ground reality into the desired state of the world depends on factors Allah knows best. To be realistic, ‘transformation’ is never complete or perfect. As we gain some ground, the world moves on, creating new challenges.

It was a very tense situation in the second quarter of the twentieth century. It was an age of confrontation: Asia and Africa in confrontation with their colonial masters from Europe and America, Islam in confrontation with Christianity as well as with Capitalism and Socialism/Communism. Then there was the confrontation between Muslim populations and their rulers who inherited political power from the

departing colonial masters. The desire to see newly independent Muslim peoples live by Islamic values was often thwarted, not only by Muslims' own weaknesses in belief and practice as is often the case, but by Muslim rulers and leaders who saw success in emulating the Western Capitalist or Eastern Socialist block. The threats to human felicity were all perceived to be internal__ from humans themselves. The way to deliverance was felt to either reach the top, as the West already had done (though challenged by the USSR and its friends) or to gang up into a rival block in order to confront the dominant block. Islamic economics emerged as a call to forge and solidify a new identity, different from the two warring blocks, by adopting Islamic economic values and institutions.

This has changed. Western hegemony is visibly weakened. The rise of China, soon to be rivaled by India, has made irreparable dents in Western monopoly on power. Meanwhile, Muslim presence is no longer confined to the East (www.pewforum.org). Their presence in Europe and the Americas is acquiring weight that democracies cannot ignore. Over the last seventy-five years Islam's social teachings have gained prominence along with its spiritual appeal. This characteristic of modern Islam is universally shared. There is no other identity distinguishing 1600million Muslims from the rest of the 7000 million human beings inhabiting the planet earth. But the reassertion of that identity in the second decade of the twenty-first century need not be confrontational. Now that Muslims are masters of their own destiny in their traditional abodes, and the bipolar world of the twentieth century has gone, and the confrontation between rulers and the Muslim masses is yielding to democratic arrangements, we need a new language, a different style of engagement. Environmental pollution, ecological imbalances, Jobless growth and increasing disparities in the distribution of income and wealth.....are not specific to any ideological group ,region or race. Even the Frankenstein phenomenon of modern finance defies identification with a particular ideology. Rather than fighting each other seeking supremacy, it will be prudent to join hands for solving the problems that supremacy or hegemony cannot solve even for the winners. The ideological battles raging during the second-third quarters of the last century have been replaced by the struggle to ensure smooth and anxiety free continuation of 'civilized' living for human beings on planet earth. The alleged 'clash of civilizations' proved to be a mere flash in the pan.

The superfast changes in technology, the wild bursts in human creativity, the tantalizing promises of the coming age of abundance....are making people averse to strife and conflict. While there are still some who want to fight anyone and everyone for their cause, the majority of human beings have started hating war fought in whatever name. The 50 million human lives wasted in senseless wars during the twentieth century, the colossal amounts of resources currently spent on defense-preparedness are warnings enough to all concerned never to revert back to the age of mutual suspicion and confrontation again. True, the hegemonies are still out there. They will continue big power games, wasting precious resources in their efforts to perpetuate a situation whose days are over. Meanwhile the wiser among men should go ahead with their humane projects.

We Muslims should rather be the harbingers of a new age of mutual understanding and cooperation. Fortunately for us, we are not alone in this endeavor. As we explain in a subsequent section, faith-based communities, and other well-intentioned groups are trying to escape the tyranny of ideologies by focusing on reforms conducive to human felicity on a universal scale.

Muslims have been trying to live by Islam's economic teachings since early on. We should be studying their endeavors, learning from their successes as well as their failures. Even contemporaneously there have been several attempts to revive Islamic institutions like *zakat* and *awqaf* and to mobilize the immense resources of the voluntary sector for eradication of poverty and deprivation. The various recent attempts at eliminating *riba* and gambling deserve closer scrutiny as to why they failed to deliver. It is a fact that the launching of Islamic financial institutions in the early seventies of the twentieth century and their expansion since then has made no dent in Muslim poverty. It is also a fact that Muslims turned their attention to *riba*-free microfinance rather late in the day, after everybody was in. As a matter of fact poverty removal and reduction in the distribution of income and wealth in the society were not top priority with those who initiated the Islamic economics project. The common perception has been that it requires political power to do so. The lesson of history that a bid for political power could become the biggest hurdle in achieving social goals escapes attention of most people.

Social goals require organizations different in structure, spirit and style than the tight, often non-democratic, organizations going after political power. The huge potential of Islam's voluntary sector, comprising charity, philanthropy and pilgrimage remained unrealized in the twentieth century's tense atmosphere, to the great loss of Muslim masses. It is high time due attention is paid to this front. Top priority in this regard attaches to restoring trust in non- governmental social-service institutions. We Muslims have yet to recognize the crucial importance of openness, transparency and accountability in managing our institutions, especially those involving money. There are few, if any, economic and analytical studies on management of *Awqaf*, collection and disbursement of zakat and administration of Muslim- managed educational institutions. Apart from looking into financial irregularities these institutions need to be evaluated on the criterion of serving their stated goals in the changed circumstances. Gone are the days when a debater could congratulate himself or herself by contrasting the corrupt ways of modern capitalist or socialist regimes with the pure and perfect Islamic ways as described in time-honored books. The comparison now is to be made on the basis of the ground reality. How just and equitable is the administration under your charge, and to what effect that is what influences hearts and minds in the global race for winning friends and influencing peoples. Add to this the new concerns raised about ecological balance and environmental safety. The measuring rods have changed. Not accelerated growth but sustainable development, not material production but psychological satisfaction, are the new criteria.

SECTION TWO: The Moral Economy of Islam

The essence of Prophetic Messages has always been moral values. Islam is no exception. The big problem is how to translate moral values into socially beneficial individual behavior and public policies that complement the market in securing the desired state of the world. Islamic economics has shed some light on this issue but not enough to impress the profession. There are two main issues involved from the viewpoint of economic analysis: Impact of insufficient information and (non) alignment of incentives.

The individual decision maker does not have sufficient information about the effects of the possible decisions on other individuals , or on the

society in general. Where the decision maker is a corporation and some if not all the relevant information can be obtained at a cost, the problem involves cost-benefit analysis and such tricky questions as sacrificing part of the corporate profits in order to avoid harming others or enhancing the social good. There is a possibility of the state collecting and disseminating whatever information can be collected, treating information as a public good. This paper is not the occasion to go into details. The point to emphasize is: few, if any, of the Islamic economists have discussed the issue.

Economics is all about incentives. It is incentives that move individuals. What incentives are there to make one care for others? Or serve the social good? The problem becomes still more difficult in the context of Principal-Agent relationship. Does Islam's moral economy rely exclusively on reward and punishment in the afterlife, insofar as socially beneficial behavior is concerned? Can the state play any role in aligning incentives without affecting freedoms? How far the nature of the state, i.e., its being democratic or autocratic, affects its capability to achieve social goals?. These questions have received little attention from Islamic economists even though economic literature on these issues has been growing in recent years.

Research on the two topics mentioned above would not be complete without some empirical work. Field work in carefully selected areas/institutions can be very useful. A similar claim can be made about historical research focused on the above issues. Currently some anecdotal evidence is cited without proper referencing in many general works on Islamic economics. It fails to convince, for obvious reasons. Also, anecdotal 'evidence' tends to follow sectarian lines. The need for hard proof tacitly disregarded, imagination has a free run in harnessing individual reports (*Ahadith Aahad*) to buttress each sects own views about the idealized periods and personalities of early Islamic history. This further compounds the uphill task any Islamic reformer must face. Partial achievements are generally pooh-poohed, judged as they are on the criteria of super-human feats. The subject of Islam's economic history needs professional handling with a view to distill from it the normative content Islamic economists need. This has been lacking so far.

We need to look into the causes of this glaring deficiency, to be able to fill the gap in the future. Three points come to mind. Firstly, the supply of proficiency in economic analysis has been in decline for quite some time after the nineteen-seventies, insofar as Islamic economics is concerned. Secondly, whatever economic talent was forthcoming during the last thirty years was absorbed, largely, into the Islamic finance industry which had little time for theoretical niceties. Thirdly, the problem of information deficit merges, ultimately, into the problem of uncertainty of future values for which there is hardly any 'solution'. All that remains to be debated is whether cooperation has a better chance of serving mankind than competition. We take up this point in another context below. With reference to the incentives issue, the growing literature on limitations of rationality, role of traditions and culture, and the significance of 'identity' economics(Akerlof&Rachel,2010) offers vast scope for contributions by Islamic economists. But where are they? We need Seminars especially focused on these analytical issues, preferably organized by Universities or research institutions. Since the problems of information and incentives concern all humans, a wider participation should be welcome.

A wider participation in the deliberations on information and incentives issues in the perspective of an economy where morality plays a significant role will bring in a number of advantages. Man has tried to keep his animal instincts in check by listening to his conscience and paying heed to great moral teachers of humanity since time immemorial. All known human civilizations have been founded on the basis of such teachings whose remnants still inform their members. It will be good, in this age of globalization, for all of them to share their philosophies, historical experiences and current strategies. Secondly, societies have always tried to rectify the damages done by market failures by regulations enforced by the state. But, as the recent crisis also demonstrated, the damages caused by moral failures on part of some individual players are not confined to the markets ,they infest the government and bureaucracy too. Moral failures call for a moral/spiritual response, a new wave of regulations may not be the solution.

For Muslim participants in these deliberations, important lessons may be waiting in the annals of economic history of Muslim peoples in various regions. Islamic economics is a work in progress. Muslims at

various times and places tried to build just and humane societies within the constraints imposed by resources, power relations and weaknesses in faith and morality. Today it is our turn to be trying to build just and efficient economies. There are lessons to be learnt from our past. Special attention is needed towards periods of Islamic history for which detailed economic data is available, like the Mughals in India and the Ottomans in Turkey, greater Syria and Egypt.

In a similar vein there may be lessons to be learnt from the present. The episodes of politically motivated ‘Islamization’ of economy in Pakistan, Iran and Sudan during the eighties may have important lessons to teach. Lessons can also be drawn from the efforts in some Muslim minority countries to activate *awqaf* and zakat in the service of the community.

Some Muslims try to build institutions de novo, without reference to what is going on, with the texts of Quran and *Sunnah* treated as guides and operating manuals. They want gold back as money. Some others would vest all executive power in one individual, supposedly emulating the caliphate. The Prophet, peace upon him, based the quest for fairness in economic transactions on modifying rather than replacing existing arrangements like money. He made governance a matter of consultations. A common feature of Islamic strategy in all the above situations was absence of violence or coercion and efforts at building a consensus. Even the all-important step of launching the Constitution of Madinah, knitting together all the faith communities inhabiting the city to face foreign aggression, was the result of convincing arguments presented by the Prophet himself to gatherings comprising Jews, Christians, Muslim residents of the city and the emigrants from Mecca (Hamidullah, 2004). The importance attaches to realizing the ends Islam seeks, not the forms of arrangements Muslims made for realizing these ends at different times and places.

As we show in a subsequent section, practical policies are responses to real life situations with certain goals in mind. There are no recipes valid for all times and places. The way Muslims conducted themselves in *Sha'b Abi Talib*, in Abyssinia (modern Ethiopia) to where some headed to escape persecution in Mecca, and during the early days in Madinah, or

after the conquests of Khayber and the triumphal entry into Mecca were different from one another. The one size fits all approach to Islamic economics needs re-thinking, to say the least. A sense of history and appreciation of context in interpreting divine guidance will be crucial in the days to come when the newly democratizing countries of North Africa settle down and start launching long term projects, economic, social and political. Those who stick to the old mind set may be disappointed, feel angry even and dissipate their energies in venting frustration. What will be helpful is a new mind set able to adapt to the realities of an interconnected global village.

SECTION THREE: Sailing in the same boat with the rest of humanity

In economic life we face the same problems as the rest of humanity. There is no reason we cannot work together to solve our problems. That adherence to moral values can go a long way in solving the problems is an idea widely shared. The important thing is to build on that consensus and create a universal inclination towards operationalizing moral values. Success requires mobilizing creativity and innovativeness to be harnessed in service of moral behavior and socially beneficial public policies. Role models rather than rule books are the keys to high degrees of achievement.

Socially responsible investment(SRI),ethical investment, green policies,...are only some of the recent movements towards infusing business with morality that attract men and women of different faiths and those with no faith. But even well-intentioned people are often swept off their feet if and when they run counter to nationalistic sentiments or hegemonic designs. That is where rooting moral values in spirituality matters. The idea of the universal human brotherhood under one Lord has the potential to free human beings from narrower bonds. A commitment to justice and equity that is strong enough to suppress narrower loyalties can go a long way to eliminate or, at the least, to mitigate the effects of the lack of trust that goes with tribal, national or imperial groupings. The sooner humanity switches over to a single over-riding universal loyalty the better its future will be.

This was not exactly the stance of twentieth century Islamic initiatives, especially in the field of economics. Nationalism lurked

behind many talks of Islamic solidarity, with many Muslims envying the hegemons of the day as they nostalgically recalled their own empires. That stance has become outdated, to say the least. Not only that stance is out of sync with the contemporary reality of Muslim dependence and powerlessness, it has the dangerous potentiality of eroding the credibility of Islamic economics. And, what is more important, it is not what we have been taught. Allah says in the Quran:

Human beings, We created you all from a male and a female, and made you into nations and tribes so that you may know one another. Verily the noblest of you in the sight of Allah is the most God-fearing of you. Surely Allah is All-knowing, All-aware.[49:13]

Indeed, We honoured the progeny of Adam, and bore them across land and sea and provided them with good things for their sustenance, and exalted them above many of Our creatures.[17:70]

Implied in the above texts is the golden principle: compete in virtue. That obviously entails cooperation in mundane affairs.

I hasten to add we are not supposed to forget our Muslim identity, or stop working for Muslim solidarity. It is quite natural for us to work for the wellbeing of our own on the basis of religion, region, race, or language. That is how one contributes to universal ideals, working through one's own people. As we elaborate in the next section, we Muslims are mandated to undertake many welfare and developmental activities. It belongs to Islamic economics to focus on that vocation. What is to be avoided is the hostility to other groupings similar to our own, the attitude that emerged largely during the heyday of nationalism in Europe. It was born out of a perception of scarcity that implied one losing what the other got. Economists now envisage a future of expanding opportunities (Kotler & Diamondes, 2012). Many of the new forms of wealth, that have made life today richer than life in the past, are non-exclusive: My share does not dwindle by your drawing upon it from the same source.

While the old hegemons born out of the era of aggressive nationalism may continue in their machinations, leaders of faith-based movements would know better. Faith-based alliances cut across national boundaries.

They need to be mobilized to counter anti-felicity activities of nation states, like producing and amassing weapons of mass destruction. Faith-based alliances should promote cooperative agendas of the philanthropic sector active in the areas of health care and education. They could serve as watch dogs against greedy corporate culture polluting the environment and destroying the ecological balance. Islamic economics in the past either neglected these vital areas of activity or tried to do it alone. That is no longer acceptable. Islamic economics must come out loud and clear for cooperation with anyone and everyone for the sake of the common weal. In the next section we pick up a vital financial sector reform by way of example. It is something that must be done /can be done only in collaboration with others, and fits the priorities of Islamic economics.

SECTION FOUR: Against debt-financing and gambling

Nothing hurts the common man more than happenings in which he had had no hand at all. Apart from natural calamities, wars have been the most striking examples of such occurrences since times immemorial. But financial crises have recently become disasters to reckon with. There is a vast and growing literature on the causes and consequences of the recent financial crisis, we need not go into them here. What stands out is the role debt-financing and gambling- like speculation have played in this regard. Reducing the role of debt and eliminating gambling from financial markets should, therefore, be on top of the agenda for Islamic economics. Fortunately for us, Islamic financial institutions have, by and large, escaped the consequences of the recent crisis as their practice of debt-financing was constrained by certain conditions and they were not allowed to bet in the financial markets. This makes Islamic economics eminently qualified to raise the banner of reform. Success ultimately will depend on creating a healthy financial market in which debt is marginalized and bulk of financing takes place through sharing modes of financing. But before it takes root into practice, the idea has to be made acceptable to the practitioners. Earlier, the sponsors of Islamic economics waited for some Muslim country to make a demonstration. But that was not to be, for reasons we cannot discuss in this paper. We have to target the main players whose choices lay down the frame within which minor actors must operate. These players themselves cannot determine choices for the hundreds of millions of men and women whose monies they handle or whose finances they manage. Hence we must reach the

ultimate decision makers themselves. We need a multi-front campaign, addressing economists, financial experts, political leaders, religious mentors and, above all, the common man as saver, investor and user of finance.

The case against using debts as a financial instrument cannot be appreciated without bringing in the role of debt in monetary management. Modern money is all debt. Money is created (printed) at the central bank level and injected into the economy in exchange for bonds issued by corporations(or in exchange for bonds earlier issued by the state and held by banks, corporations, and individuals). This ‘high-powered’ money enables the commercial banks to issue more money(demand deposits) as debts owed to them (supplementing money deposited earlier by the public as debts the banks owe to the public, the only ‘debts’ that do not carry interest.) All money in circulation or in deposit is debt owed to some institution. Excepting the demand deposits made by the public, characterized as debt banks owe to the public, all debts carry interest. Overtime money must grow in order to pay the interest carried by the monies floating as debts. Since passage of time is no guaranty for growth to take place, and also since not all money is used for productive purposes, default is built into the system. The situation has been resolved, over time in three ways, often combined together. Firstly, a certain category of debt is based on the condition that the principal is never to be repaid, the holder of debt instrument being entitled only to interest. Secondly, a creeping inflation lightens the burden on debtors enabling them to pay back in terms of money weaker in purchasing power than the money they borrowed. Thirdly, bankruptcy laws are designed with the purpose of writing off some outstanding debts to enable the borrower to make a fresh start. These solutions fail, however, to resolve the difficulties for the state itself. Firstly, as the states borrow from the public by selling bonds to fill the budgetary gaps their indebtedness goes on increasing. Secondly, there are no bankruptcy laws to relieve indebted states which are often obliged to borrow in foreign currency to pay for essential supplies. And lastly, inflation which works to the advantage of private debtors, works to the disadvantage of indebted states whose currency falls in the foreign exchange market damaging their stature. The end result is a tension that cannot be resolved. Historically speaking, only wars or revolutions have been able to resolve the tension

by destroying the old order and replacing it with a new one in which most of the old obligations are rescinded. But the option of going to war is a luxury only major powers can afford. Poor countries fighting each other, is an invitation to foreign intervention with dire consequences. A just and equitable world society cannot be conceived while this situation continues.

‘What is wrong with gambling? Firstly, gambling does not create additional wealth. Games of chance only transfer wealth from its (losing) owners to new (winning) ones. Considering the human resources consumed in the process, wealth transfers through games of chance cannot be considered to be efficient. They do not serve any social purpose. The satisfaction and thrill they provide to the players do not justify the opportunity cost involved. Other exonerating circumstances like the revenue to state in form of taxes or employment generated by casinos, lotteries, etc. cannot be considered as ‘advantages’ until the acceptability of gambling itself is established.
’<http://www.siddiqi.com/mns/CurrentFinancialCrisisAndIslamicEconomics.htm>

Gambling is an unmixed evil, diverting precious human resources to unproductive pleasure seeking. It is bad enough done with one’s own money. Gambling with other people’s money is worse still. That is what was happening in the US financial markets when disaster struck. The story of CDOs (Collateralized Debt Obligations) and CDSs (Credit Default Swaps) have been well publicized along with the causes of the collapse of the American Investment Group (AIG). It is hard to believe it plays any positive role in risk management.

‘I argue that risk shifting is gambling. One who buys risk exchanges a definite amount of money (the price) for an uncertain amount of money, whose delivery itself is not certain. Credit Default Swaps are an appropriate example. The millions of loans made by a bank are each subject to the risk of default (credit risk) in various degrees. As Joseph Stiglitz and Bruce Greenwald have rightly pointed out credit is not homogenous like money [*Towards a New Paradigm in Monetary Economics* (2003), page 271]. The risks attached to each loan are unique. The institution undertaking to pay for all defaulters among, say a million

borrowers has no scientific basis for measuring the risk it is taking. There is no long history to fall back on. The law of large numbers does not apply. It is just taking chances, gambling. The banks that so protect themselves against credit risks are emboldened to give more and more loans. That is how aggressive lending policy gained an impetus. The sub-prime mortgage crisis would not have occurred without the speculative deals like CDS. Aggressive lenders offered to refinance mortgages on the basis of rising home prices, virtually converting owned homes into ATM machines, sending people on a buying spree, some of it on installment purchase basis, encouraging an expansion that had little basis in the fundamentals: earning powers, disposable incomes and savings and investments.' <http://www.siddiqi.com/mns/CurrentFinancialCrisisAndIslamicEconomics.htm>

The current crisis has yet to play itself out, as the travails of the euro area demonstrate. Can Islamic economics draw attention to the role of debt-financing and gambling in financial markets in a way effective enough to make a difference? It is a tough proposition, difficult to answer in view of multi-nationals' grip on international finance. The redeeming feature is: Financial markets of China, India, and other countries in Asia and Africa, though debt-infested are not deep into the gambling business. Should the Islamic finance industry, which has been gambling-free so far, muster the courage of ditching debt-financing in favor of sharing based financing we can make substantial progress towards our target: reducing the role of debt in the economy. Proposals on how to replace interest bearing instruments by sharing-based instruments in the management of money are available (Sundrarajan & Shabsig, 1998), what we miss is a serious attempt.

SECTION FIVE: The third sector in Muslim economies

Muslim economies have always had a thriving third sector, functioning independently of the state and under motivations different from the profit-seeking private enterprises. Zakat, other charitable funds, charitable trusts and endowments, and savings destined for financing the pilgrimage to Mecca all together made a substantial pool of resources in the service of the common good. This sector has also enabled Muslim communities to maintain their independence in face of tyrannical regimes and foreign occupations. Another role of the Muslim voluntary sector has

been to extend welfare services, like education and healthcare, to the poorest sections of the society. Very often these services included interest-free loans to tide over emergencies. For various reasons the sector became wobbly in the post-independent era in the Muslim countries, but its importance increased for the Muslim communities in the Americas, Europe and other countries where Muslims live as minorities. The vast potentials of the sector is only now being realized by mainstream Islamic economics which had left the issues related to the sector largely to Shariah scholars giving fatwas. The affinity of the Muslim third sector with the conventional microfinance and cooperative sectors, which have recently received a big boost, may have something to do with this revival.

At the theoretical level the third sector has always provided a counterweight to the capitalist economy, giving alie to the dogma that nothing moves without profit motive. But as in the earlier periods of Islamic history, its functioning has always invited the watchful eyes of the supervisor/regulator the *Muhatasib*. For us who complain that Islamic economics proper has been submerged under the stormy waters of Islamic finance endangering its distinct identity, economics of the Muslim third sector provides a way out. As the Muslim third sector is alive and kicking in all countries with a Muslim presence, it is agood vehicle through which to integrate with the economy of man in general. That the sector operates more to the advantage of those at the bottom than those at the top of the income and wealth pyramid, is a significant plus point. Here is an opportunity for Islam as a mission of Mercy for mankind to prove its mettle.

The analytical work still pending is how to make more efficient use of the resources of this sector. Next in importance is the work of providing the sector with an administrative framework that protects it from corruption and sloth, with minimum involvement of the state machinery. This task in itself requires a huge amount of data, not yet available, relating to the assets, liabilities and past performance of the Muslim voluntary sector in various regions at different times. Since a third sector is a reality in almost every economy the world over, we need comparative studies to be able to learn lessons and make amends. Lastly, in most poor countries there exists a thriving 'informal' economy,

operating largely outside the formally regulated economy, by-passing the banking system, and governed by trust, tradition and custom. The sociology of these economies makes for close relations between the voluntary third sectors and the informal economies. We ignore this symbiotic relationship at our own peril.

While the kings thrived on conquests and the poor subsisted thanks to the bazar and the voluntary sector, the backbone of the Muslim economic strength was the merchant class often carrying on trade in the Mediterranean and the Indian oceans, the straits of Malacca, around the cape of good hope and along the silk road to China and other overland routes. Merchant-friendliness of Islam in practice is no less prominent than poor-friendliness of Islam in theory and philosophy. Unfortunately Islamic economics literature has paid little attention to these features, structured as it became along neoclassical lines which feels more comfortable with an undifferentiated mass of 'individuals'. We need to return back to sociological studies along Khaldunian lines to rediscover the secrets of Muslim economic strength in our glorious past.

SECTION SIX : Economic history of the Muslim peoples

Historical studies have three kinds of lessons to teach. First and foremost they help us understand the texts that should be guiding us. Secondly, history records Muslim efforts to live by divine guidance in changing conditions, technological and sociological, at different locations and different points of time. There are lessons to learn from their successes as well as failures. Thirdly, history exposes the limits of human endeavors, underlining the ambiguities inherent in the human situation. As an antidote to human arrogance, and to the hubris generated by the enlightenment in Europe, then spread all over the world, history may teach humility. It records man's utter helplessness in face of the unknowable and the undeterminable. For a generation of human beings with memories of 'planned development' still fresh, history may serve as a reminder of the 'known unknowns' embedded in the human situation. To the extent Islamic economics failed to focus on Muslim economic history it is vulnerable to imbalance. Methodologically, imbalance results from exaggerated reliance on one of the three main strands of Islamic thought that surfaced in the Muslim society after the Prophet: juridical (*i.e. fiqh*), philosophical (*falsafah* and *kalam*) and spiritual (*tasawwuf*).

This imbalance must be rectified by extensive probing into *falsafah/kalam* and *tasawwuf* literature for ideas relevant for the contemporary situation. It is difficult to say what would be the outcome. But the lesson in moderation modern man must learn, and the caution he must exercise in interacting with the natural environment does not seem to be coming from the juridical source in a convincing way. Could the Sufis help?

As regards the history of the Prophetic era, we have yet to complete its study, about a century after the advent of modern Islamic economics. The biggest existential challenge was posed for the nascent Islamic community when the *Quraish* confined them to a barren valley (*Sha'b Abi Talib*), refusing trade and interactions with the clan. Clan solidarity sustained Muslims as human rights or citizenship prerogatives would come to the rescue of a persecuted minority in a modern state. How Muslims conducted themselves in those circumstances deserved to be studied with a view of learning lessons. Who knows when and where such lessons become relevant? We ignored the event as we ignored the two subsequent migrations of Muslims to the neighboring Abyssinia (modern Ethiopia), then called *Habashah*. It is strange as that was a unique experiment, worthy of detailed study. A Muslim minority of over a hundred persons, living for ten to fifteen years amongst a Christian majority, surviving not on charity but on their own skills and earning powers, would certainly have lessons for many modern day Muslim communities in the West and else-where. There must be something wrong with a mind-set that ignores such opportunities of learning. In a similar vein, the *muwakhat* (brotherhood) that the Prophet instituted in order to meet the extra ordinary situation created by his migration to Madinah followed by hundreds of Muslims, merits detailed study. Most of us never considered the need for deep research into the episode. The *muwakhat* arrangement lasted till the Muslim victory in the battle of Badr, about two years after their arrival in Madinah. Meanwhile many 'brothers' had already made their way to financial independence through the market economy. The organization of a market had been a priority task for the Prophet, peace be upon him. How far this strategic step contributed to the successful winding-up of *muwakhat* deserves special attention. Is anybody listening?

SECTION EIGHT :Alternative models of the Islamic economy; From the family to the market

The current model of the Islamic economy revolves around property rights (as trust accountable to God), freedom of enterprise and, fulfillment of contracts and virtues like honesty and sincerity. The individual finds himself or herself in a market selling what he has and buying what he needs. It is acceptable for him to focus on his own interest provided he does nothing to harm others. Markets function by equilibrating demand and supply. Life goes on to everybody's advantage.

It was a leaf taken from the conventional textbooks, adding some moral caveats. No harm doing so. But there is an alternative route more congenial for Islamic society and rooted in Islamic scholarship. The individual who is found selling and buying in the market was born and raised in a family. Long before he was able to function as a decision maker in matters economic he was nurtured by a mother who cared, and loved by family members who showered him with gifts. Altruistic giving and gift relationship precede reciprocity, exchange and contracts as the bedrock of economic relationships. The market the Prophet organized and supervised in Madinah offers a rich subject for research. There is a sizeable material on its supervision by the Prophet himself, his appointees, and his successors like Syedna Umar farooq and Syedna Ali bin Abi Talib. Hadith reports abound on behavior of individual traders ,big as Syedna Usman and Abdur Rahman bin Auf as well as small(too many to name). It will be interesting to focus on the interface between the family and the market in this period and during the 150 years that follow, after which point of time Greek influence makes itself felt to an extent strong enough to evoke a vehement rebuttal by Ghazali (d.1111/505).

Under the Greek influence, Muslim intellectuals developed a tradition of writings on *Tadbir al-Manzil* (Family management). Here is a possibility of building a model in which altruism, gift relationships and custom and traditions also play a role along with self-interest-focused contractual relationships. Such a model could find a greater scope for cooperative behavior that scarcity- of- resources driven competitive models failed to rationalize.

A model plays a dual role. Primarily it is supposed to *describe* the ground reality in its essentials. But it also *prescribes*, telling us how things should be. A model of Islamic economy that builds on the family as its origin, its launching pad, would depict a state of the world in which economic choices are based on a multiplicity of factors. It will be interesting to do this exercise at a time when the neoclassical model has led us to an unpalatable situation. In building on the caring and sharing features of the family Islamic economists will be building on universal truths that may open up a new vision of the market hitherto ignored. It will also prevent the horrific possibility of turning the human family into a market in which self-centered spouses trade their 'comparative advantages'.

SUMMARY AND CONCLUSIONS

This paper calls for a reformulation of Islamic economics harmonious with the new ethos bringing former ideological rivals together to face the challenges facing the planet earth and jeopardizing the felicity of mankind. It makes a plea for theoretical, historical and empirical studies that could help operationalize the moral vision at the base of the Islamic economics. It suggests focusing on institutions more likely to serve the weaker sections of humanity.

Theorizing often follows the dominant methodology. But methodology is not something engraved in stone. It undergoes constant renewal. Historically speaking, practice precedes theorization. Let there be more of historical and empirical studies, more cooperative ventures involving other communities, courageous efforts at managing money without creating debts and gambling-free ways of risk management that are acceptable to wealth owners. Simultaneously, let there be launched a new kind of financial institution located in the voluntary sector and encompassing the informal economy housing the bottom third of our populations, especially designed to serve the poor and the property-less.

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Comments on “Ishkaliyat al-tanzir fil Iqtisad al-Islami” by Dr. Nejatullah Siddiqi

Comment by: Dr. Asad Zaman

Prepared for Workshop on “The Future of Islamic Economics” held at Islamic Economics Institute, KAAU Jeddah, November 12-13, 2012

Overall I would say that there is a remarkable amount of agreement between the comments of Dr Mohammad Nejatullah Siddiqi (abbreviated to MNS hereafter) and my own views. Difference occurs in ways of articulation and shades of emphasis, but these only serve to clarify and sharpen the points of view asserted. This agreement is remarkable because our diagnoses are not in fact, consensus or majority viewpoints. Most the of views expressed differ sharply from what are currently mainstream views. I will list below what I consider to be the major issues raised by MNS, and re-express them as points that I have raised as central in my own writings, and related works.

1: Focus on Process, Not on Outcomes

In my own paper on “Re-Defining Islamic Economics” I have stated the Islamic Economics is the struggle to realize the orders of Allah in our personal lives, in our communities and at the level of the Ummah.” In this connection, I have written that our focus must be on the process – the struggle – and not on the outcomes. We will not be asked about whether or not we achieve the goal, but about whether or not we put in our best efforts to translate the ideals of Islam into real world practice. On this crucial and central issue, I find myself in complete agreement with Dr. Nejatullah Siddiqi who states that:

The way to success is to try our best. Actual transformation of the ground reality into the desired state of the world depends on factors Allah knows best. To be realistic, 'transformation' is never complete or perfect. As we gain some ground, the world moves on, creating new challenges.

This is important because currently this is a minority position. Vast majority of Muslims are using outcome based thinking, and evaluating efforts on the basis of results. This is exactly the western methodology we have all been trained on, but is conflict with Islamic methodology. I have discussed the dramatic methodological differences between current economic methodology based on logical positivism and Islamic views in my paper on "[Logical Positivist Methodology and Islamic Economics](#)". Some implications of a process based approach are discussed in Section 10 of my earlier cited paper "Redefining Islamic Economics" as well.

2. Shifts in Power Configurations Require Re-thinking Alliances

The first section of the paper by MNS makes the point that we need to shift from confrontational to cooperative strategies. I am in complete agreement, but would articulate the issue from a different perspective. The emergence of Islamic economics took place in a context where Capitalism and Communism were competing economic ideologies. Both were competing to attract the newly emerging former colonies to the folds of their influence. In this climate Islamic Economics was developed as a rival and a superior alternative. It was necessarily confrontational. The situation has changed drastically. Communism has been buried and Capitalism has emerged as the sole victor. However it has been a "Dark Victory" as many have come to realize. It is the victory of the top 0.1% -- the military-industrial complex that Eisenhower warned was a serious threat to democracy (see [Eisenhower speech](#)). World defense budgets totalled 160 trillion dollars in 2010, which was enough money to provide health, education, housing and clothing for the entire planet. Why? Exactly as Eisenhower foresaw, the military-industrial complex encourages wars which hurt everyone but fatten corporate profits. Massive propaganda power acquired by corporate ownership of media allows them to corrupt democracies, and mislead people to vote against their interests.

In this new situation, the problem has been articulated by the "Occupy Wall Street" movement as that of protecting the interests of the 99% against the top 1%. The evils of the tremendous amount of inequality have been spelled out by Stiglitz in his recent book: **The Price of Inequality**. Just as an illustrative statistics, the ratio of prisoners to citizens in the USA is at the highest globally and historically. More is spent on prisoners than is spent on educating children. The cost of security systems to protect the property of the haves from the have-nots is enough to feed and educate the entire planet. A crucial element in the re-configuration of powers is the decline of nation as a uniting concept. Capitalists have joined hands globally, and are no longer reluctant to exploit the poor of their own countries. As a result, even in the richest countries, there has been a dramatic increase in inequality, and the conditions of the lower income population as a whole have worsened. Homelessness and hunger in the USA are at peak levels for a quarter century in 2010 according to FDA statistic. This, in an economy which has spent 7 trillion dollars on wars and bailouts of rich corporations, is an extreme injustice.

Islam has always championed the poor and exploited, and called for economic justice. At this time, there are numerous groups working for the 99% and we can definitely seek to make common cause with them, exactly as Dr Siddiqi has suggested.

3. Importance of Non-Monetary Incentives

The second section of MNS makes some points about the need to study incentives. I fully agree, not only that this needs to be done, but also that this should be a high priority item on the agenda of Islamic Economists. In this regard, I have written the paper "Contrasts between Islamic and Economic Views of Incentives." Whereas economics views man as motivated primarily by greed, Islam teaches us that humans have diverse motives. Many studies show that in the labor market, motives of learning, curiosity, demonstrating competence and expertise, providing service, feeling appreciated and honored, are all far more powerful than earning money. A recent award winning Ph.D. thesis by my student Saima Mahmood entitled "Efficiency Wages and Non-monetary Motivational Strategies: An Experimental Approach" has discussed in detail the evidence for this, and the effects of taking these

alternatives into account on the labor market. Cristina Bicchieri's book on **The Grammar of Society: The Nature and Dynamics of Social Norms** shows the importance of social norms in shaping human behavior. This has dramatic implications of great importance to Islamic Economists. Motivations are not set in advance, but depend on how children are brought up; if we choose, we can train them to be selfish and competitive. We can also train them to be generous and cooperative. This ties in directly to Islamic teachings and the importance of providing the correct education and upbringing to Muslim children. A great problem in this regard is the complete bankruptcy of the Western education system. The complete failure and abandonment of moral goals in higher education has been documented by Harvard Professor Julie Reuben in her book entitled "The Making of the Modern University: Intellectual Transformation and the Marginalization of Morality". The disastrous transformation of education from a tool for enlightenment and self-transformation into a tool for producing docile workers has been documented by Gatto in several books; see for example "Dumbing Us Down: The Hidden Curriculum of Compulsory Schooling". This means that it is up to us Muslims to demonstrate the model of education to the world. Since our Prophet was the best of teachers, was sent as a teacher and a perfect role model, we should not have to look elsewhere. The principles of an Islamic Education have been sketched in my paper on the subject: "Principles of an Islamic Education." Muslims currently have a unique opportunity in this regards: we have a huge amount of literature and historical experience in providing a moral education. The secular world lacks a solid basis for morals, since their concept of moral boils down to social consensus¹. Islam provides solid basis for providing moral training of exceptionally high standards. We need to learn to implement this in our societies. Several efforts are already underway, and these need to be strengthened and nurtured.

(1) This means that if a majority of people approve of homosexuality and gay marriages, then this will be enforced on the society as a whole. Currently the Canadian Muslim community is in process of devising strategies to protect their children from compulsory courses teaching immorality in Canadian schools.

4. Global Thinking: Ummah and Humanity Versus Nation-States.

One aspect of Section 3 of MNS has already been covered in our earlier section on making common cause with the exploited 99%. The other aspect is the need to think globally, and to counter-act the poisonous effects of the nation-state. In Section 9 of my own paper on “Re-Defining Islamic Economics” I have discussed how Islamic Macroeconomics should concern itself with the Ummah, and not confine itself to narrow, nation-based thinking espoused by conventional Macro-Economics. Starting from Adam Smith, the concern has been to increase the wealth of a nation, even at the expense of others. This is taken as a legitimate goal to pursue. Islam teaches us to think at higher levels, and to think of the interests of humanity as a whole. My views, which are very much in conformity with those expressed by MNS, are detailed in Section 9, and therefore I will not repeat them here. One aspect not discussed there is worth highlighting. The Prophet Mohammad S.A.W. was so concerned about the guidance of all human beings that the Quran chides him to not kill himself with sorrow over their failure to accept the message. As his followers, we must have the same love and compassion for the entire human race. As an Ummah, we have been given the responsibility to convey the message to all mankind. Demonstrating viable models of economic justice and harmony is an extremely important part of this responsibility.

5: Against Debt and Gambling in Financial Markets

Section 4 of MNS deals with the issue of the topic. The potential of Islamic contribution is great, since it is nearly universally recognized that the use of these financial gimmicks, clearly contrary to Islamic teachings, were responsible for the financial crisis of 2007, which continues to affect world economy. Quite interestingly, the power of the financial moguls is so great that serious efforts at reform have been blocked, and the root causes of these problems remain unresolved. This leads to a serious possibility of a repeat and/or exacerbation of the financial crisis. Not only do Islamic financial principles have much to offer here, but there is recognition by the international community of the potential value of Islamic Economics in this area. I have treated this issue at somewhat greater length in my article on “On Islamic Economics”. More details are available from my three part article “Causes of the Global Financial”

6. Islamic Meso-Economics: Building Vibrant Communities

Section Five of the MNS paper highlights the importance of The Third Sector: Communities. I have made the same point in Section 8 of my paper on "[Re-Defining Islamic Economics](#)" which argues that we need to develop an Islamic Meso-economics dealing with the community level. The reason for the absence of such a field within conventional economics is their adherence to the principle of methodological individualism. Heterodox and Institutional Economics do realize the importance of communities. Historically, communities have played an extremely important role in providing social services in Islamic societies. Section 8.4 of my paper "[Islam Versus Economics](#)" highlights the importance of communities and the many different ways that they can solve economic problems not envisioned in conventional economic theory.

To re-iterate, I am in complete agreement with MNS on the importance of the third sector, and have expressed these views at length in other writings. It is of great importance to understand that social reform is to be carried out by communities rather than by trying to grab power and impose it from the governmental level. This is the way to build consensus rather than to autocratically impose change.

7. Economic History of Muslims & Muslim Institutional Structures

This is the topic of section 6 of the MNS paper. Again, I am in perfect agreement here. The central institutional structures of an Islamic Society are radically different from those a capitalist society. This point has been discussed in detail in section 8: Institutions of an Islamic Society, of my paper "[Islam Versus Economics](#)". We can learn a lot from our history and our historical institutions. These are radically different from conventional capitalist ones. The idea of making minor modifications to conventional capitalist institutional structures will not lead us to an economy which is Islamic in spirit. The institutional structure captures the spirit of capitalism which is the accumulation of wealth, based on competition and selfishness. MNS calls for institutional structures based on Zakah, Awqaf and Hajj; these capture generosity, sacrifice, and cooperation which are the spirit of Islam.

Again, I find myself in complete agreement with MNS on these issues.

8. Replacing Market Models by Family

In Section Eight (probably should be Seven) of his paper, MNS discusses Alternative Models: From Market to Family. It is important to place this in the context of “The Great Transformation” which took place in Europe, as described by Karl Polanyi in his book of this name. This was the transition from traditional society to the market society. The disastrous effects of placing everything in the marketplace have been documented in many books; as just one example out of many, see **The Costs of Living** by Barry Schwartz. The idea that human lives can be valued in dollars led to the grimly inhumane assessment by Madeleine Albright, US Ambassador to the UN, made on public TV, that the deaths of half a million Iraqi children due to US Embargo was a fair price to pay for achievement of US political goals in the Middle East.

In my papers entitled “The Limits to Market Economy,” and “The Rise and Fall of the Market Economy,” I have spelled out in great detail the causes and effects of the transition from traditional society to the market society in which we currently find ourselves. I am in complete agreement with MNS on the need to reverse this change.

9: Conclusions

I find a remarkable harmony in views on MNS and myself on what needs to be done. This is remarkable because the points of views detailed are quite far from mainstream views among both traditional economists and Islamic economists. While harmony in consensus and dominant views is common, there is a vast amount of disagreement among heterodox economists and Islamic economists on the diagnosis of the problem, and correspondingly on the solution. This disagreement is reflected in the differing definitions offered for economics, which are more than twenty by my count.

Although the articulations and shades of emphasis are different, MNS and I are in complete agreement as to the main issues currently facing us and how to go about resolving them. This is a good omen, since solutions to problems facing the Ummah as whole necessarily require consensus. The hand of Allah is with the Jama’a. If we can build consensus on the path to pursue, we can attract the help of Allah, without which no change or improvement in our conditions is possible.

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**Professor Nejatullah Siddiqi,
“ISHKALIYAT al TANZIR fil IQTISAD al ISLAMI”**

**Review and Comment By
Professor Dr. Abdel Rahman Yousri**

I do not know why Professor Nejatullah Siddiqi entitled his article in Arabic using Latin letters, while writing the article in class English. I hope that I would express the title correctly by translating it as: “Problematic Aspects in Theorizing for Islamic Economics”

Recognizing the need re-formulate Islamic economics which is a new paradigm or a new project as he calls, he asserts that we do not have to go on in confronting rival ideologies. Islamic economics should be responding to actual problems faced by the people in our world. In doing so, Islamic economists should not, though, neglect learning from their historical experiences whether successful or failure. Yet, the predominant theme in the article is the need to reformulate Islamic Economics to go along with other ideologies and different faith that are calling (in good intention!) for humanity welfare in a global village.

Looking at the task of tackling actual living problems in our world, Muslims (not clear if he means Islamic economists, or Islamic scholars or Muslim in general ?) need to get rid of their “cardinal weaknesses” represented in lack of self-criticism. They have also to show capacity towards readiness to change “and adapt to changing conditions”.

THE PAPER INCLUDES SEVEN SECTIONS

Section One (Us and Them; Then and Now) “highlights the chasm between the world then and now, contrasting the confrontational posture of the Islamists towards powers that be with the humility now imposed on all concerned by the threats to humanity’s survival coming from within and outside, i.e. from the ecology and the environment”.

The age of tense confrontation between Islam and Christianity as well as between Capitalism and Socialism/Communism had passed. "Western hegemony is visibly weakened" now. The USSR finished. China has risen as a new global power, but soon to be rivaled by India. Meanwhile, Muslim presence is no longer confined to the East, there are getting their place in the West. "The alleged 'clash of civilizations' proved to be a mere flash in the pan" (P.5).

The message which the author sends to Muslims should be understood; there is no more clash of civilizations or ideological confrontation at world level and (hence) forget about your dream to restore your power, or struggle for supremacy with others. "We Muslims should rather be the *harbingers* (!) of a new age of mutual understanding and cooperation".(P.5) Muslims should humbly get involved with other people living on this planet in problems that are threatening all. In his words "Environmental pollution, ecological imbalances, Jobless growth and increasing disparities in the distribution of income and wealth are not specific to any ideological group, region or race". (P.6)

This kind of thought while may be considered by some scholars as fresh breeze in Islamic thought, and consequently in Islamic Economics, needs in my opinion serious examination. While it can be described as idealistic and gives Islamic thought a great fame at world level but, to me, is unrealistic if exposed to further discussion, not only theoretically but also (and mainly) on practical grounds, considering our contemporary world. The author has to give us examples and hard proofs of the end of Ideological and faith conflicts at world level and of "current endeavors of other faith-based communities, also of non-religious but well intentioned people, to escape from tyranny of ideologies" (P.1) Just one example that I may give on my part; that is it would be really beneficial to our contemporary world if some eminent secular economists in the western world would escape from their tyrant capitalist or liberal ideology and show positive support to freeing financial markets from trade in money, in debt and speculative or quasi- gambling activities (This is also within the theme of Section 4 in the paper) .

The Muslim world should look within this philosophy(suggested by the author) at more serious targets, which most important amongst them

is improving the living conditions of hundreds of millions of poor in our world. This is good! It should be remembered that the Muslim world constitute a significant percentage of the world poor. However, poverty removal, and fair distribution of income and wealth in contemporary Muslim societies received minor attention in Islamic economics if compared with Islamic finance and Banks, which as a matter of fact have made no dent in Muslim poverty as the author asserts.

The call of Professor Siddiqi within Section one to develop and restructure the institutions of Zakat, Awqaf, and Hajj in manner that would particularly help the lower social stratum in improving their income share, deserves serious consideration. A lot of theoretical and practical work can be visualized in this area with respect of the role of Zakat and Awqaf in financing small enterprises, helping in raising human skills of people and in teaching their poor how to best use their resources even if these are meager or scanty. I wished, though, if the author could have elaborated his idea with respect to the particular role of Hajj in conjunction with Zakat and Awqaf in “empowering the poor by imparting skills that could increase the income-share”. There are visions or possibilities that can be spelled or explored in this sphere but the author should give us more explanation for the role of Hajj in his opinion.

In **Section Two**, “The Moral Economy of Islam”, Professor Siddiqi asserts that “ the essence of Prophetic Messages has always been moral values. Islam is no exception”. This is true but it is rather unfair to hide the superiority of Islam in finalizing and perfecting the moral values of all preceding religions. Morals that are relevant to economic behavior and institutions are unique and surely perfected in Islam (when compared with Christianity or Judaism). However, the author focuses the problematic aspect of the moral economy in Islam in “how to translate moral values into socially beneficial individual behavior and public policies that complement the market in securing the desired state of the world”. This aspect, in fact, has been tackled by many Islamic economists and other Muslim scholars. (I am dealing with this aspect also in my paper on the Methodology of Islamic Economics)

For future evolution of Islamic thought the matter still needs more work and answers for many important questions that are raised by the author; "Does Islam's moral economy rely exclusively on reward and punishment in the afterlife, insofar as socially beneficial behavior is concerned? Can the state play any role in aligning incentives without affecting freedoms? How far the nature of the state, i.e., its being democratic or autocratic, affects its capability to achieve social goals?"

The author claims that writers in Islamic economics use references or depend on evidences that fail to convince. "Some Muslims try to build institutions *de novo*, without reference to what is going on, with the texts of Quran and Sunnah treated as guides and operating manuals"(P.8). There is a point in rejecting the texts of Quran and Sunnah to be used as "operating manuals". But I wonder as an Islamic economist how objection is raised on "Quran and Sunnah as guides"?. The author has to give further explanation as "guidance" in our new paradigm is obtained from them!

With respect to history the author is quite right when says "The subject of Islam's economic history needs professional handling with a view to distill from it the normative content Islamic economists need. This has been lacking so far".(P.8)

Section Three; "Sailing in the same boat with the rest of humanity", emphasizes same view expressed by the writer in Section One. Humanity

face the same economic problems everywhere in the world. Thus Muslims have no reason to isolate themselves from the rest. All have to work together to solve impeding economic. Professor Siddiqi thinks that "adherence to moral values can go a long way in solving the problems" of humanity. "The important thing is to build on that consensus and create a *universal inclination towards operationalizing moral values*. Success requires mobilizing creativity and innovativeness to be harnessed in service of moral behavior and socially beneficial public policies. Role models rather than rule books are the keys to high degrees of achievement".(P.11) This view as such cannot be accepted by many Islamic economists. It is going to take Islamic morals into unknown area, where all morals are diffused !! What will be then of Islamic morals?

You never know! In my own opinion, if we accept this, it is a tradeoff between genuine Islamic morals and fame that we may gain by claiming Islamic economics is serving humanity. On my own part I believe that with our genuine Islamic morals we are apt to serve humanity in better way. Yet, we need to be patient and genuine in our intentions and academic efforts.

Professor Siddiqi takes the cases of “ Socially responsible Investment(SRI),ethical investment, green policies” to prove his point of view of the global trend “ *towards infusing business with morality that attract men and women of different faiths and those with no faith*”. I think that Professor Siddiqi has involved himself unnecessarily in a dispute which is not confined by any means to economics or Islamic economics, namely the unity of humanity under one believe! Let me quote him and made no further comment. He says: “*The idea of the universal human brotherhood under one Lord has the potential to free human beings from narrower bonds*”.(P.11)

In Section Four; “Against debt-financing and gambling”, the author affirms that “Reducing the role of debt and eliminating gambling from financial markets should (therefore) be on top of the agenda for Islamic economics”. Yet, what is strange to me his saying ““ Fortunately for us, Islamic financial institutions have , by and large, escaped the consequences of the recent crisis as their practice of debt-financing was constrained by certain conditions” In fact I believe, as many other Islamic economists, that the weakest point in the Islamic Banking experience was *debt-financing which is constrained by synthetic Sharia conditions*! Have Islamic Banks really escaped the global financial crisis? Have not they been strongly linked with the global banking system? Is not this due to their strong inclination towards debt financing based on the well known benchmark the LIBOR?

I have to add here my disagreement with what the author mentioned (in Section One) that “Muslims turned their attention to riba-free microfinance rather late in the day, after everybody was in”. Yes you can claim that microfinance experience was developing steadily outside the Muslim world and that Muslim experience was lagging behind, but you cannot claim any riba-free micro-finance experience outside the Muslim

world. I would claim that the experience of the Islamic Banks in Mait-Ghamer in the early 1960s and Faisal Bank' Omdurman Branch in the 1970s and onward was distinctive and leading.

In Section Five, the author is dealing with what he calls "The Third Sector In Muslim Economies". Some important hints concerning this sector has been given in fact in a previous Section (suggestions of reviving the role of Zakat, Awqaf, and giving more attention to micro-finance).

Professor Siddiqi draws our attention to the importance of the "third sector". He is quite right in saying that "the sector operates more to the advantage of those at the bottom than those at the top of the income and wealth pyramid, is a significant plus point. Here is an opportunity for Islam as a mission of Mercy for mankind to prove its mettle" .

Professor Siddiqi is rightly remarking that unfortunately Muslim scholars have paid little attention to the economic and sociological aspects of the third sector. In this we " need to return back to sociological studies along Khaldunian lines to rediscover the secrets of Muslim economic strength in our glorious past".

In Section Six : Economic history of the Muslim peoples; the author emphasizes the importance of Muslim Economic History. He rightly remarks that "to the extent Islamic economics failed to focus on Muslim economic history it is vulnerable to imbalance". Professor Siddiqi has given several examples to display the importance of studying Islamic History. To quote one of these examples "*muwakhath* (brotherhood) that the Prophet instituted in order to meet the extra ordinary situation created by his migration to Madinah followed by hundreds of Muslims, merits detailed study (P.19). Yet, I believe that it is important for Islamic economics to emphasize the importance of studying "the logic of economic history". We can learn a lot by reviewing (Ibn Khaldun's work and by contemplating several verses in the Noble Quran (e.g. Sura2; Verse 251)

Section Seventh deals with the model of the Islamic Economy. "The current model of the Islamic economy revolves around property rights (as trust accountable to God), freedom of enterprise and, fulfillment of contracts and virtues like honesty and sincerity". Islamic economic literature viewed market in a manner that is similar more or less to market in mainstream economic textbooks. Description is taken from "the conventional textbooks, adding some moral caveats. No harm doing so" (P.20) . " But there is an alternative route more congenial for Islamic society and rooted in Islamic scholarship" Reading Professor Siddiqi thought on this topic should take us necessarily to giving more attention in our research to cultural, sociological matters that are closely linked with market transactions. "Altruistic giving and gift relationship precede reciprocity, exchange and contracts as the bedrock of economic relationships. The market the Prophet organized and supervised in Madinah offers a rich subject for research".(P.20)

On my part, as commentator, I quite agree on this kind of thought. Yet, talking about altruistic motives and family values is not easy task in contemporary Muslim society. We need to undertake real reformation in our Muslim family and Muslim schools towards revival of Islamic culture and methods of raising our children and educating them Islamic ethic. How far this, if done, would conflict with Professor Siddiqi's call for moving towards one global culture?

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Development of Theory of Islamic Economics: Problems and Proposals

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SECTION 1

Introduction

Though many writings exist from early 1920s which can post-facto be considered to belong to what is now known as the discipline of Islamic economics, the term Islamic economics was coined sometime in early 1950s. Much earlier than that, many excerpts in books of *fiqh* or Islamic religion in general touched upon issues which are now included in the science of economics. However, they were not incorporated into a theory of Islamic economics. Incidentally, this dichotomy between religion and economics parallels conventional economics. When Muslim economists started writing on economic issue, the conventional economics had taken a diverse shape quite distinct from religious sciences. Muslim economists, most of them having graduated from Western Universities, were influenced by the prevalent economic theory (ies), yet they had a desire to check those theories against Islamic teachings. Therefore, they digged out the relevant excerpts from the religious books including most prominently *fiqh al-muamalat*. An attempt of developing a new “paradigm” for analyzing economic behaviour thus started in 1970s. A

watershed in this respect was the First International Conference on Islamic Economics, held in Makkah al-Makkaramah under the auspices of the King Abdul Aziz University, Jeddah. Unfortunately, the effort went off-track in the field of Islamic economics. At the same time, Islamic finance became the major interest due to practical reasons. The research in Islamic economics also suffered because of lack of institutional support and funding. Committed individuals kept the kindle on but naturally these individual efforts were very limited.

Looking back at the last 40 years, there is a general perception that Muslim economists have not been able to develop a distinct paradigm. People from within and outside⁽¹⁾ are now questioning the existence of a theory of Islamic economics. Questions have also been raised whether development of a separate theory is possible or even needed. The purpose of this short paper is to answer these questions through a review of the writings and developments in the last 40 years. The emphasis will be on diagnosing the problems faced in the development of a unique paradigm of Islamic economics. However, the ultimate objective of any diagnosis is naturally treatment. Therefore, some attention will also be paid to suggest what, in my view, can help developing the theory of Islamic economics.

In the next section we explore the common meaning and objectives of a 'theory' and examine whether the 'economic thoughts' discussed under the umbrella of Islamic economics in the last 40 years fulfill those criteria. Our conclusion in that section is that we cannot presume to have a distinct 'theory of Islamic economics' until now. In Section three, we try to identify what the problems have been that prevented Muslim writers to develop a distinct paradigm. Section 4 addresses the question whether or not a distinct theory of Islamic economics is needed to begin with. Our conclusion in that section is that we DO need to develop a new

(1) By outside, I mean those who do not belong to the mainstream comity of Islamic economists, e.g., people like Timur Kuran. They certainly have a right to criticize and point out lapses. Unfortunately, some of them did not fulfil the scientific conditions of unbiasedness and objectivity. In a long footnote (no.4) of his important contribution (quoted later in the paper), Dr. Abbas Mirakhor has done a wonderful job in responding to these unfair criticisms.

paradigm for Islamic economics. Therefore, in section 5 we make some suggestions for the future course of action which in our view will help developing such a paradigm. The last section provides summary and conclusions.

SECTION 2

Do We Have a Distinct ‘Theory of Islamic Economics’?

In this section will examine the definitions of ‘theory’ and ‘economics’ and propose new definitions. This is necessary in order to assess whether we have a ‘theory of Islamic economics’ or not.

What is a ‘Theory’

In the literature the term ‘theory’ has been defined in several ways. For example:

1. A supposition or a system of ideas intended to explain something, especially one based on general principles independent of the thing to be. (Oxford Dictionary)
2. A plausible general principle or body of principles offered to explain certain phenomena. (Merriam Webster Dictionary)
3. An organized system of accepted knowledge that applies in a variety of circumstances to explain a specific set of phenomena. (Free Online Dictionary)

It is important to mention that in conventional framework a theory is supposed to be **testable and refutable**.

Proposed Definition of Theory

Islamic position towards developing a theory is unique. First we propose a definition and then explain its uniqueness:

“An organized system of knowledge, comprising both the knowledge acquired from human experience and learnt from authentic Revealed Sources, which applies in a variety of circumstances to provide plausible explanation of a specific set of phenomena”.

This differs from the conventional definition in two ways. Firstly, in the Islamic framework, the knowledge obtained from authentic Revealed Sources may or may not be testable. Secondly, it is not refutable. It is definitive and must be **taken as given** in developing any theory.

The conventional theories by ignoring Revealed knowledge miss out a lot and hence are inferior to any theory of Islamic economics (or for that matter any other science), that is developed using both sources of knowledge.

The next question that we need to answer is that what is the specific set of phenomenon that the science of economics deals with?

What is Economics

There are a number of definitions but here we quote the most prominent ones:

1. Economics is the study of the nature and causes of nations' wealth or simply as the study of wealth (Adam Smith)

2. Economics is a study of man in the ordinary business of life. It enquires how he gets his income and how he uses it. Thus, it is on the one side, the study of wealth and on the other and more important side, a part of the study of man. (Alfred Marshall)

3. Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses (Lionel Robbins)

Though Alfred Marshall holds a higher status among the comity of conventional economists, it was the definition of Lionel Robbins which got currency in economic literature. By 1940s, (the period when Muslim economists started their quest for a new paradigm) his definition had gained almost universal acceptance. Text book definitions explained this further stating that human wants are unlimited while resources are limited hence every individual and society faces a problem of choice. This became "the economic problem" and economic theory had to present a plausible and organized system of knowledge that could explain

how human beings make choices, *i.e.*, economic decisions to make the best use of resources in order to fulfill their needs. A number of theories were offered. The generally accepted principles in almost all of them were:

1. A rational man seeks to maximize his individual utility (pleasure), *i.e.*, behaves selfishly.

2. He has the freedom to make his economic decisions in free market atmosphere.

3. Values do not enter into this economic decision making (the so called positivism)

4. Competition and free markets ensure that selfish individual behavior ultimately result in an optimal allocation of scarce resources.

Though there were many dissenting voices about all of these ‘accepted principles’ but they were muted for well over fifty years. The mainstream economics revolved around the “rationality (pleasurism)-individualism-positivism” nexus.

Let me **very briefly** evaluate these concepts by some conventional economists themselves along with references for those who want to pursue.

Does Man Act Rationally in Making Decisions?

A significant school of thought considers that individual’s ‘rationality’ is necessarily constrained by many factors. One authentic source mentions these factors as follows:

“Decision makers (irrespective of their level of intelligence) have to work under three **unavoidable** (emphasis mine) constraints: (1) only limited, often unreliable, information is available regarding possible alternatives and their consequences⁽²⁾ (2) human mind has only

(2) Please refer to the Quranic verse, “And of knowledge, you (mankind) have been given only a little” [17:85]

limited capacity to evaluate and process the information that is available, and (3) only a limited amount of time is available to make a decision. Therefore even individuals who intend to make rational choices are bound to make satisficing (rather than maximizing or optimizing) choices in complex situations".⁽³⁾

From an Islamic perspective, a fourth important factor determines the rationality or otherwise of an individual's decision making: the time frame for his cost-benefit calculus. If he ignores the consequences for his decisions for the life Hereafter, he is NOT rational. Quran chastises such behavior in a forewarning manner:

كَلَّا بَلْ تُحِبُّونَ الْعَاجِلَةَ ۖ وَتَذَرُونَ الْآخِرَةَ

"Not [as you think, that you (mankind) will not be resurrected and recompensed for your deeds], but (you men) love the present life of this world and neglect the Hereafter." [75:20-21]

In another place, it makes the 'rational' choice for man very clear:

بَلْ تُؤْثِرُونَ الْحَيَاةَ الدُّنْيَا ۖ وَالْآخِرَةُ خَيْرٌ وَأَبْقَى

"But you prefer the worldly life 'while the Hereafter is much better and much more durable". [87:16-17]

Are Individuals Free to Make Choices?

Islam recognizes individual freedom in making decisions. As a matter of fact it is part of the Islamic World View which considers this life a test. The Creator has made the good (*halal*) and the bad (*haram*) absolutely clear through Revealed Knowledge. He has also made the consequences of individual choice clear to man and then granted individual freedom to choose between the two. If individuals were not given freedom of choice, the 'test' would become meaningless.

(3) Definition of 'Bounded Rationality', www.businessdictionary.com. The concept of 'bounded rationality' was proposed by Herbert A. Simon as an alternative basis for the mathematical modelling of decision making, as used in economics and related disciplines. Please see his important work, *Models of Man* (1957), New York: Wiley.

Are Markets Free?

The assumption of free markets is far from reality. As pointed out by Calcagnini, Giorgio; Saltari, Enrico⁽⁴⁾, “the real world is characterized by the presence of imperfections in goods, financial and labor markets”. As a matter of fact a new discipline under the name of economics of imperfect markets has developed.

Is Economics a Value-Free Science?

This hypothesis, the so called positivism has been perhaps the most contested hypothesis by both Muslim and non-Muslim economists. Few economists today believe in this hypothesis⁽⁵⁾. Yet there are many still holding on to the ‘flag of positivism’. In a recent unpublished manuscript, Lawrence Boland waves that flag as follows: “Few economists today will be found waving the banner of ‘economic positivism’ or ‘positive economics’. Does this mean that economic positivism is dead? Certainly not... The dominance of economic positivism is abundantly evident in current textbooks. Almost every introductory textbook explains the difference between ‘positive’ and ‘normative’ economics and tries to make it clear that economists are interested in positive economics and capable of fulfilling the demands of economic positivism”⁽⁶⁾. Elsewhere in this paper we discuss the concept of so-called ‘positivism’ in some more detail because of it is crucial for an understanding of Islamic economic paradigm more than other concepts.

What is Islamic Economics?

We need to spare some space for this question because this will lead us to identify why a theory of Islamic economics has not been developed. When Muslim economist started writing, they focused their attention on criticizing the above-mentioned principles. Most of them thought that if

(4) Calcagnini, Giorgio; Saltari, Enrico (Eds.), (2009) *The Economics of Imperfect Markets*, Springerlink.com

(5) See for example, Caldwell, Bruce, (1982,1994) *Beyond Positivism: Economic Methodology in the Twentieth Century*: London: Routledge.

(6) Boland, Lawrence (1991) “Current Views on Economic Positivism”, citeseerx.ist.psu.edu

we beat this 'snow man' we will have a different paradigm. They differed among themselves a lot, some accepting one or the other principle while others rejecting it. Some denied the existence of scarcity of resources, others accepted the concept. Some took issue with man being selfish in his economic decision making; others agreed that man is indeed greedy. Some questioned the profit maximizing behavior, while others did not find any problem with that as a tool for achieving efficient allocation of resources. Interestingly, all quoted textual references in support of their positions but none came up with a 'plausible set of principles' to explain how decisions are made in economics, hence no theory of Islamic economics gained foothold. As Mirakhor rightly states, "Considering that this is a period of infancy of the discipline, it is perhaps natural that a general sense of fuzziness permeates discourse on Islamic economics."⁽⁷⁾

However, it was generally agreed that Islamic economics has to have a spiritual side. In his important work, *The Future of Economics: An Islamic Perspective*, Chapra⁽⁸⁾ lists seven definitions (those of Hasanuzzaman, Mannan, Khurshid Ahmad, Nejatullah Siddiqi, Akram Khan, Nawab Haider Naqvi, and Louis Cantori) and then gives his own definition as follows:

"That branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with the *maqasid*, without unduly curbing individual freedom, creating continued macroeconomic and ecological imbalances, or weakening family and social solidarity and the moral fibre of society"⁽⁹⁾.

All these definitions started with the definition of economics from conventional economics and changed one or more of its components. All of them added a moral/spiritual dimension to it. That indeed is **necessary**, but is that **sufficient** to develop a distinct theory of Islamic

(7) Mirakhor, Abbas (2007) A Note on Islamic Economics, IDB Prize Winners Lecture Series, No.20, Jeddah: Islamic Research and Training Institute, page.9.

(8) Chapra, M.U. (2000) *The Future of Economics: An Islamic Perspective*, Markfield, UK: The Islamic Foundation, p. 141, footnote 14.

(9) Chapra, *ibid.*, p.125.

economics? In my view it is not. In this paper, I will dwell on that to show that the crisis of not having been able to develop a distinct theory of Islamic economics has other reasons as well.

However, before doing that let me propose a definition for Islamic economics that I think to be more appropriate. I drew inspiration from a Hadith of Prophet Muhammad (S.A.W.) which states:

عَنْ ابْنِ مَسْعُودٍ عَنِ النَّبِيِّ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ قَالَ لَا تَزُولُ قَدَمُ ابْنِ آدَمَ يَوْمَ الْقِيَامَةِ مِنْ عِنْدِ رَبِّهِ حَتَّى يُسْأَلَ عَنْ خَمْسٍ عَنْ عُمْرِهِ فِيْمَ أَفْنَاهُ وَعَنْ شَبَابِهِ فِيْمَ أَبْلَاهُ وَمَالِهِ مِنْ أَيْنَ اكْتَسَبَهُ وَفِيْمَ أَنْفَقَهُ وَمَاذَا عَمِلَ فِيْمَا عَلِمَ (سنن الترمذي)

Ibn Masood reported that Prophet (SAW) said: “No man will be allowed to move his feet from Allah’s front (His Court) until he answers five questions (i) In what (sort of acts) did he spend his life? (ii) What did he achieve (good or bad) during his youth? (iii) How did he earn his wealth? (iv) On what did he spend his wealth? (v) How much he acted upon what he learnt?”

Notice that two out of the five questions [(iii) and (iv)] relate to economics directly, viz, from where did one ‘earned’ one’s wealth and on what did he spend it? This Hadith gives us a very important clue as to what Islamic economics should be concerned with. In the light of this Hadith, I propose the following definition of Islamic economics:

“Islamic Economics is that branch of knowledge that tells us the rules of behaviour in earning and spending wealth in the light of Shariah”

Going back to the issue of writings that were supposed to arrive at an agreed definition of Islamic economics, another brand of writers in the field of Islamic economics, Islamic jurists, considered economics a matter, more or less of *fiqh al muamalaat al- malliyya*. This group generally had very little familiarity with modern day economic issues while the first group of scholars generally had very little knowledge of rules of Islamic jurisprudence. For example, in the field of finance, a survey of the members of Shariah Boards of Islamic banks would reveal that a very small number of these scholars have any formal training in modern finance. It is praiseworthy that they are using a number of ways

to cope with this information gap before issuing a *fatwa*. One way is to discuss an issue in meetings/workshops attended by both *Shari'ah* scholars and financial experts. Institutions working in the field of Islamic economics, banking and finance are playing an active role in organizing such workshops. However, these workshops have no mandate to issue a *fatwa*. For that purpose, the meetings of the *Fiqh* Academies, the most prominent among which is the OIC *Fiqh* Academy in Jeddah, play an important role. Those academies also commission a number of studies by specialized experts on specific issues before discussing them and taking a decision. In the absence of the required expertise in the field of economics and finance among *Shari'ah* scholars, this approach of group *ijtehad* could have served as a useful way towards the development of a new paradigm.

The situation is, however, far from being satisfactory. As any participant of the workshops and meetings of the *Fiqh* Academies can notice that the interaction between *fiqh* scholars and the experts of modern economics and finance does not always proceed smoothly. They have so different backgrounds and speak such different technical languages that the communication between them requires special effort. The dichotomy between these two crucial elements of knowledge required for the development of the theory (ies) of Islamic economics and finance led to another strand of debates among Muslim scholars. However, these debates also failed to provide any theory (ies) of Islamic economics and finance. This time the failure was basically due to an acute shortage of scholars with dual specialization or at least having working knowledge of modern economic and finance and *Shari'ah* at the same time.

The result, in our view has been that despite hundreds of writings appearing in the field called Islamic economics during the last forty years, they hovered around the above mentioned debates. Though Mirakhor states, "a reasonable degree of agreement on two issues, viz, (i) that Islam itself is about 'justice and equity' and (ii) the sources for specification of the characteristics of the 'Islamic paradigm are the Quran, *Ahadeeth* and *fiqh*⁽¹⁰⁾, no serious attempt was made to develop a

(10) Mirakhor, *ibid*, pp.11-12.

‘distinct’ theory (as per our definition stated above) of Islamic economics or of Islamic finance. Even the agreement on the two fundamental issues claimed by Mirakhor is either partial and/or insufficient for developing a theory of Islamic economics. Therefore, in our view we do NOT have a theory of Islamic economics until now.

SECTION 3

Why a Theory of Islamic Economics Could not be Developed?

In our view the frank answer to that question is that the very approach that Muslim writers in the field called Islamic economics took was wrong. Muslim economists kept their writing mainly restricted to a criticism of ‘main stream’ economic paradigm and stating Islamic positions about the main axioms of that paradigm (as stated above). However, the problems with the mainstream economic paradigm (as they became clear with the passage of time) were more deep rooted. In our view, starting about 1650AD and going well into the Eighteenth century, three trends or undercurrents were in progress that shaped the approach to ‘knowledge’ in general. These were at the root of the problem with economics and other behavioral sciences.

These in my words are:

1. Secularization of Knowledge
2. Calculization of Knowledge
3. Newtonization of Knowledge

All sciences were affected by these but social sciences like ‘economics’ lost most of their originality. It all started with what later came to be known as Enlightenment. According to Kant, the Enlightenment was “Mankind's final coming of age, the emancipation of the human consciousness from an immature state of ignorance and error.”⁽¹¹⁾ Actually, it was a revolt against the domination of Church. Enlightenment drew a wedge between religion and ‘knowledge’. Debate

(11) Kant, Immanuel, Science and the Enlightenment, Part-II, www.experiment-resources.com

went on for more than hundred years but finally 'Rationalism' won the day against 'Revealism'. Any piece of information which the 'rational' human mind could not explain was ignorance rather than knowledge. Religion was given a divorce, formally in Marxism and informally in Capitalism.

Secondly, Newtonian laws of physics became so influential that the difference between 'atoms' which look and behave alike, and human beings, which look and behave differently was made to be the test for wearing the beautiful mantle of being a 'science'. Behavioural sciences struggled to capture 'diversity' of human beings into 'laws' that can typify the behaviour of a human being. Economics invented 'the economic man'. A 'rational', 'self-serving', being (I intentionally avoid the use of human being here), who will maximize his benefit (utility or pleasure), without any regard to his actions being ethical, socially acceptable or even legal. An 'invisible hand' was also invented to show that through some incomprehensible magic 'the economic man' left alone by the society and government and afforded the powers of complete freedom and competition in free markets will produce a socially optimal equilibrium, the Pareto Optimal.

The third causality that happened to advancement of knowledge was 'calculability'. Anything that could not be measured, empirically tested and verified could not enter into the 'reliable' body of knowledge. This economic empiricism became a popular tool of economic theoreticians. Economic theories became, more or less, a matter of statistically significant relationship between a dependent variable and a set of independent variables chosen by researchers, the selection being subjective in most cases. This subjectivity is against the very spirit of scientific inquiry.

When Islamic economics came on the scene, these tendencies had been ingrained into mainstream economics⁽¹²⁾. Islamic economists took

(12) In this paper by 'mainstream economics' we mean the synthesis of Keynesian and Neoclassical economics that emerged after 1945. This synthesis divided economics into microeconomics (generally neoclassical but with a newly developed theory of market failure) and macroeconomics divided between Keynesian and Monetarist visions.

upon themselves to dismantle these and related planks of economic theory (such as scarcity versus ampleness of resources, needs versus wants, selfish rationality versus generosity, cooperation versus competition, *etc*). The three main developments in the theory of knowledge that I have mentioned were reactive responses to historical experiences. History shapes the form of knowledge. It took some years but conventional economics is not the same as it was. Other paradigms under various names, 'Marxist economics'; 'Christian Economics', 'institutional economics', 'Green economics' *etc.*, have taken down almost every single plank of the mainstream economics. Just to give one example, if man is such a self-centred selfish 'being' that neoclassical economics would have us believe, then why does he feed his wife, children and even pets? He derives utility (pleasure) out of it, comes the answer. Fine! But that man goes out of the door and sees a man lying on the street crushed by a drunken driver who has fled. He takes the day off, spends his time and money to look after that man. Why? He derives utility (satisfaction/pleasure) from his act. Is he still to be labeled selfish?

For the sake of argument, even if we accept the view that humans are pleasure seeking machines, it is by no means established that economic decisions are strictly governed by such pleasure seeking tendencies. For example, individuals may be unable to make choices consistent with pleasure maximization due to social constraints. It may give me a lot of pleasure driving a Mercedes, but the presence of people who do not have money to treat their terminally ill loved ones in the vicinity may put enough social pressure on me to change my choices.

Individuals may also be unable to correctly measure the level of pleasure that a particular choice may yield. For example, in the conventional theory of consumer behavior, the inability of measurement of 'cardinal' utility led to indifference curve and revealed preference theories. Later, these were also criticized by many conventional economists as being inaccurate. Islamic teachings tell us that as a matter of confirmed fact; man does not know what is good or bad for him due to his inability to know the 'end results' of his choice. Quran refers to this basic principle having immense influence on any theory of choice in the following words:

وَعَسَىٰ أَنْ تَكْرَهُوا شَيْئًا وَهُوَ خَيْرٌ لَّكُمْ ۚ وَعَسَىٰ أَنْ تُحِبُّوا شَيْئًا وَهُوَ شَرٌّ لَّكُمْ ۗ وَاللَّهُ يَعْلَمُ
وَأَنْتُمْ لَا تَعْلَمُونَ [2:216]

“It could be that you dislike something, when it is good for you; and it could be that you like something when it is bad for you. Allah knows, and you do not know”. [2:216]

Individuals may also be constrained in making such choices leading to maximization of their pleasure by legal restrictions. A man (not necessarily a Muslim) may want to have a second wife because it will make him happier. However, he may not be able to do it if he is living in United Kingdom. The same man may be able to do that if he relocates to Saudi Arabia, for example.

On the principles of conventional theory itself, the concept that a ‘rational’ man maximizes his own pleasure is a meaningless assumption because it is either impossible to test or too general to refute. The annual budget of “Melinda and Bill Gates Foundation” is more than the total budget of many countries. Do we consider the man who changed the face of technology (and way of life) for the present Century to be an ‘irrational’ man?

Based on the above prescription, I believe that the reasons for the failure of Muslim writers in developing a theory of Islamic economics can be stated as follows:

1. Inability to Incorporate “Revealed” Knowledge to Provide ‘Plausible Explanation’ for Economic Decision Making

The main emphasis in conventional economics was on the claim that it is value-free (the so-called positivism). Conventional economists faked that but did not believe in it. Conventional economics has never been value-free.⁽¹³⁾ Many conventional economists themselves have shown that better than us. Since Lionel Robbins (1932) conventional economists have been following the dogma that economics is a “positive” science.

(13) See Zarqa, Anas (1980) “Islamic Economics: An approach to Human Welfare”, in Studies in Islamic Economics, Edited by Khurshid Ahmad, International Centre for Research in Islamic Economics, Jeddah and The Islamic Foundation UK.

Logical positivism and Weber's idea that social science must be value-free strongly influenced the development of economic methodology in the early twentieth century. In more recent times, several economists showed the flaws in this methodology. Most prominent among these are Quine (1953) and Putnam (2002) who show how aesthetic and epistemic values of elegance, simplicity, coherence, power etc. are inevitably involved in the selection of scientific theories.

However, old dogmas are hard to change. A recent survey by Hands (2009) concludes that: "most modern economists generally consider rational choice theory to be a positive, not a normative, theory; endorse the position that normative statements/concepts should be prohibited from scientific economics; and equate normative theories/presuppositions with ethics."⁽¹⁴⁾

Putnam (2002), on the other hand argues that developing a methodology which takes into account the collapse of positivism as well as the collapse of the fact/value distinction will open up "a whole new field of intellectual possibilities in every important area." Asad Zaman in his article "The Normative Foundations of Scarcity" (2009) dwells on these issues and exposes the drawbacks of positivism.

If Islamic economics was to be a 'unique' paradigm, it must have started by incorporating Revealed Knowledge (testable or not) into its methodology. It is not simply knowledge; it is superior knowledge. Muslim writers must have built Islamic ethical values explicitly into their models and show how these would affect individual behavior and economic decision-making **in this life**⁽¹⁵⁾.

(14) Also see Boland, *op. cit.*

(15) Islamic values are important not only for Hereafter. They affect decision making in this life also. Therefore, the Islamic economic paradigm must take them into consideration. My point of view was challenged by a renowned scholar in an earlier dialogue (See Roundtable on Islamic Economics, *op. cit.*). Therefore I have added the emphasis in the text to highlight my position.

The reason for hindrance in doing that was the second reason for the failure of Muslim scholars to develop a theory of Islamic economics, to which we now turn.

2. Undue Emphasis on the Use of Mathematics and Empiricism

As stated above, an attribute of a conventional theory is that it should be testable and refutable. In their enthusiasm to raise economics to a higher pedestal among social sciences, conventional economists resorted to models of economic behavior that could be reduced to mathematical equations and empirically tested. There are some benefits in using mathematics and econometrics but I agree with many economists who are now saying that "economic modernism" took equilibrium model-building and econometrics (especially 'existence-theorem' mathematics and statistical significance 'absurdly' far."⁽¹⁶⁾ Many examples have been quoted in which professors of econometrics were able to use the same data to both prove and disprove the applicability of a model's conclusions. Thus, the vast efforts expended by economists on analytical equations, is essentially wasted effort.⁽¹⁷⁾ Notwithstanding that, Muslim economist did not attempt to built models that would include variables which are well recognized by Islam to affect economic decision making but were not measureable, e.g., the level of *taqwa* that the decision maker possesses.

3. Failure to Recognize the Role of Non-Economic Factors Affecting Economic Decisions-Making

Third reason why a theory of Islamic economics could not be developed was the failure to incorporate general Islamic considerations, which may not strictly fall under economics, yet they affect decision making in economic matters. This again was due to the prevalent atmosphere in 1950s when Muslim scholars started their efforts to build a

(16) I am not suggesting that empirical analysis is not useful and/or should be abandoned. My submission is that mechanical churning out of regressions and making theories based on 'statistical significance' of one or the other variable is fraught with dangers and is not a substitute for **logical** arguments. If the two complement each other, then use of empirical analysis is indeed very useful.

(17) Deirdre McCloskey (1998) *The Rhetoric of Economics*, 2nd Edition, Madison: University of Wisconsin Press.

new paradigm. Newtonian laws of physics had become so influential that the difference between ‘atoms’ which look and behave alike, and human beings, which look and behave differently was made to be the test for wearing the beautiful mantle of being a ‘science’. Behavioural sciences struggled to capture ‘diversity’ of human beings into ‘laws’ that can typify the behaviour of a human being. Economics invented ‘the economic man’. A ‘rational’, ‘self-serving’, being (I intentionally avoid the use of human being here), who will maximize his benefit (utility or pleasure), without any regard to his actions being ethical, socially acceptable or even legal. This was “*homo economicus*”. An ‘invisible hand’ was also invented to show that through some incomprehensible magic ‘the economic man’ left alone by the society and government and afforded the powers of complete freedom and competition will produce a socially optimal equilibrium. Many conventional economists were critical of the *homo economicus* model of human behaviour used in standard neoclassical model. A typical version of the critique is that of Satya Gabriel.⁽¹⁸⁾

Muslim scholars responded by inventing “*homo Islamicus*”. This was an individual that ‘typified’ how economic decision would be made if Islamic values were to replace secular values. Unfortunately, just as “*homo economicus*” does not exist, there is no “*homo Islamicus*”. Individual take decisions in a complex atmosphere. For example, Shiozawa⁽¹⁹⁾ emphasizes that economic agents act in a complex world and therefore it is impossible for them to attain maximal utility point.

Decision making is affected by history, culture, environment and socio- political backgrounds pertaining in a specific time and place. A Muslim in Saudi Arabia will react differently than a Muslim in Bangladesh to similar economic stimulus. The behavior of individuals is not equivalent to chaotic motion. Individuals have preferences and make choices that depend on their circumstances. Therefore, just as the attempts to capture diversity in human behavior through ‘Robin Crusoe’ type of man failed in conventional economics, attempts to capture

(18) Satya J. Gabriel (2003) "Introduction to Heterodox Economic Theory." (blog), June 4.

(19) Shiozawa, Y. (2004) “Evolutinary Economics in the 21st Century: A Manifest”, *Evolutionary and Institutional Economics Review*, 1(1): 5-47.

diversity of human behavior through inventing "the Islamic man" did not lead Muslim writers to a unique theory of Islamic economics. Human mind is a repertory of a complex set of instincts, preferences (that change over time), reactive impulses etc. Therefore, economic decision making is not affected by only material considerations. Muslim writers did emphasize that spiritual aspects are important as well, but they failed to adopt a multi-disciplinary approach that would have been closer to Islamic theory (ies) on economic matters. Prof. Ali Khan calls it 'grid of enquiry', which "simultaneously involves history, theory, and culture if the answers that we seek are to have a depth of understanding...a historically-and- theoretically-informed understanding".⁽²⁰⁾

This is important because the basic purpose of any theory is policy prescriptions arising out of it. Conventional economists now openly accept that their theories have failed to lead to policy results that they were supposed to provide. For example, commenting on the current financial crisis (2008-date), an acclaimed business writer David H. Freedman observed: "The market crash of 2008 that plunged the world into the economic recession from which it is still reeling had many causes. One of them was mathematics. Financial investment firms had developed such complex ways of investing their clients' money that they came to rely on arcane formulas to judge the risks they were taking on. Yet as we learned so painfully three years ago, those formulas, or models, are only pale reflections of the real world, and sometimes they can be woefully misleading."⁽²¹⁾ He further notes that it has become routine for modelers in finance to simply keep recalibrating their models over and over again as the models continue to turn out bad predictions. "When you have to keep recalibrating a model, something is wrong with it," he says. "If you had to readjust the constant in Newton's law of gravity every time you got out of bed in the morning in order for it to agree with your scale, it wouldn't be much of a law. But in finance (and if I may add economics) they just keep on recalibrating and pretending

(20) Khan, M. Ali (2000) "Globalization of Financial Markets and Islamic Financial Instruments", *Islamic Economic Studies*, Vol.8, No.1.

(21) David H. Freedman, (2011) "A Formula for Economic Calamity", *Scientific American*, October 26.

that the models work.”⁽²²⁾ There are many other writers saying the same thing. In a recent article in the Journal of Forecasting based on a Ph.D. thesis in economics and decision making at the Universitat Pompeu Fabra in Barcelona the authors used answers from 257 economists to show how regressions can lead to misleading results⁽²³⁾.

It is evident from experience that human behavior and preferences cannot be converted into equations and therefore models that intend to capture diversity by choosing a few variables and applying econometric techniques to predict are doomed to fail. They may appear to be ‘rigorous’ but rigor cannot replace ‘plausible explanation’ that a theory is supposed to provide. *What is needed is an inter-disciplinary approach to find **logical** explanations for human behavior.* Economics has borrowed too much from physics. It is time for economic theory to look into other disciplines. For Muslim economist a natural recourse is towards Islamic sciences. However, unfortunately Muslim writers have so far limited themselves mainly to *fiqh* and that has been another problem with building a theory of Islamic economics.

4. Over Emphasis on Fiqh in Economic Theory

Islamic *fiqh* is an important source for deriving rules of behaviour, but *fiqh* is NOT the where all and end all for economic theory. Just as the undue use of mathematics and econometrics have flawed the development of predictive theories in conventional economics, undue reliance on Islamic jurisprudence has been a ‘drag’ on the development of a theory of Islamic ‘economics’. These rules for economic behavior are to be derived NECESSARILY from Quran and Sunnah, but NOT from *fiqh*. A similar sentiment has been expressed by Dr. Nejatullah Siddiqi, “too strong a focus on *fiqh* has retarded the progress of Islamic economics... For many, if not most of the scholars, *fiqh* came first and the contemporary reality came next”. He recommends that after consideration of the *Qur’an* and the *Sunnah*, the “next thing to focus on

(22) David H. Freedman (2010) Wrong: Why experts keep failing us, New York: Little, Brown and Company.

(23) Emre Soyer, Robin M. Hogarth (2012) "The illusion of predictability: How regression statistics mislead experts", International Journal of Forecasting, Vol. 28, Issue 3, (July-September), pp. 695-711.

is the contemporary reality, the current environment.... How to realize the economic values and achieve the Islamic ends in economic life in our times? That is the question we have to answer. It is in answering this question that we consult *fiqh*. It is a great help, an indispensable source, but not the only one. When it comes to identifying the appropriate means for realization of a certain end, current state of human knowledge and technology may have things to offer no old treasure possibly could²⁴.

As a matter of fact while the rulings of Quran and Sunnah CANNOT change with time and space, the rules of *fiqh* can and *must* change with change of time and space. The rulings of Quran and Sunnah cannot change but these rules are not rigid. They have enough flexibility to accommodate individual differences at different times and places. That's what makes Islam a universal religion that will prevail until the end of humanity. Islamic jurists do not claim rigidity for *fiqhi* rules but unfortunately they have not kept pace with the passage of time especially since the 7th century.

5. Under-Utilization of Islamic Scholastic Heritage Other than *Fiqh*

As mentioned above over-reliance on *fiqh* has hindered rather than promoting the development of theory of Islamic economics. On the contrary very little attention was paid to the rich heritage of Muslim writers from other fields. As Chapra points out, Muslim scholars, including Abu Yusuf (d. 798), al-Mawardi (d. 1058), Ibn Hazm (d. 1064), al-Sarakhsi (d. 1090), al-Tusi (d. 1093), al-Ghazali (d. 1111), al-Dimashqi (d. after 1175), Ibn Rushd (d. 1187), Ibn Taymiyyah (d.1328), Ibn al-Ukhuwwah (d. 1329), Ibn al-Qayyim (d. 1350), al-Shatibi (d. 1388), Ibn Khaldun (d. 1406), al-Maqrizi (d. 1442), al-Dawwani (d. 1501), and Shah Waliyullah (d. 1762) made a number of valuable contributions to economic theory. Their insight into some economic concepts was so deep that a number of the theories propounded by them could undoubtedly be considered the forerunners of some more sophisticated modern formulations of these theories. Unfortunately, the rich theoretical contribution made by Muslim scholars up until Ibn

(24) Siddiqi, Nejatullah (2004) Keynote Address at Round Table on Islamic. Economics, Jeddah IRTI, May 26-27, 2004.

Khaldun did not get fertilized and irrigated by later scholars to lead to the development of Islamic economics.⁽²⁵⁾ Dr. Abdul Azim Islahi has written a number of very useful papers highlighting the contributions of many scholars to economics in early centuries.

6. Inability to Develop our Own Terminology

Rationality, self interest, scarcity, maximization, freedom etc. are concepts which are recognized in Islam. Some of them are very useful techniques to be used. However, I must caution that these concepts, though recognized by Islam, may have different meaning. Therefore, why should we spend energy on contesting these? Why don't we use some different terminology while developing Islamic economics paradigm that suits us better. This has not been done or to say the least not done enough. Much effort was expended on trying to 'adapt' conventional economic concepts so as to conform to Islamic principles. This did not help developing a distinct theory of Islamic economics. The need is to build the theory anew from an entirely different perspective.

7. Failure to Incorporate Islamic Incentive System to Achieve Ideal Behavior

Once it is agreed that economics is not a positive science, the new theory need not restrict itself to explain 'what is' and refrain from pushing decision makers towards achieving 'what ought to be'. Every system has a built-in incentive system. In conventional economic theories, the profit motive is the prime mover. Islam has nothing against profit serving as an incentive. Profit seeking has indeed played an important role in improving efficiency in the allocation of scarce resources. However, there are other components to be considered. Therefore, while designing an Islamic paradigm, components of such an incentive system can be a mixture of conventional and Islamic. There is no harm in using the tools developed/expounded by conventional economics if they do not conflict with any Shariah principle. As a matter of fact, in the last three centuries, Western researchers have made enormous contributions to all fields of knowledge including economics.

(25) "Islamic Economics: What It Is and How It Developed" Online, Posted Fri, 2010-02-05 13:42 by backend.

We must benefit from these developments. It is pertinent to note here that Westerners learnt a lot from the pre-fourteenth century contributions by Muslim scholars. Watt has been frank enough to admit that, "the influence of Islam on Western Christendom is greater than is usually realized" and that, "an important task for Western Europeans, as we move into the era of the one world, is ... to acknowledge fully our debt to the Arab and Islamic world" (Watt, 1972, p. 84)⁽²⁶⁾.

However, there are crucial elements that are unique to an Islamic incentive system. These must be incorporated in the paradigm of Islamic economics. In this respect, the most important thing is that the time period of analysis MUST somehow include al-Aakhirah. The belief in al-Akharah is the strongest component in the incentive system of Islam. Almost one-third of Quranic verses delve on that. Until that is done, in my view a very important element in the uniqueness of Islamic economic paradigm is lost.

Achievement of human welfare is the prime objective of Islamic economics. The case is not very different in conventional economics. The Islamic doctrine of *maslahah* literally means seeking of benefit and repelling of harm. It is something very close to Bentham's principle of utility (securing maximum human happiness). But, Muslim jurists have pointed out that from a technical point of view; *maslahah* means the securing of the objectives of Shariah rather than maximization of happiness as seen by individuals.⁽²⁷⁾ However, the objectives of Shariah, themselves, aim at maximizing human welfare in this life as well as the life Hereafter. From an Islamic perspective welfare in this life is defined as "having gratifications through which the life of this world becomes pleasant and these are continuity of bounties of Allah, wealth and honor"⁽²⁸⁾. These are ensured through obedience of Allah as mentioned in several places of Quran. We quote just one of them here:

(26) Quoted in Chapra, *ibid*.

(27) Nyazee, I.A.K. (2000) *Islamic Jurisprudence*, Islamabad: Islamic Research Institute, pp. 196-197.

(28) Mufradat Alfaz al-Quran by Allama Raghīb Asphahani.

وَلَوْ أَنَّ أَهْلَ الْقُرَىٰ آمَنُوا وَاتَّقَوْا لَفَتَحْنَا عَلَيْهِم بَرَكَاتٍ مِّنَ السَّمَاءِ وَالْأَرْضِ وَلَٰكِن كَذَّبُوا فَأَخَذْنَاهُم بِمَا كَانُوا يَكْسِبُونَ

“If the people of the towns believed and feared Allah, We would have opened for them blessings from the heavens and the earth, but they disbelieved. So, We brought them to book for their misdeeds.”[Al-Aaraf:96].

Therefore, the concept that one’s welfare ends here and now is wrong. The new paradigm must capture the belief in Al-Akhira and its implications for THIS WORDLY behavior. Whether to do it through building two-period maximization models or “internalizing” benefits of one’s actions to be reaped later or some other model can be discussed. However, if the strongest incentive measure shaping behavior of a Muslim is ignored the resulting theory can be anything but Islamic.

SECTION 4

Can There be a Distinct Theory of Islamic Economics?

This very question was posed by Zarqa in his historic article published in 1980⁽²⁹⁾. He underlined the need to have a distinct theory of Islamic economics but his arguments revolved around value-based nature of Islamic economics versus the purported positivist approach of conventional economics. That indeed was one reason to develop a different paradigm at that time. Much water has flown under the bridges since then. Positivism may no longer be a very strong reason for having a separate discipline of Islamic economics. There are schools of economic thought *within* conventional economics that realize the need for moral values to be incorporated into economic calculus. One famous economist, Koopman once observed, “scratch an economist and you will find a moralist underneath.”⁽³⁰⁾

In my view, the two most important reasons that we need to have a distinct paradigm are the reorganization of two sources of knowledge, (1)

(29) Zarqa, Anas, *op. cit.*

(30) Koopmans, T.C. (1969) “Inter-temporal Distribution and ‘Optimal’ Aggregate Economic Growth”, in Fellner et. al., *Ten Economic Studies in the Tradition of Irving Fisher*: John Willey and Sons.

Revealed Knowledge and (2) Acquired Knowledge BOTH of which affect economic decision making. Conventional economic theory, by ignoring the first one has NOT been able to perform the functions that a theory should perform. Most important of these functions is to predict economic behaviour. Conventional economic theory has done a very bad job in that. Secondly, 'incentive system' is an important factor that affects economic decision making. Since Islam's incentive system including the concept of al-Aakhirah, is uniquely different, there is need for a distinct paradigm. There are other justifications for having a new paradigm but in my view these two are the most important.

SECTION 5

How Should We Proceed From Now On?

Since the main purpose of this workshop is diagnosing the problem, we have dealt with that aspect in the last section in detail. However, diagnosis is only a mean to the real objective which is treatment. Therefore, in this section, I will make some recommendations for modeling economic behavior considering how economic decisions are **actually** made.

Creating a "*homo Islamicus*" in contrast to the conventional "*homo economicus*" is not building a new paradigm. Without the incentives built into the Islamic faith propagated, ingrained and modeled there is no "Islamic Man". Every individual, Muslim or Non-Muslim is different. It has good and bad built into his making. He has selfish tendencies as well as caring tendencies. It is the incentive system which will move him in the direction that the system wants him to move to. Our paradigm should NOT end by explaining "What is". It MUST deal with what "Ought to be" and then map the journey from the former to the latter. A number of corollaries follow from this standpoint.

First, we should take Revealed Knowledge as superior and **given**. There are a number of teachings about man's attitude towards wealth, welfare and limitedness of his knowledge. Theoreticians should take the instructions given in Quran and Sunnah to arrive at the issue of choice and economic decision making. When and where that faults, steps should be recommended to correct them in order to achieve 'what ought to be'.

The second component of human knowledge, the acquired knowledge, should help us in both tasks.

Second, we need not copy conventional terminology or more generally the theoretical structure. I will give only two examples here due to shortage of space.

(1) Consumption, saving and investment are some of the most important aspects of economic life of individuals, organizations and governments. Their importance can be judged by noting the fact that almost every economic textbook starts from the theory of consumer behavior. This is on the micro level. Similarly, in the macro-economic textbooks the starting point is the basic national income identity.

$$Y \equiv C + I^{(31)}$$

Determining individual behaviour with respect to these variables is also necessary in Islamic economic paradigm. An important point that emerges from the Hadith quoted above is that Islamic economic paradigm would concentrate on “Expenditure Function” rather than “Consumption Function”. Consumption will enter as one argument in that function but there would be other arguments that will determine the nature of the “Expenditure Function”. Some of those arguments are never considered in the conventional theories of consumer behaviour⁽³²⁾.

Let me mention the variables that need to be considered when deriving the Expenditure Function from an Islamic perspective. Consumption and Investment will of course be arguments in such a function but in a way different from the conventional consumption function. The most important new variable that must be included, as an

(31) This is the simplest form of the national income identity. It is then expanded by including the government sector and open economy variables but that is not relevant for our argument here.

(32) Of the most famous conventional theories, the Keynesian Absolute Income Hypothesis, Duesenberry’s relative income hypothesis and Friedman’s Permanent Income Hypothesis, all revolved around only income (though defined differently) as being the main determinant on consumption. Other variables were not considered.

argument in the Expenditure Function is *infaq*, which in turn involves more than one kind. Simply speaking, the income identity should be written as:

$$Y = C + I + Q1 + Q2$$

Where:

C = Expenditure on one's household. This represents expenditure to provide for the present generation.

I = Expenditure on investment. This is basically⁽³³⁾ meant to provide good economic base for future generations.

Q1 = Compulsory expenditure ordained by Shariah (e.g. *zakah*, *sadaqat al-wajiba*)

Q2 = Expenditure on voluntary charity (e.g. *infaq*, *hiba*).

Q1 and Q2 are meant to secure a better place in the life Hereafter.

One thing that must be immediately noted is that in an Islamic Expenditure Function there would be variables which are exogenously given (Q1). Even the way in which the endogenous variable will affect the expenditure behavior would be quite different in an Islamic framework. For example, conventional theory regards the consumer as sovereign. In Islam, this is not the case. Islam categorically states that Allah alone is the Sovereign. Islam completely prohibits expenditure on certain items (e.g., wine) and limits expenditure on others (e.g., prohibition of *Israf* and *Tabzeer*). Another important divergence between the two paradigms is in the very definition of the basic unit of decision making i.e. household. The Islamic definition of household includes parents⁽³⁴⁾. In contrast, in conventional theory they are not included in the

(33) Two points are worthy of mention here. (1) Investment has other purposes as well, e.g. one may invest to for a better future for himself or to maintain a steady stream of consumption after retirement. However, the major part of investment is made to provide for future generations. (2) When we talk about 'spending' wealth, it includes transfer of wealth also. In more general terms, it means parting with wealth. Once that meaning of 'spending' is understood, the Islamic laws about inheritance also become relevant. That is a major addition that needs to be made in the theory of Islamic economics.

(34) In certain cases it may include other relatives as well.

definition of household. Some Islamic economists have made attempts to contribute in this area but none has come out of the straight jacket of the consumption function.

It is interesting to note that the root of the Arabic words that describe household expenditure (نفقه) and charitable expenditure (انفاق) is the same. It is not my intention to develop a theory of expenditure here. It is suffice to draw the attention of theory builders that Islamic paradigm would require a different approach.

(2) The second example I want to quote is from theories of input pricing. The most common and widely accepted is the theory of Value of Marginal Product according to which each factor is paid equal to the value of its marginal product. The egalitarian stance of Islam has led some Islamic economists to suggest that the wages should, at least, be sufficient to fulfill the basic needs of the worker. There is no doubt that Islam lays stress on the fulfillment of basic needs, but it is important to remember that such a guarantee is not the responsibility of the employer. If he pays according to the workers' contribution to the output as reflected by market-determined wages, he has fulfilled his responsibility. Wages (and for that matter all factor returns) are not determined on the criterion of need. Otherwise, two workers doing exactly the same work would be entitled to different wages. All factor returns including wages are determined on the basis of market exchange. If these wages are not sufficient to fulfill the basic needs of some worker that should be taken care of through the mechanism of personal distribution and transfer payments. The emphasis in Islamic system on equity is well taken. However, a distinction must be made between the 'system' and economic agents. Moreover, 'economic system' is in fact a sub-system in overall 'Islamic system', which has other sub-systems, e.g., political system of Islam. In a human body the digestive system, the blood circulation system, the nervous system etc. have all to work in tandem to ensure health of the body. The same rule applies to various sub-system of the Islamic system. Just as human heart cannot assume the function of food digestion and stomach cannot assume the function of purifying and pumping blood; economic agents cannot be obliged to accomplish the Islamic goals of distributive justice. They ought to contribute towards achievement of those goals but the Islamic economic system uses a number of measures to ensure achievement of its goals.

A related issue is the question of minimum wages. We know that pricing of both factor of production and of the product falls under the contracts of *muawadat* not *tabarruat*. The guiding principle in the contracts of *muawadat* is exchange of equal value. If any party gives more than the counter value, it is *ihsan* or *tabarru*. If you are giving marginal product to an employee, you are completing the requirement of justice. But for yourself if you want to maximize your welfare, keeping in view the broader framework of Al Akhira, then you need to do *ihsan* on your own will. It is in your own self-interest (as defined above) to include the life Hereafter to give to the poor. It is your self-interest to give *zakah*. Therefore, in my understanding fixing of wages (and other factors of production) should follow the laws of supply and demand just as fixing of output prices. The Islamic rules of price-fixation (تسعير) apply to wages also.

SECTION 6

Summary and Conclusions

In this brief discussion paper we have attempted to answer four research questions:

(1) Is Islamic Economics in a crisis situation in the sense that the writers in the field that came to be labeled as Islamic economics have failed to provide a 'Theory of Islamic Economics'?

In answering that question we have reviewed various definitions of the two relevant terms 'theory' and 'Islamic economics'. We have settled for the following definitions of the two terms respectively:

For Theory:

"An organized system of knowledge, comprising both the knowledge acquired from human experience and learnt from authentic Revealed Sources, which applies in a variety of circumstances to provide plausible explanation of a specific set of phenomena".

For Islamic Economics:

"Islamic economics is that branch of knowledge that tells us the rules of behavior in earning and spending wealth in the light of Shariah"

In the light of this discussion we have concluded that the writers in Islamic economics have not been able to provide a distinct theory of Islamic economics in the last forty years.

(2) What have been the reasons for this failure?

In answer to this question, we have come up with seven reasons. There could have been others, but in our view these are the most important ones:

- (i) Inability to Incorporate “Revealed” Knowledge to Provide ‘Plausible Explanation’ for Economic Decision Making
- (ii) Undue Emphasis on the Use of Mathematics and Empiricism
- (iii) Failure to Recognize the Role of Non-Economic Factors Affecting Economic Decisions-Making
- (iv) Over-Emphasis on Fiqh.
- (v) Under-Utilization of Islamic Scholastic Heritage Other than *Fiqh*
- (vi) Inability to Develop our Own Terminology.
- (vii) Failure to Incorporate Islamic Incentive System to Achieve Ideal Behavior.

(3) Do we really need a separate theory of Islamic Economics to begin with and why?

The question posed somewhat differently would be; can the conventional theory of economics not suffice to explain questions that Islamic writers want to explain?

Our answer to the ‘do we need’ question is in the affirmative. The answer to why has a lot of detail. In summary, we have stated that conventional theory of economics falsely claims to be ‘positive’ (value-free) and despite severe criticism on almost all of its axioms, there are still notable scholars which still stick to the stance of economics being value-free. As compared to this, the stance of Islamic economics has been from the very beginning that Islamic economics has to be value-based. Though they have not been able to provide a distinct paradigm so far, they have never given up that claim and rightly so.

Once the reasons for the failure of development of Islamic theory are identified, the solution of the problem lies in removing these reasons. In our view the two most important are (a) to take the principles ordained in the Revealed knowledge as **given** in any theory building. Whether they are testable or not is a secondary question. Of the two sources of knowledge, Revealed knowledge is definitive and superior. Hence, any theory that does not build that into the new paradigm would be inferior. (b) to incorporate the concept of al-Aakhirah in the incentive system of the new paradigm. If the theory is not to restrict itself to explaining 'what is' and has to go beyond to prescribe what 'ought to be', the incentive system is the most important factor to map the path from 'what is' to what 'ought to be'. Islamic paradigm need not deny 'the profit motive' as being a strong determinant of individual's decision making calculus but it must also build the concept of al-Aakhirah into the decision making matrix.

(4) What is the way forward?

In our view three things are among the most important:

(i) Decision making in any field including economics is a complex process. Individuals are affected by history; culture; political atmosphere; psychological built up emerging from family traditions, the company one keeps, the neighborhood that one lives in etc. Therefore, a multi-disciplinary approach is needed.

(ii) There is no need to reinvent the wheel. Despite its weakness, conventional economics and capitalistic/materialistic system has made tremendous contribution to increasing human welfare in the last three centuries. There is absolutely no need to negate that and to borrow good ideas that do not conflict with Shariah. Civilizations learn from each other. A lot of progress that the capitalistic/materialistic culture has made is due to the ideas it borrowed from Islamic civilization and scholastic contributions in ALL fields of knowledge including economics. As stated in a Hadith, wisdom is a Muslim's lost treasure. He should get it wherever he finds it.

(iii) However, in this process of learning one has to be careful. Western ideas are, if I may use an analogy, like 'muddy water'. We

should filter it to get pure water and leave the mud. A beautiful Ayah in Quran describes how good and bad are mixed and man should take the good and leave the bad.

أَنْزَلَ مِنَ السَّمَاءِ مَاءً فَسَالَتْ أَوْدِيَهُ بِقَدَرِهَا فَاحْتَمَلَ السَّيْلُ زَبَدًا رَابِيًا ۚ وَمِمَّا يُوقِدُونَ عَلَيْهِ فِي النَّارِ ابْتِغَاءَ حُلْيَةٍ أَوْ مَتَاعٍ زَبَدٌ مِثْلَهُ ۚ كَذَلِكَ يَضْرِبُ اللَّهُ الْحَقَّ وَالْبَاطِلَ ۚ فَأَمَّا الزَّبَدُ فَيَذْهَبُ جُفَاءً ۖ وَأَمَّا مَا يَنْفَعُ النَّاسَ فَيَمْكُثُ فِي الْأَرْضِ ۚ كَذَلِكَ يَضْرِبُ اللَّهُ الْأَمْثَالَ

“He sends down water (rain) from the sky, and the valleys flow according to their measure, but the flood bears away the foam that mounts up to the surface, and (also) from that (ore) which they heat in the fire in order to make ornaments or utensils, rises a foam like unto it, thus does Allah (by parables) show forth truth and falsehood . Then, as for the foam it passes away as scum upon the banks, while that which is for the good of mankind remains in the earth. Thus Allah sets forth parables (for the truth and falsehood, i.e. Belief and disbelief. [13:17]

(iv) One thing that MUST be done in this respect is to consider the terminology of conventional economics and revise it appropriately to develop our own terminology. We caution here that while we can and should benefit from the terminology of *fiqh al muamalat al-maliyya*, but always remember that Islamic economics is a different genre.

Theorizing Islamic Economics

Search for our framework for Islamic Economic Analysis

M. Fahim Khan

Abstract. The paper aims at explaining the need for developing an Islamic Theory of Economics. It is emphasized in the paper that we do not want Islamic Economics Theory. We want Islamic Theory of Economics. It is not merely semantics. The paper will explain what difference it makes in theorizing Islamic economics.

The paper first discusses the reasons for current state of affairs in the field of Islamic Economics. Most of these reasons have already been under discussion during last 40 years. Some of the reasons have been presented in an alternative perspective. The point that will be made is that it is the lack of strategic vision that is responsible for not reaching where we want to be. “Where we want to be”, of course, is unknown and though It may seem paradoxical to say that we should have a vision of unknown to advance in knowledge. But it may not seem paradoxical if we realize that currently there are several thoughts among Islamic economic scholars about what Islamic Economics should be. The paper describes various positions of Islamic economists and suggests that it is time we select one of them as known destination and forget others.

This paper takes the position that Islamic Economics can be developed into a scientific discipline quite different from conventional science of Economics. The paper does not stop here. It identifies a more realistic framework for theorizing Islamic economics and how the principles of Islamic economic analysis can be formulated within this framework. The paper suggests divorcing the framework derived from mathematics and physics (not linked to human social behavior in any aspect) and marrying adopting a framework derived from Biological sciences and physiology- sciences dealing with study of life and hence unlike physics that studies life less bodies. The paper discusses what difference would it make to use framework borrowed from biology and physiology.

Introduction

The phrase "Theorizing Islamic Economics, to me, means **developing an Islamic Theory of Economics**. Dissatisfied with the conventional Economics and its limitations to address economic problems of today, there is need to have a more realistic generic theory of economics capable of explaining economics behavior of any society given the socio economic and parameters of that society.

We as Islamic economists thus need to do to things. Develop our own theory of Economics. This will be our theory (inspired by the divine knowledge) to explain positive economic behavior of man. Once we have our theory of economics, we then use the parameters given in the socio economic teachings of Islam to make it Islamic Theory of Economics. Islamic theory of Economics would mean Islamic approach to understand, analyze and theorize economic behavior of human beings⁽¹⁾. It is, therefore, appropriate that Theorizing Islamic Economics must passes through following stages:

1. Understanding the reasons why conventional theory is not relevant to make Islamic analysis of economic behavior.
2. Developing our own approach to understand economic behavior.
3. Identifying Islamic parameters for economic behavior and incorporating them in our approach to study economic behavior.

A lot of work has been done by Islamic Economists regarding first stage. Even non-Islamic scholars on various grounds have profoundly criticized the conventional Economics. So I will not repeat all this here. I go to the next stage "developing Our own framework of economic analysis to understand the economic behavior of human beings".

(1) This is different from Theory of Islamic Economics. Theory of Islamic Economics means conventional approach to understand, analyze and theorize Economic behavior of those who practice of teachings relating to Islamic economic behavior.

Need for our framework for Economic Analysis

Most of the scholars writing on Islamic economics confined their search of Islamic Economic within the framework of Neo-classical economics, a framework that is being increasingly recognized, by conventional economists themselves to be inadequate to explain the economic behavior of modern man. This framework has several limitations to make Islamic economic analysis but the Islamic economic scholars did not like to look in any other directions.

There are several aspects of economic behavior, which are not considered in Economics but we, as Islamic economists are obliged to include them in our analysis. They are not normative aspects. Instead they are positive aspects describing human nature. Core Islamic concepts related to microeconomic behavior like *israf*, *tabzeer*, *I'tidal*, and have rarely been the subject of economic analysis. This kind of research is, however, needed to delineate the evolutionary and dynamic nature of these concepts, something often lost in the dense fog of dated *Fiqh* rules (that are full of diversity and differences) and in the zeal to apply mathematical formulas and manipulations.

Our framework for the Study of Economic Behavior

Though the growing dissatisfaction with the conventional Economics requires us an alternative framework of analysis so that we do not construct the edifice of Islamic Economics on wrong foundations, yet this alternative framework cannot be any framework. It has to be a framework, which can accommodate revealed knowledge about human nature and human behavior and it has to be a framework, which is universal in application and realistic in making assumptions and axioms. If we agree on this then the question is where and how we find such a framework. Before we delineate Our framework, let us identify certain features of human behavior that would make our framework different from conventional framework.

Desired features for our analytical framework

To keep the discussion simple, I identify two key features that we would like to see in our framework.

1) **Balancing** (rather than optimizing) as a key element in human decision making in all his activities.

2) **Needs fulfillment** (rather than satisfaction of wants) as the main focus of economic activities.

These two elements are positive elements of human behavior on earth. (Discussed in detail in Section 2).

Let me briefly explain these two elements

"Balancing" as Key Element in Human Decision Making

Our framework of analysis needs to recognize "balance" as a key element in human decision-making human activities including the economic decision-making. This will be the counter part of the concept of maximization, optimization, minimization, *etc*, which are the key elements that conventional economic analysis recognizes for explaining the behavior of economic agents. Economic agents, in Islamic worldview are supposed to maintain a balance in their activities not only within the economic activities but across all activities of social life. There has to be a balance between pursuing individual interest and interests of society. There has to be a balance in spending to meet own needs and the needs of others and balance in allocating time and resources to meeting various needs.

The significance of the concept of balance in Islamic worldview can hardly be over emphasized in the light of Quranic view of this world and human life therein. The following are worth noting:

"And the Firmament has he raised high, and He has set up the Balance; In order that ye may not transgress balance. So establish weight with justice and fall short not of balance. (55: 7-9)".

"And the earth We have spread out; set thereon mountains firm and immovable; and produced therein all kinds of things in due balance. And we have provided therein means of living for you and for those for whose sustenance ye were not responsible. And there is not a thing but its treasures are with us; But we only send them thereof in due and ascertainable measures. (15: 19-21)".

And the servants of Rehman (the Lord) are those:

"Who, when they spend, do so not excessively or sparingly but are ever, between that, [justly] moderate" (the Quran 25:67).

There are specific Islamic teachings with respect to keeping a balance in spending time and resources in the conduct of worldly affairs and in spending time and resources in worships and discharging religious duties; keeping balance in time and resources to be allocated for family and time and resources to be allocated to other affairs; keeping balance in spending time and resources in the religious works and in time and resources for taking care of oneself and one's family; keeping a balance in economic life and social life etc.

These references from Islamic teachings though may give the impression that the concept of balance is a normative significance, yet it is not difficult to visualize and argue that balancing concept, in fact, is in the nature of man. Man, generally, likes to seek balance in his activities to achieve objectives in different dimension of his life. Maintaining balance is a positive attitude rather than a normative attitude. It can be observed in human behavior in all cultures. And it is the imbalance in human behavior that explains rise and fall of nations.

Human beings, for example, do put a break on certain activities like eating or drinking or recreation while there is capacity to continue to enjoy more. The break is necessary as there are other needs like education or health or home improvement *etc* to be met. On parallel side, there will be instinct of seeking power seeking and adopting hedonistic behavior, which may run counter to the balancing instinct. Which instinct will normally prevail? Civil life and social life requires balancing instinct to prevail. Civil and social life will more likely be looking for putting some limits on the hedonistic instincts because that is likely to create imbalance in the society and disturb peace and harmony in the society.

There are several positive aspects of life on earth that point to the fact that balancing is the only course of action for man in the pursuit of various objectives of his social life. In theorizing economic behavior and developing a framework for the analysis of economic behavior, we can see the important role of balancing attitude in economic life of

individuals and society. This role is further discussed in the context of following dimension of economic activities of man. Balancing makes as an element in decision making rather than maximization (of utility or profit), which is more relevant for hedonistic behavior not encouraged, rather discouraged by Islam. Balancing actually underlies in all human behavior and all human activities. It is not an animal instinctive drive for human activities as utility or profit is but it is recognized that man is designed to modify his animal instinctive desires and drives to the ones that would facilitate his living in a social environment. Sociologists refer to self-discipline and self-control as prominent features distinguishing between human beings and lower order animals. Self-discipline is considered the measuring stick of being "human" in the sense that more disciplined behavior (determined by human capacity to reason and human instinct to be socially responsible) an individual displays the more human he becomes and the less disciplined behavior (in response to his instinctive desires) an individual displays the more he becomes like lower order animals that are lacking in reason and social responsibility and are driven merely by instinctive desires. For any civilized society that requires certain amount of self discipline and self control from its members, the "balancing" is the most important element underlying decision making process of man with respect to the allocation of resources and time at his disposal. As reason and instincts may often conflict, some rules will always be operating in the society, voluntarily or involuntarily, explicitly or implicitly, written or unwritten, to ensure self control and self discipline to maintain the desired balance in his personal life as well as in his social life. These rules whether designed by the society through some political process or received as a part of divine guidance (most of them in fact already built in the nature of man) do not negate the fact that balancing by and large is part of the way of human life in a civilized society. Incorporating balance (determined by reason and sense of social responsibility) instead of maximization of such instinctive drives as utility or profit would make a framework for analysis of social life in general and economic life in particular more realistic and objective.

If we succeed in developing a general framework of economic analysis based on balancing, we can use it to analyze the economic behavior based on hedonistic instincts. Hedonistic instinct is a reality,

which cannot be ignored. The lust for satisfaction and power (leading to seek maximization of utility and profit) is an instinctive reality. The Quran explains that too.

"Beautified for people is the love of that which they desire - of women and sons, heaped-up sums of gold and silver, fine branded horses, and cattle and tilled land. That is the enjoyment of worldly life, but Allah has with Him the best return" (3:14).

But all civilized societies put some restraint on the pursuit of this lust. Besides some legal restrictions, a large part of constraint comes from the morals and ethics that a society agrees to adopt and abide by. These morals and ethics requiring self discipline and social control aim at ensuring a balance and harmony in the society so that unrestricted pursuit of this lust does not put aside the goals that a society wishes to achieve, such as social harmony, peace, development *etc* and also that individual does not lose track of self development. The Quran teaches this just in the verse next to the above-mentioned verse.

"Say, "Shall I inform you of [something] better than that? For those who fear Allah will be gardens in the presence of their Lord beneath which rivers flow, wherein they abide eternally, and purified spouses and approval from Allah. And Allah is Seeing of [His] servants". (3:15).

Taqwa being manifestation of self discipline and self control in the pursuit of this lust and a prelude to ensure balance in human behavior (economic as well as social).

Lust for satisfaction of instinctive desires (and hence pursuit of maximization of utility and profit) is always there in human beings. It is the society and its institutional framework that ensures that lust does not go out of balance. Economics as a science should be concerned with the study of the behavior of economic agents in achieving the balance in the pursuit of its economic goals (setting the economic goals itself being a part of the exercise of self control and self discipline and balance with other goals of social life). The conventional economics chose only to study the pursuit of lust and that was the reason it was criticized and Alfred Marshal had to define Economics as concerned with human

welfare⁽²⁾. But subject matter of economics continued to remain how to explain the pursuit of lust for maximization of utility and profit. Since welfare is a multidimensional concept covering all aspects of human life, the pursuit of welfare then would require that "balancing" be maintained in all dimensions. Economics, thus, would be a science concerned with human welfare if the balance in above sense were its subject matter.

Making the above-mentioned balance a subject matter of economic analysis is not the denial of the reality of lust for satisfaction. There would always be a limit within which pursuit of lust would not conflict with the concept of balance required by reason and by social norms. To that extent conventional Economics will remain valid. But to that extent the economics will be similar to the economics of lower order animals. Economics for human and human society will start only when the issue of balancing becomes relevant.

Some hints for building Our framework for economic analysis can be found in the work Shatibi () who elaborated on the objectives of Sharia (Islamic Law). The objective of Sharia has been identified as well being of mankind. No body will dispute it as a positive (rather than normative) objective of life of man on earth as Alfred Marshal, responding to the criticism on the science of Economics to be a subject dealing with materialism, related economics to the study of well being of man and his notion of welfare economics still lies in the back ground of recent developments on welfare economics. The difference between the notion of Marshallian wellbeing and welfare and that of Ghazali and Shatibi lies in the assumption relating to the phenomenon that leads to wellbeing. Alfred Marshall relates wellbeing to the satisfaction of instinctive desires whereas Shatibi and Ghazali realise that in a social framework with any degree of civilization, instinctive desires have to be modified to improve wellbeing. This modification of instinctive desires leads to identifying the 'needs' that will contribute to improving man's welfare. Both the concepts identify positive aspect of human behavior towards seeking

(2) Alfred Marshall in his 1890 book *Principles of Economics* wrote, "Political Economy or Economics is a study of mankind in the ordinary business of Life; it examines the 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."

wellbeing. But former refers to wellbeing in a framework where self discipline and social control and reason play no role in influencing human beings to modify the instinctive desires. The later, however, refers to wellbeing in a framework where reason and social discipline influence human beings to seek fulfillment of needs.

We are gone far behind Robinson_Crusoe economy where banana and fish is the only need of the society as well as individual. When Friday joins them, there should be a question what should Friday produce. They will naturally like to discuss together how much banana and fish to produce to meet the banana and fish needs for all three what Robinson Crusoe should be asked and whether he should be asked to produce to produce some more banana or some more fish or some thing else that he as well as Robinson and Crusoe also need. If Friday says that he likes counting stars and that is what he will do for them in exchange of banana and fish, this will not work. So need is the basis for choice. Shatibi and Ghazali further educated us that all needs are not equal. Some needs are essential, some are complimentary and some are amelioratory. They further added essential needs have preference over complimentary needs and complimentary needs have preference over amelioratory needs.

Furthermore the conventional approach assumes that individuals maximize their happiness in terms of the satisfaction of instinctive desires and at collective level only the total sum of happiness that matters. On the other hand Our approach focusses on needs aiming at improvinnng their well-being in relation to the over all objective of life, the achievement of which is committed at individual level as well as at collective level.

Need Fulfillment

Pursuing wants and instinctive desires for maximization of satisfaction is like playing a gamble with the fulfillment of needs that signify wellbeing. The uncertainty may fall on needs more than on wants/desires. The only way to avoid such a gamble to put present survival or future needs at risk is to spend according to priority of needs. This in turn would require maintaining a balance in the spending so that needs-fulfillment does not lag behind due to uncertainty.

Justice as another face of balance is also a positive instinct. Human nature wants justice to prevail. Society collectively takes care of this human instinct. There is an inner desire in human beings to see justice done in all activities in a social life. While justice may hurt, at occasions, but as a part of civil society, one knows that by and large prevalence of justice will be in his own advantage. In general, individuals in a society would have an urge to have justice in the society and some formal or informal institutions will always exist in a society to ensure justice to every one.

“We have always known that heedless self-interest was bad morals; we know now that it is bad economics”⁽³⁾

Apparently it may seem to be a matter of semantics. But, in fact, the distinction is as real as the distinction between instinct and reason. Wants result from instinctive desires. But human being in a social set up are not expected to jump immediately to want something that will satisfy the desire. Human beings imbued by certain value system evaluate and classify their instinctive desires into:

- a) Wants (to give him personal satisfaction) and
- b) Needs that will contribute to the objective of his life (wellbeing).

It is the needs that qualify to be fulfilled. Wants may appear at bottom in the priority list or will lie below the line to wait for circumstances that would qualify them also as needs to be fulfilled. This aspect of human behavior is of primary concern to the policy makers and the lawmakers regulating the economy and leading it to growth and development.

The impression of semantic difference between the two approaches may be due to the effect that a substantial part of needs may also be wants and a considerable part of human behavior may be explained within either of the two approaches. But that part where the two approaches will not produce same result is what may matter for almost all societies. The substantial difference in the two approaches can be summarized by

(3) Franklin Delano Roosevelt, Second Inaugural Address, January 20, 1937.

pointing out that former approach will not distinguish between welfare as pursued by lower order animal and the social animal having a higher status because of its power to reason. The later approach focuses specifically on welfare of the higher order animal called social animal or human being. The later approach provides us essential elements for Our framework of economic analysis which will not only make the analysis more realistic but will also broaden the scope of Economics to address issues which currently remain outside the main stream economics. (Some concepts relating to these elements need further elaboration particularly with reference to their divergence with the approach of conventional Economics and will be discussed in more detail later in this in this paper.

A detailed discussion on this issue has been made elsewhere. The point here is only that needs are different from wants because of their implication for well being as understood in the world view of individuals and the society. Concept of utility, desires and happiness/satisfaction as used in the conventional economic analysis may not lose all their relevance. They may still be relevant for discussion and understanding their existence in the human behavior. For example, once a choice has been made to allocate certain amount of resources on the purchase of fruits to meet certain health needs, the choice of which specific fruit, from a list of substitutes, to be selected to fulfill this needs can be analyzed in the framework of conventional Economics. Since more than one type of fruits may fulfill same specific need, the choice will then depend on utility which will be related to one's happiness as implied in the concept of utility. Such use of conventional framework of economic analysis, however, may be only secondary and very limited.

Where and how to find Our Framework of Economic Analysis

Keeping in view these two elements, we then come to the question where or how we find Our framework that can take care of these two elements. The conventional framework of economic analysis benefitted from science of physics and heavily depended on tools borrowed from mathematics. Why the science of physics has been relied upon to develop their framework of economic analysis? Inspired by the scientific methods of natural sciences, economists probably were attracted to use similar methods to make economics as precise a science as physics. Forgetting that Economics studies human behavior, the scientific

methods similar to that of physics, though, succeeded in getting Economics a higher status among other social sciences, yet in the process they lost track of reality. It failed to cover several economic problems that science of economics was expected to address. Many economists are critical of depending on physics and mathematics to adopt a framework for economic analysis⁽⁴⁾.

If Physics and Mathematics do not provide good analytical foundations then what other science can provide a more relevant basis for Our analytical framework and later on for Islamic Economics? A quick review of other natural sciences, such as, biology, chemistry etc., biology which is a science dealing with study of life deserves attention of Economists. Unlike physics, a science studying lifeless bodies, biology seems more relevant as it deals with life that generates behavior and economics studies a particular behavior in human life. The relevance of biology for economic analysis stems from the fact that biology is concerned with characteristics, classification and behavior of organisms. It studies how they react with each other and with changes in natural environment⁽⁵⁾.

Biology is pre-requisite for medical science that deals with health of human body. Biology is a framework for analyzing living bodies in order to help identifying diseases and malfunctioning in a living body. In the context of economy, we often use the term "economic health of country/society/community". If the framework of economic analysis is designed on the pattern of biology, it will be more relevant with respect to identifying economic problems of a society and how to treat them. Social sciences including science of Economics, while trying to understand human behavior, explicitly or implicitly aim at defining social problems, understanding how they occur, and how they can be treated. In the context of Economics, problems are defined at macro level. Most of these macro problems exist because of the problems at micro level. The framework borrowed from science of physics does not allow identifying macro economic problems. The macro economic problems,

(4) These economic thoughts of these economists are pooled under the title "Heterogeneous Economics".

(5) This also includes study of changes in organism over generation.

like poverty, economic development, intra and intergeneration equity etc., therefore, have to be discussed without reference to their linkages in the economic behavior at individual economic agents level. Malfunctioning at macro level cannot be independent of malfunctioning at micro level. Economic agents must be suffering from certain imbalances that reflect as ill health of economy at macro level.

We find in biology a framework called Anatomy and Physiology (A&P). This framework divides the human body in to different organs. These organs are dissected for the purpose of analyzing their nature and understanding their system. This is called gross anatomy a counterpart. A microscopic study of very small structures (cells and tissues) within an organ is microscopic anatomy. Anatomy also analyses organ system, which is a group of organs that cooperate to accomplish a common purpose (such as digestive system which is composed of several organs like, stomach, small and large intestine etc). Various organ systems together make up a living body. Anatomy is a general term referring to all living organisms. For our purpose, our interest is only in human anatomy, which is a science that studies the structure of human body and its relation to functions in the human body. The anatomy is done in several perspectives. Besides gross anatomy and microscopic anatomy, there are regional anatomies (studying structure by body region), systemic anatomy (studying structure by biological system) etc.

We can visualize a certain organ system (like digestive system) as a system of economic behavior which is integrated with other systems (like ethical system, family and social interrelationship, system of legal obligations etc.) in the over all human behavior in the society. Macroeconomics can be seen as a counter part of gross anatomy of an organ and microeconomics is counter part of microscopic anatomy within an organ.

Physiology is a study of the functioning of living organisms or their parts (like tissues or cells within the organisms). It is different from anatomy, which only describes the organisms and their constituent tissues or cells. Physiological processes are dynamic. Cells change their function in response to changes in the composition of their local environment. Many physiological reactions are aimed at preserving a

constant physical and chemical internal environment. This is referred to as **homeostasis**. Homeostasis refers to the ability or tendency of an organism or cell to maintain internal equilibrium by adjusting its physiological processes. It is a balanced internal environment of a living body and the automatic tendency of a family system to maintain internal stability to resist change caused by external variation. The most commonly known examples are temperature and blood pressure of the body, which remain nearly constant or tend to remain constant despite changes in organism's activity level or in organisms surrounding conditions and environment. There are self-regulating processes in living bodies to maintain homeostasis. Living bodies have build-in tendencies or self-regulating processes that seek and maintain a condition of balance or equilibrium within its internal environment, even when faced with external changes. (Many ecological, biological and social systems are behind to be homeostatic)⁽⁶⁾.

It will also be instructive to note that structure of a living organism has different levels, like atoms, cells, tissues and organ. At organ level various functions are performed, and sometimes these functions are very complex. A group of organs together make organ systems that cooperate to accomplish a common purpose. Each organ has a different structure suited to perform its function. For example, digestion system includes organs like esophagus, stomach, small intestine, large intestine etc. Each of these organs has its own job to do. They all work together to keep food moving through the digestive system, breaking it down properly to absorb it into the blood, providing food for body's cells. Different organ systems together make up an organism. A&P counts eleven organs that make an organism that we know as human body. Different organ systems of a living organism do not work in isolation. Instead, they work together to promote wellbeing of the entire body⁷. This is the central theme of A&P, which provides a framework for the science of Biology.

(6) In Sociology and Psychology we may find stress homeostasis referring to the tendency of the individual or population on the whole to stay at a certain level of stress, often generating artificial stress if natural level of stress is not enough.

(7) Elaine N. Marieb, *Essentials of Anatomy and Physiology*.

The terminology of A & P and Biology can easily be translated into the terminology of microeconomics, macroeconomics and Economy. The terms like survival needs, homeostasis, homeostatic control mechanism, homeostatic imbalance etc are some examples. We can learn a lot from biology and A&P how to maintain homeostasis, how to develop homeostatic control mechanism and how to treat homeostatic imbalances.

Lesson from A&P for Developing Our Framework of Economic Analysis

Following A&P framework we can visualize the society as a living organism consisting of different organ systems such as social system, legal system, ethics and morals system, economic system, religious system etc. These systems are integrated into each other to accomplish a common purpose reflecting the worldview of society. Each organ of the society has a different function to perform that will complement the functions of other systems in achieving the common purpose of the society. Each of the system has its own structure to carry out the function it performs. Economic system for example has consumer, producer/firm, market etc. They all work together to create wealth and allow it to be properly distributed and absorbed in the society in order to meet the needs of individuals (as digestive system digest and absorbs food into blood to nourish the cells of the body). All systems, including the economic system, work together for well being of the individuals in the society as well as of the society as a whole. If this parallel description is correct then obviously we can develop a framework like that of A&P to understand behavior of economic agents (as household, firms) in the society.

If we follow A&P approach, will it be consistent with what we want framework of economic analysis to accomplish? I list below 9 features in a framework based on biology and A&P to allow us to understand economic behavior of man and hence develop science of economics, which is more relevant and more realistic.

(1) **A&P analyzes structure and function** of each organ system independently while still recognizing its linkages with other systems and overall wellbeing of the entire body. This is an approach that needs to be adopted in the analysis of economic behavior which will not only allow

better understanding of economic behavior but will also make possible inter cultural comparison of economic behavior.

(2) **A&P tells us that the study of human body as a living organism must understand its needs to strive and thrive.** The study has a focus on the well being of the body. Economics also needs to do this as a study of economic behavior of human being. Following A&P approach in developing our framework of economic analysis, we may have a science of Economics more relevant and more realistic.

(3) **The concept of homeostasis** as used in A&P must lead the economists to think that there may be a balanced equilibrium in human behavior similar to the balanced equilibrium in the human body. The economists should be more interested in discovering the homeostasis in the economic behavior as well as in the economy rather than confining to discussing equilibrium in the form of Keynesian Cross or Market supply-demand cross.

(4) **A&P observes how fragile life is and how it survives and thrives in uncertain environment.** How the body responds to maintain balance when random changes occur in environment. Life is more fragile than economic behavior and economy, and the uncertainty faced by life are more intense than those faced by economic behavior and economy. We can get several lessons from A&P, how to take care of uncertainty in our economic analysis.

(5) **A&P defines diseases as homeostasis imbalances,** the inability of the body to maintain balance. The same approach can be taken in study of economics as well. If that is possible we can then relate these imbalances to the economic problems at macro level and find, in several instances, their solution in the correction of imbalances in the individual economic behavior where homeostasis failed to be achieved.

(6) **A&P identifies nature of signals that are used by nervous and endocrine systems to accomplish homeostatic equilibrium.** It will be equally beneficial for economists to define economic "receptors", economic "control sectors", and economic "effectors" that can serve as nervous and endocrine systems to establish homeostatic equilibrium in the economy. Defining these systems that are available in the economy as

a whole and those that are available within the individual economic behavior in the society can help the managers of the economy to continuously monitor the strength of homeostatic control mechanism to watch for any potential threats for the homeostasis at economy level.

(7) If it is possible for the framework of economic analysis to achieve what has been mentioned in points 4 to 6 above then a **system of early warning signals for any potentially growing imbalances** can be put in place so that corrective measures could be introduced at individual level or at institutional level to avert a potential crisis in the economy.

(8) A&P analyzes for each organ system its structure and functions. **This framework of analysis makes it comparable from individual to individual.** There are fixed set of criteria on which organ systems of all individuals are evaluated. Individual economic behavior, as discussed earlier, is similar to an organ system. It should be possible develop criteria to evaluate the individual economic behavior in relation to the objective of life which is supposed to be same for all individuals in a society sharing same world view.

(9) If a framework can be developed to take care of the elements mentioned above, **the analysis will lead to concluding what type of institutions need to be developed**, set of institutions to form a homeostatic control mechanism, comparable to receptors, control centers and effectors that are found in the human body, is one example.

Outline of a framework of economic analysis based on A&P approach

To develop a complete framework of economic analysis based on a new approach will be a time consuming task. Anyone, interested in science of economics, goes through the above description, I believe cannot resist the inspiration to develop a framework of economic analysis similar to that of A&P, in order to get a better understanding of individual economic behavior and functioning of economy.

At this stage we can only discuss an outline of Our framework

Survival Needs

The prime focus of economic analysis should be survival needs. Economics should be concerned how human beings meet their survival needs and what makes them succeed and what makes them fail to survive. It can hardly be over-emphasized that this is an economic problem for many countries and communities in the world. Conventional economics does not specifically study this issue. Our framework should specially focus on it. How to build-in this focus in Our framework? We look at the A&P approach.

Physiology tells us that for any organism to survive and thrive, it must meet a sequence of needs that begin with health and end with fitness (referring to contribution to future generation). The goal of nearly all body systems is to maintain life. However, life is extremely fragile, surviving under extremely uncertain environment. To ensure survival in uncertain and often hostile environment, body needs several factors at its disposal not only to survive and thrive but also to fight the random or regular changes in environment. These needs include Nutrient (proper food), oxygen, water, maintenance of body temperature, and desired atmospheric pressure. Mere presence of these survival factors is not sufficient. They are required to be present in appropriate quantity and quality to face any sudden, random or secular change in these factors. While secular changes in the environment can be taken care of by developing adequate arrangements to ensure the presence of these factors in right quantity and quality, a more serious problem is created by uncertain changes and unanticipated changes in these factors. The body has an internal mechanism that is triggered to make necessary adjust the body to survive as long as possible, waiting for external adjustment to come into force. This internal mechanism is called Homeostatic Control Mechanism.

As an economist, focusing on survival needs, we need to identify the factors that are at the disposal of the members of a society. These needs may include identification and availability of survival needs, capacity of individuals to earn these needs, institutional set up to facilitate access to these needs. Mere presence of these survival factors is not sufficient. They are required to be present in appropriate quantity and quality any sudden, to face any random or secular change in these factors. While

secular changes in the environment can be taken care of by developing adequate arrangements to ensure the presence of these factors in right quantity and quality, a more serious problem is created by uncertain changes and unanticipated changes in these factors.

As the body of human beings has an internal mechanism that is triggered to make necessary adjustment in the body to survive as long as possible, waiting for external adjustment to come into force, a similar mechanism exists in human efforts to survive. This internal mechanism is called Homeostatic Control Mechanism. Measuring and ensuring the strength of this mechanism in members of a society and what remedial factors can revive this mechanism if the mechanism starts weakening should be an important part of Our analytical framework

Homeostasis

A&P observes that trillions of cells in body remain in constant actively and a balanced equilibrium continues to be maintained despite various changes taking place in the external environment. This ability of the body to maintain relatively stable internal conditions even though the outside world is continuously changing is called Homeostasis.

This ability exists in human behavior too. This ability can be referred to as maintaining balance in human economic activities. Human beings have ability and capacity to maintain this balance. Measuring this ability should be the subject of microeconomics in Our framework of economic analysis.

The term homeostasis does not assume anything to remain constant or unchanged. In fact, it indicates a dynamic state of equilibrium, or a balance in which internal conditions change and vary always within relatively narrow limits⁽⁸⁾.

Homeostatic Control Mechanism

Homeostatic Control Mechanism is a communication system within the body to accomplish homeostasis. Electric signals are used by nervous and endocrine systems to accomplish homeostasis. Nerves or

(8) Marieb [3 pp. 10].

blood borne hormones serve as information carriers. The homeostatic control mechanism have three components:

- (a) Receptor or sensor that monitors and responds to changes in the environment.
- (b) Control center, which receives information from receptor and analyzes the information it received and then determines the appropriate course of action.
- (c) Effector provides means for the control center's response to effect the control mechanism.

A simple example is a cooling system at home, which is connected to a thermostat. Thermostat contains receptor as well as control center. If the thermostat is set at a certain level say 22°C , then the cooling system (effector) will be automatically put on whenever temperature exceeds 22°C and will be automatically put off when temperature drops below 22°C .

We need to develop such mechanism of communication system for economy after understanding how this mechanism works at micro level.

Homeostatic Imbalance

Failure of the homeostatic control mechanism to maintain homeostasis is an indication of disease. Homeostatic imbalance can take various forms, always being referred to as disease and external measures are taken to treat the disease. This approach can be taken with respect to various economic diseases at micro level and macro level in a society.

Following A&P framework we can visualize the society as a living organism consisting of different organ systems such as social system, legal system, system of ethics and morals, economic system, religious system etc. These systems are integrated to each other to accomplish a common purpose reflecting the worldview of society. Each organ has a different function to perform that will complement the functions of other systems in achieving the common purpose of the society. Each of the system has its own structure to carry out the function it performs. Economic system for example has consumer producer/firm, market etc.

They all work together to create wealth and allows it to be properly distributed and absorbed in the society in order to meet the needs of individuals (as digestive system digest and absorbs food into blood to nourish the cells of the body). All systems, including the economic system, work together for well being of the individuals in the society as well as of the society as a whole. If this parallel description is correct then obviously we can develop a framework like that of A&P to understand behavior of economic agents (as household, firms) in the society.

Developing Islamic Approach to Study Economics

Once the analytical framework to study economic behavior is firmed up then Islamic Economics is simply a matter of incorporating the Islamic parameters for human being's individual life and social life in the framework to understand the economic life of Islamic person and economic conditions in Islamic society. Within Our framework of economic analysis we can change the parametric values to reflect the current state of commitment to Islamic socio-economic teachings at the level of individuals and society to understand the effect of not following the Islamic teachings. How this will be done has been discussed somewhere else which I am not presenting here because the first job is to agree upon an appropriate framework of economic analysis. A brief discussion of where and how to find Islamic parameters of economic behavior for individual and society, however, is given below to complete the present task with respect to theorizing Islamic Economics.

The first task faced by Islamic economists is to agree on the starting point in looking for parameters for Islamic economic activity. If we have not reached anywhere near where we want to be then one of the most important reason could be that we did not choose the right starting point.

My argument has always been that we can look for starting point in the Objectives of *Shari'a*. This would be a logical starting point in the process of laying down the theoretical foundations of Islamic economics. According to Shatibi, primary objective of Lawgiver is the *Maslaha* of the people. Objectives of Shari'ah can help us identifying some key axioms that will facilitate theorizing Islamic Economics. Similarly some assumptions that conventional economic analysis makes may not be

relevant or may require substantial modifications (in view of the revealed knowledge about human nature and human behavior) for developing Islamic theory of economic behavior. Study of objectives of Shariah can help us formulating our own assumptions to simplify theorizing.

Hassan's work (10) though does not go into behavioral analysis yet his work elaborates on such aspects of objectives of *Shari'a* that have relevance for public policy. For example, explaining the application of the theory of objectives of *Shari'a*, he lays down a set of axioms that have economic policy relevance. Some implications of these axioms have been explained with respect to the private property rights and social needs which can allow the public policy to take care of social interests when they clash with private interests or with economic freedom. Some of the axioms given below are as examples:

1. It is permissible to dispose off the property rights of a person if such an act is dictated by urgent need and there is no way to obtain permission of the owner. On the other hand, conventional economics teaches us that if some one can be made better off without making any one worse off, than this is not an optimal situation and there is room to improve social welfare. But what if economic agents refused to move to optimal situation. Islamic *Fiqh* provides ruling for public or social authority to take action to achieve the optimality.

2. A person should be forced to do any act that does not involve any cost or disutility to him and which if not done will result into costs or disutility to others.

3. No claim for profit without bearing the risk of loss and no (economic) benefits without (economic) costs. This has the implication not only for capital that cannot have a return unless it is subjected to risk bearing (interest income therefore is not permissible) but also for labor market and human resource mobilizations.

4. We can an Islamic economic man and lay down the qualifications that would make an Islamic man in his economic pursuits? What can make people to work for improving their economic condition and how to deal with the people who prefer to remain in poverty rather than forego their leisure? How can people be forced not to waste resources and not to

make their uneconomic use? Islamic law shows clear concern to such issues and is reflected in various rules laid down for human behavior.

5. While ‘Economics’ assumes competitive conditions, Islamic *Shari’a* gives specific rules to ensure that behavior of economic agents promote competitive conditions. There are however, distinctions in Islamic approach to markets particularly when it comes to operations of factor markets. The principle of no-liabilities (risk), no gain (no cost, no profit) cannot allow malleable capital to earn a fixed rent unless it is converted into non-malleable capital and the conditions of renting are fulfilled which in fact are reflection of the principle of no liabilities no gain. This may not call for any difference in micro-economic analysis but when attempt is made to make this analysis as a foundation for macro-economic analysis, then there would be problems because return on financial or monetary capital is not considered as rental of capital in micro-economic analysis.

Hasanuzzaman (12) picked up the legal maxims from *Fiqh* literature that could possibly have economic relevance. He then made elaborate discussion on economic interpretation of these maxims. He paid particular attention on discussing the public policy implications of these maxims at macro level. A couple of these maxims are given below:

“No Wrong; No Wrong Done” with a subordinate clause “Wrong is to be undone”. This has implications for economic policy and macro economic management.

“The repelling of mischief is preferred to the acquisition of benefits”. This maxim provides an alternative to conventional Economics’ axiom that “More is preferable to less”. This also implies that reducing cost may become preferable to increasing profit. Hence profit-maximization may not remain the objective in all situations. Minimization of cost may be the first consideration, which makes a lot of sense in imperfect market.

(Profit maximization and cost minimization may mean same thing when conditions are in the market are perfectly competitive. But when conditions are not competitive, e.g. under monopoly, cost minimization may become preferable over profit maximization).

"Reducing social cost has priority over private costs". This can help in building social welfare function.

Rafiq al-Masri drew basic assumptions for developing the science of economics from the *Fiqh* literature (13). He identifies the Islamic counterpart of four assumptions that have been underlying the development of Western science of Economics. These are:

The assumptions of f 'Rationality'.

The assumptions of 'Scarcity'.

The assumptions of 'Maximization'.

The assumptions of 'Other Things Remaining Same'.

Several fundamental aspects of Islamic economics emerge as we go into the details of some of these assumptions identified by Masri, provided we have our own framework of analysis where these assumptions would make sense.

The Assumptions of *Rushd* (Islamic concept of Rationality)

Rushd can be interpreted as sound mindedness or ability to make sound judgments. The term *Rushd* has been mentioned in a couple of places in the *Qur'an* with respect to the use of property rights on economic resources.

Property rights on economic resources in the light of *Qur'anic* teachings are to be exercised with sound mind. The permission to exercise such rights can be denied if there is evidence that sound judgment and right-mindedness with respect to use of resources is lacking.

Thus, an Islamic economic man is a man who is 'Rasheed' i.e. right-minded man who applies right judgment in the use of his property rights. Application of sound judgments refers to both private and social interest as well as to observance of *Shari'a* rules.

Islam recognizes the assertion of conventional economics that (Economic) man is concerned with private interest only. We see some of

the positive statements made in the *Qur'an* about the human instincts relating to the use of private property rights. For example, when people of Shoaib contested that “..... we leave off doing what we like with our property? (The *Qur'an* XI:87)” then they were referring to their instinctive desire to use their property only for their private interest. Shoaib would not be telling them anything but to observe social or community interest in the use of their property rights which his people denied to observe.

Another verse that reflects the human instinct of evading social consideration in the use of their economic resources is in the chapter “Al-Asraa”.

“Say: If ye had control of the Treasures of the Mercy of my Lord, behold, you would keep them back for fear of spending them. For the man is (ever) niggardly”. The *Qur'an* XXVII: 100).

The man is niggardly in social interest (as he is keen to hold back no matter what and how much he gets). This is because: “Men are naturally (instinctively) tempted by the lure of women, children, treasures of gold and silver, horses of mark, cattle and plantations. These are enjoyments in the life of this world.....” (The *Qur'an* 3:14). The *Qur'an* then explains who among those are better men, and they include those who spend in the cause of Allah (spending for social causes) (The *Qur'an* III:17). Islam thus not only recognizes the human economic instincts but also teaches, through various legal provisions and ethical norms, how to control this instinct to save society from its adverse effect: A scientific analysis of economic of behavior will have to explicitly incorporate this dimension in the context of an Islamic economy.

The human instinct of niggardliness, which *Qur'an* refers to as being “Qatoora” (in XVII:100) towards social interest, is ignored when the science of Economics is built up on the principle of pursuit of self interest. Ignoring this economic aspect of human behaviour is likely to have stripped economics of the ability to address several questions that could be useful not only for the science of Economics but also for its application to the economy to solve the economic problems of the society.

Why people hold money in current set up when electronic banking and investment opportunities have made holding money quite costly? Or why people keep on accumulating wealth (and do not spend it for social community causes) even beyond the level when they are sure that neither they nor their family will have the opportunity to spend it all?

Such questions cannot be explained without incorporating in economic analysis such elements of human behavior, which the *Qur'an* refers to as being "Qatoora". Masri thus probably succeeded in giving an axiom "Rushd" which can be treated as the Islamic counterpart of the axiom "Rationality" of conventional Economics. "Rushd" can be referred to as "Rationality with element of Responsibility, individual as well as social".

"HASAN" (Good) is an important feature of human behavior, which is required to be reflected in economic decision making as well.

Terms rooted in HASAN (Good) has repeatedly been referred to in the *Qur'an* with reference to various spheres of human activity including economic sphere. Some of them are referred to below:

1. General Principle

"God commands justice and the doing of good (16:90) "But seek, with (the wealth) which God has bestowed on thee, the Home of the Hereafter, nor forget thy portion in the word, but do thou good, as God has been good to thee and seek not (occasions for) mischief in the Land" (28:77). "Is there any reward for good – other than good".

2. Handling Property of Orphans

"Come not near the orphan's property except in (a way) that is better (for it). (17:34) And do not approach the property of an orphan, except in the way that is best, until he reaches maturity. And fulfill [every] commitment. Indeed, the commitment is ever [that about which one will be] questioned. (6:152) And do not approach the orphan's property except in a way that is best until he reaches maturity. And give full measure and weight in justice. We do not charge any soul except [with that within] its capacity. And when you testify, be just, even if [it concerns] a near relative. And the covenant of Allah fulfill. This has He instructed you that you may remember.

3. In Dealing with Parents

“We have enjoined upon man to be good to his parents” (29:8) And We have enjoined upon man goodness to parents. But if they endeavor to make you associate with Me that of which you have no knowledge, do not obey them. To Me is your return, and I will inform you about what you used to do (46:16). Those are the ones from whom We will accept the best of what they did and overlook their misdeeds, [their being] among the companions of Paradise. [That is] the promise of truth, which they had been promised (46:16). Those are the ones from whom We will accept the best of what they did and overlook their misdeeds, [their being] among the companions of Paradise. [That is] the promise of truth, which they had been promised.

4. In preaching for Islam

Invite to the way of your Lord with wisdom and good instruction, and argue with them in a way that is best. Indeed, your Lord is most knowing of who has strayed from His way, and He is most knowing of who is [rightly] guided.

5. In following matters of Religion

“And follow the best of the (courses) revealed(39:55) And follow the best of what was revealed to you from your Lord before the punishment comes upon you suddenly while you do not perceive,

“Those who listen to the Word and follow the best (meaning in it).....(39:18) Who listen to speech and follow the best of it. Those are the ones Allah has guided, and those are people of understanding.

6. In seeking good in Essence and not in Appearance

“Is he, then, to whom the evil of his conduct is made alluring, so that he looks upon it as good,..... (35:8).

Say: “shall we tell you of those who lose most in respect of their deeds? Those whose efforts have been wasted in this life, while they thought that they were doing good in their works” (18:104).

It will not be appropriate to interpret the terms referring to Hasan as the terms that imply optimization or maximization/minimization in any sense as interpreted by Masri (13).

It is, however, clear that "Hasan" is a norm desired in all activities and behavior.

While maximizing/minimizing (or move appropriately optimizing as implied in the command "do not waste") may be assumed as a valid assumption for Islamic economic behavior, such behavior however, will be required to qualify the attribute of Hasan (goodness, decency and virtue).

I leave the discussion here waiting for the response from my colleagues in this field. If my colleagues found some sense in it, I will do further work on these lines and present it in some other forum.

Maslaha refers to preservation of the objective of *Shari'a*, which consists of preservation of following five things of human existence in the world:

Preservation of life (*Nafs*)

Preservation of Property (*Ma'al*)

Preservation of Religion (*Deen*)

Preservation of Reason (*'Aql*)

Preservation of Descendants/Procreation (*Nasl*)

What assures these five preservations is assumed to have *Maslaha* and whatever fails to preserve any one of them is *Mafsadah* and its removal is *Maslaha*.

There are three grades or levels of *Maslaha*:

Essential (*Darori*) Level

Complimentary (*Haji*) Level

Ameliorating (*Tahsini*) Level

At essential level, *Maslah* would include all that protects the five elements (life, property, religion, reason and procreation) from destruction.

Complimentary level refers to strengthening or expanding the preservation of the five elements. It also includes all much things that improves the quality of preservation of five elements or removes hardships in the preservation of five elements (beyond the essential level).

Ameliorating level would include all that helps preserving the five elements in a beautiful or in a better way. It relates to aesthetic sense of human beings in achieving the five preservations mentioned above. It relates to making things better.

Level I (Essentials) has priority over Level II (complimentary) and Level II has priority over Level III (Amelioration)

Essentials are the basic form of *Maslaha*. If this is disrupted, it necessitates the disruption of complementary and Tahsini.

This approach to objectives of *Shari'a* has substantial implications for Islamic economic behavior and economic decision making. Not much work, however, has been done in this direction.

Masud (9) discussed in detail Shatibi's philosophy of Islamic law but nothing related to economic behavior. Even the discussion on *Maslaha* has been confined mainly to juristic discussions.

Hussain Hamid Hassan's lecture (10) at Islamic Research and Training Institute aimed at discussing the objectives of Islamic law with respect to economic life. But his discussion too remained mostly relevant for legal purposes. Though often he took examples relating to market yet confined his discussion to the legalities of sale and purchase and justifying various *Shari'a* ruling relating to exchange.

Several implications for economic agents, however, can possibly be derived directly from the objectives of *Shari'a* as approached by Shatibi (and Ghazali). *Maslaha* would determine whether an economic activity,

or consumption or production of a good is needed to be pursued or not. If any activity does not have a beneficial implication as in Shatibi's framework of objectives of *Shari'a* then that activity is not supposed to be pursued whether in production or consumption or exchange.

Economic agents operating in Islamic framework thus will be seeking *Maslaha* as compared to seeking utility in the conventional sense. *Maslaha* and utility though may often coincide but the two will remain entirely different concepts. Whereas utility is a subjective concept emanating purely from individual instincts, *Maslaha* is a concept amenable to objective verification on the criteria mentioned above. In the *Fiqh* terminology, seeking the conventional concept of utility will be treated as pursuing instinctive desires and Islam disallows pursuit of instinctive desires (unless they have *Maslaha* as defined above). This is because if the world is left to follow the peoples' instinctive desires, it will result into chaos and disorder in the world.

The concept of *Maslaha* instead of utility has two implications for an economist, one is in theoretical context and the other is in the applied and public policy context.

At the theoretical level, a new perspective is in view towards the nature of economic problem. There is no limit to instinctive desires. Wants, in conventional economics context are unlimited. Resources are limited. The economic problem is only a problem of individual choice based on his own instincts. This choice is independent of the needs of the individuals as well as of society.

Synthesizing Shatibi's analysis of the concept of *Maslaha*, Masud (9) writes "*Maslaha* should not be relative or subjective. Relativity is usually based on equating a *Maslaha* with one of the following: *ahwa' al-Nufus* (personal likings), *manafi'* (personal advantages), *Mayal al-Shahawat* (fulfillment of passionate desires) and *aghrad* (individual interests. According to Shatibi, all of the above considerations render the concept of *Maslaha* relative and subjective, which is not the consideration of *Shari'a* (lawgiver) in *Maslaha*, though it may be so in *āda*".

Maslaha leads to the concept of fulfilling needs rather than satisfying wants. Anything that has *Maslaha* for people is the need for people and is

required to be fulfilled. The economic problem is not merely a problem of choice of satisfying wants, it is a problem of meeting needs, of individuals as well as society. It is not merely a choice along the indifference curve, it is also a choice from lexicographic ordering with a different type of objective function alongwith the existence of some institutional arrangements to oversee that needs and *Ahwa* (desires beyond the need) do not appear to clash at the expense of the former or to create a disorder in the economy.

At applied and public policy level, the concept of *Maslaha* provides a basis for interpersonal comparison of needs and hence can provide a basis for taking measures for social welfare which is something the conventional economics feels constrained because of the problems in making interpersonal comparisons of utility. Social preferences and social welfare function constructed with the above-mentioned concept can be more practical and feasible than the utility-concept based social welfare functions in conventional economics.

Conclusion

During more than last 40 years we have been flying but blindly without a clear of vision where we want to be. It may seem paradoxical to say that to advance in knowledge we should have knowledge of unknown destination. But it may not seem paradoxical if we realize that currently there are following four current of thoughts among Islamic economic scholars about what Islamic Economics should be and it is time we assume one of them known and forget others:

- First, there is the strong commitment that there is sufficient case for developing Islamic economics as a distinct discipline quite different from Their (conventional) Economics. Though within this group there is not yet a clear vision on what this discipline would look like.

- Some believe that there is no need for Islamic Economics. Their Economics (the conventional Economics) is sufficient to help us understand Islamic economics.

- Others believe that Islamic economics can at best be a branch of Their Economics.

- Some staunch believers in Their Economics declared that We do not speak language of Economics and therefore any exercise in Islamic economics at this stage is a futile exercise.

I take the position of first group and make the following point.

Let us agree that right now our concern s Economics. Economics is not allowing us to understand our own economics embedded in the teachings of Quran and in the traditions of our Prophet (peace be upon him). We identify the topics, subjects, phenomena and activities that conventional economics cannot help us to understand. We then develop our own theory of Economics that will not only provide a better understanding of economic behavior in secular framework but will also help us discovering Islamic economics.

The conventional framework of economic analysis benefitted from science of physics and heavily depended on tools borrowed from mathematics, forgetting that economics studies human behavior. This paper has tried to provide an answer to the question what other science can provide a more relevant basis for Our Economics and later on for Islamic Economics? Biology and physiology terminology looked most suitable to analyze human social behavior, including economic behavior. Islamic theory of Economics based on the methodology of biology and physiology is capable of answering several questions relating to modern day economic problems that even conventional Economics fail to address. The macro economic problems like poverty, hunger, unemployment, recurring financial crises can be better understood and treated in the framework borrowed from biology and physiology.

I have in a separate paper applied the outline of Islamic Theory of Economics, developed on the basis of terminology and concepts of biology and physiology, to analyze consumer behavior in Islamic society. The Islamic Theory of Economics also helps us understanding why the consumer behavior in contemporary societies and communities is deviating from the given Islamic norms and how it can be put back on the right track. It is just like human body falling ill and how to bring it back to healthy condition.

**Dr. Fahim Khan, Theorizing Islamic Economics:
Search for our framework for Islamic Economic Analysis**

Comment by Prof. Dr. Abdel Rahman Yousri

The paper highlights the lack of strategic vision in Islamic economics. The author attributes this to not knowing “Where we want to be”. This does not deny that currently there are several thoughts among Islamic economic scholars about what Islamic Economics. The author writes that his paper describes various positions of Islamic economists and suggests that it is time we select one of them as known destination and forget others. In fact this is only a mere claim, because the paper has not in fact reviewed various methodological positions and approaches of Islamic economists! It has, however, displayed in details the viewpoint of its author with respect to some important points in Islamic economics plus statements made or work of few Islamic economists.

Dr. Fahim Khan right away expresses his dissatisfaction with conventional economics and the need for developing an Islamic Theory of Economics Theorizing Islamic Economics to him “ means developing an Islamic Theory of Economics”. It is an important task to work that cannot be implemented without understanding the irrelevance of the conventional theory within an Islamic frame, developing an Islamic approach to understand economic behavior and Identifying parameters for such behavior. The author focuses on the latter part since lot of work has been done by Islamic Economists in criticizing the conventional Economic theory.

Most of the Islamic economists, as the author asserts, confined their search within the framework of Neo-classical economics in spite of its inadequacy to “explain the economic behavior of modern man” (P.2). “Core Islamic concepts related to microeconomic behavior like israf, tabzeer, I’tidal, have rarely been the subject of economic analysis” although were treated in details in Fiqh sources.

The author goes next to find out suitable or alternative framework for analyzing Islamic Economic Behavior. An Islamic framework has to be different from conventional framework "universal in application and realistic in making assumptions and axioms".

The author focuses on two desired concepts in his vision for an Islamic analytical framework. These are "Balancing" and "Needs fulfillment". Balancing replaces "optimizing" and the second concept replaces "satisfaction of wants" in conventional analysis.

Under the subtitle "Balancing" as Key Element in Human Decision Making, Dr. Fahim Khan explains that Balancing is required in individual spending when satisfying own needs as well as needed between private interest and social interests. In fact, "Economic agents, in Islamic worldview are supposed to maintain a balance in their activities not only within the economic activities but across all activities of social life".(P.4) Quran highlights the concept of "Balance" everywhere and Islamic teaching guides us to establish balance in all aspects of our social and economic life.

In fact what the author wrote on Balancing is not different that which can be found in Islamic economic literature. However, his assertion that "maintaining balance is a positive attitude rather than a normative attitude", that "It can be observed in human behavior in all cultures, and it is the imbalance in human behavior that explains rise and fall of nations".(P.5) needs further investigation and firm proofs.

Some extra remarks are to be given on the author's analysis of some points related to the Balancing conception.

In page (6) He wrote "Balancing makes as an element in decision making rather than maximization (of utility or profit), which is more relevant for hedonistic behavior not encouraged, rather discouraged by Islam" My comment is; Does hedonism necessarily contradict Balancing? Hedonism in philosophy is an ethical doctrine holding that only what is pleasant or has pleasant consequences is intrinsically good. What is wrong in balancing between two things which give pleasure or happiness if both are halal? In page (6) also He wrote " For any civilized society that requires certain amount of self discipline and self control

from its members, the "balancing" is the most important element underlying decision making process of man with respect to the allocation of resources and time at his disposal" My comment is; Yes, true. But how would balance be established? This is the most important point that we have to work for. Quite a few of our contemporary Islamic economists gave attention to this point (Dr. Fahim Khan has a pioneer work). Some Muslim scholars in the medieval period discussed the same point, but not reaching more than general descriptive conclusions or general rules. Secular neo-classical economists, searched hardly for this point and established some positive specific rules (may be objectionable) which are still taught in universities and employed in research .

In page (7) the author recognized hedonistic behavior?? But made it synonymous with lust!! But Lust has to be tamed. (Not much in consistence with saying that hedonistic behavior is discouraged by Islam (in page 6) He wrote " But all civilized societies put some restraint on the pursuit of this lust. Besides some legal restrictions, a large part of constraint comes from the morals and ethics that a society agrees to adopt and abide by. These morals and ethics requiring self discipline and social control aim at ensuring a balance and harmony in the society so that unrestricted pursuit of this lust does not put aside the goals that a society wishes to achieve, such as social harmony, peace, development etc and also that individual does not lose track of self development"

My comment is that the author is confusing between meanings of Lust and desire, and I think he is not clear cut about Islam and hedonistic behavior. I think we have to define some words precisely; not necessarily in accordance to dictionaries but most important to what we need in our research. Economic terminology or language is important to emphasize in order to avoid confusions.

Linked with my last comment what He wrote in page (8) "There would always be a limit within which pursuit of lust would not conflict with the concept of balance required by reason and by social norms. To that extent conventional Economics will remain valid. But to that extent the economics will be similar to the economics of lower order animals" I would really ask: Why or how satisfaction (or even maximization) of human supposedly in Halal manner (within Sharia boundary) would

downgrade humans to the extent that we say that in such situation economics "would be similar to the economics of lower order animals"? This is a hard statement which in my opinion is unacceptable.

In page (8) He wrote "But subject matter of economics continued to remain how to explain the pursuit of lust for maximization of utility and profit". My comment is: What is wrong in maximizing utility within the assumption of limited resources assumption, if you re-define utility in an Islamic manner? What is wrong in maximizing Halal profit? Would this contradict human or social welfare in an Islamic system? Is it not possible to do this within the conception of Balancing?

In page (9) Dr. Fahim Khan wrote " The difference between the notion of Marshallian wellbeing and welfare and that of Ghazali and Shatibi lies in the assumption relating to the phenomenon that leads to wellbeing. Alfred Marshall relates wellbeing to the satisfaction of instinctive desires whereas Shatibi and Ghazali realise that in a social framework with any degree of civilization, instinctive desires have to be modified to improve wellbeing. This modification of instinctive desires leads to identifying the 'needs' that will contribute to improving man's welfare". I have to highlight and appraise this point

Under the subtitle: The Need Fulfillment (P.10) the author writes "Pursuing wants and instinctive desires for maximization of satisfaction is like playing a gamble with the fulfillment of needs that signify wellbeing. In this context I would to say that the distinction made by the author in his paper, between wants or desires (lust sometimes) on one hand and needs on the other need to be established firmly on *positive* economic grounds. Need in language is anything reflects that is necessary but lacking. However, psychologically (in general) need arises from human desire. Biological Needs (food, clothes, and shelter) cannot be isolated from human desire! I think, therefore that the author has to give clear cut *Islamic* economic definitions to these words in order to convey his message clearly. I clarified my own opinion about maximization of satisfaction when done within Sharia boundaries. Thus I found myself unable to accept the statement , i.e. "Pursuing wants and instinctive desires....etc" or the argument which is built upon in this section.

Statement in P. 10: “Human beings imbued by certain value system evaluate and classify their instinctive desires into: (a) Wants (to give him personal satisfaction) and (b) Needs that will contribute to the objective of his life (wellbeing). It is the needs that qualify to be fulfilled. Wants may appear at bottom in the priority list or will lie below the line to wait for circumstances that would qualify them also as needs to be fulfilled”. This statement would either confirm my opinion (mentioned above) or we are surely going to be involved in pure normative matters about “wants and needs” and “Satisfaction and Fulfillment”

In Page (11) : “The later approach provides us essential elements for Our framework of economic analysis which will not only make the analysis more realistic but will also broaden the scope of Economics to address issues which currently remain outside the main stream economics” It seems to me that Dr. Fahim Khan fondness with the Biological Approach (A&P) to Islamic economics (which he suggests and explains in details in his present paper) made him unaware that using new terminologies like “lower order animal and higher order or social animal or human being” will not receive appreciation since they would unnecessarily raise a suspicion about the discriminative nature of Islamic economics! Why?

Under the subtitle “Where and how to find Our Framework of Economic Analysis (P.12) the author writes “The conventional framework of economic analysis benefitted from science of physics and heavily depended on tools borrowed from mathematics. “the scientific methods similar to that of physics, though, succeeded in getting Economics a higher status among other social sciences, yet in the process they lost track of reality. It failed to cover several economic problems that science of economics”... “A quick review of other natural sciences, such as, biology, chemistry etc., biology which is a science dealing with study of life deserves attention of Economists. Unlike physics, a science studying lifeless bodies, biology seems more relevant as it deals with life that generates behavior and economics studies a particular behavior in human life”.

Dr. Fahim Khan wrote 4 pages (12-16) explaining how the study of Anatomy and Physiology System (A&P) would provide economists with

clear insight in economics the economic system. Then other 3 pages follow on Lesson from A&P for Developing Our Framework of Economic Analysis (P.16- 19)

His views cannot be rejected and cannot be unconditionally accepted. Analogy between the economic system and the biological system is not deniable. Analogy in this suggested approach adds also an important meaning to economics (Islamic or Secular) and send message to those economists who are quite fond of the neoclassical approach which heavily depended on abstraction and isolation of one factor from the others. Study of human body teaches us that all parts are interdependent. Similarly parts of any economic system are closely linked, and that you cannot deal with any part or with any problem in isolation. Yet, on the other hand, one cannot close doors to benefit from other human sciences or social sciences. We cannot also deny the importance of physics and mathematics for economics.

I should emphasize that on methodological grounds, Dr. Fahim Khan suggested approach does not necessarily concern Islamic economics. It may be recalled that François Quesnay (1694 –1774) a French physician, founder of the Physiocratic school was first economist to make analogy (in his "Tableau économique" 1758) between circulation of blood in body and circular flow of income (Net Product). Upon his analysis he considered Agriculture to be the only productive sector because it is the agent of "Nature". It can be also added that the Historicists and Institutionalists (i.e. related to the Institutional Economics school) such as John Rogers and Thorstein Veblen discussed and analyzed economic issues from a macro sociological point of view, and thus critically challenged the neoclassical approach. Veblen in fact gave so much attention to human instincts, and psychology within sociological and political frame. No one should forget the grand work in this area!!

However, it would be in benefit of our young Islamic economists who are attached only to the quantitative approach (mathematical or econometrical) to read Dr. Fahim Khan' paper in order to give better analysis of Islamic economic issues. The author displays in brief statements in Pages 17-19; how "A&P analyzes structure and function of each organ system independently while still recognizing its linkages with

other systems and overall wellbeing of the entire body” ; How A&P tells us that the study of human body as a living organism must understand its needs to strive and thrive; and that “The concept of homeostasis as used in A&P must lead the economists to think that there may be a balanced equilibrium in human behavior similar to the balanced equilibrium in the human body”; “How the body responds to maintain balance when random changes occur in environment”; and that “A&P identifies nature of signals that are used by nervous and endocrine systems to accomplish homeostatic equilibrium”; and that a system of early warning signals for any potentially growing imbalances is capable of guiding us at individual level or at institutional level to adopt early corrective measures and avert a potential economic crisis.

With respect to the remaining part of the Paper (P.19-23) which is built upon the previous conceptions and the benefit of using A&P approach , I have only one comment to make. In P. 19; “The prime focus of economic analysis should be *survival needs*. Economics should be concerned how human beings meet their survival needs and what makes them succeeds and what makes them fail to survive. It can hardly be over-emphasized that this is an economic problem for many countries and communities in the world”. This is really surprising! It is true that many countries in the world suffer from ultra poverty. Yet, our targets in Islamic Economics should not be focused or confined on meeting *Survival needs*, even if “These needs include Nutrient (proper food), oxygen, water, maintenance of body temperature, and desired atmospheric pressure. Mere presence of these survival factors is not sufficient. They are required to be present in appropriate quantity and quality to face any sudden, random or secular change in these factors”. (P.20)

In Page 23 under the subtitle “Developing Islamic Approach to Study economics” the author wrote “Once the analytical framework to study economic behavior is firmed up then Islamic Economics is simply a matter of incorporating the Islamic parameters for human being’s individual life and social life in the framework to understand the economic life of Islamic person and economic conditions in Islamic society. Within Our framework of economic analysis we can change the parametric values to reflect the current state of commitment to Islamic

socio-economic teachings at the level of individuals and society to understand the effect of not following the Islamic teachings *How this will be done has been discussed somewhere else which I am not presenting here because the first job is to agree upon an appropriate framework of economies*" I think the author after suggested an approach for understanding and analyzing economic behavior based on A&P systems should have completed his job!! He should have shown us how to depend on his biological approach in discussing Islamic economic issues and incorporating Sharia rules and Islamic values? This is what we really need to know, because what is done (in seven pages 12-19) does not concern Islamic economics in particular. I feel that the statement quoted above (*How this will be done has been discussed somewhere else which I am not presenting here*) is taking away much of the value of the proposal of benefiting from the A&P system!

In the remaining part of the paper (pages 23-35) the author focuses on approaches and statements made by other Islamic economists. There, may be some attempt to link between different views of some Islamic economists and what the author explained about wants and needs, maximization and fulfillment and survival and usefulness of A&P system, survival needs.. etc.. But the Link is really weak. The effort done by the author on believe that his *first job is to agree upon an appropriate framework of economic analysis took us to different dispersed issues which cannot really be considered in natural continuity with what we went through in previous pages of the paper.*

Some Statements , however, deserves comments:

In Page (24); "It is permissible to dispose off the property rights of a person if such an act is dictated by urgent need and there is no way to obtain permission of the owner"

I would say that If this is considered one of the top objectives of Sharia (as explained), it has to be supported by Shura System (surely not to be left to Fuqaha only and their fiqh approachs or appreciation)and it has to be supported by a just system of economic compensation. Otherwise this rule will jeopardize private property rights and destroy one of the principal bases of the Islamic Econ System!

In Page (25) No claim for profit without bearing the risk of loss and no(economic) benefits without (economic) costs. This has the implication not only for capital that cannot have a return unless it is subjected to risk bearing (interest income therefore is not permissible) but also for labor market and human resource mobilizations” . My comment: This is a Sharia Rule. No need to involve Sharia Objectives.

In Page (25)”Islamic economic man and lay down the qualifications that would make an Islamic man in his economic pursuits”

I have a big Objection on the expression of Islamic economic man. Is it not similar to the economic man created by the neoclassic?, i.e. Isolation of the economic aspect? Is this consistent with the biological approach which the author suggested in his paper? In P.27 says “Islamic economic man is a man who is ‘Rasheed’ Why? You cannot we talk about the “Muslim” and say whatever you want about his social or economic behavior.

In P.28 “The human instinct of niggardliness.....etc”

That man is niggardly *فتورا* is meant at the individual level personal behavior that would necessarily reflect on the others, i.e. affects the society. It is a behavior that has been recognized in secular literature by analyzing social vs private interest.

Also what is mentioned in the next paragraph involving money and wealth is recognized in secular economics. But there, economists found economic solutions, such as interest, to encourage persons towards increasing their savings (reflecting normal or niggardly behavior) . Thus niggardly behavior could turn to be beneficial to the others in society once we find ways for this. Surely we can work for this in Islamic economics within the philosophy of partnership.

Prof. Dr. Abdel Rahman Yousri

Gaps in the Theory and Practice of Islamic Economics

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Preliminary draft, not to be quoted
without the permission of the author

introduction

The ambitions of the economists who established that field in the late seventies has been to introduce to humanity a new all-encompassing economic paradigm that gradually presents itself as an additional options in the choice of economic systems. In addition, the analysis of human economic behavior under Shari'ah compliance would represent an academic curiosity that is in itself worth pursuing.

Despite many daring steps towards application, Islamic economics is still to a large measure caged in books without being applied to real-life situations. The major exception is Islamic finance. In addition, spotty applications of Zakah and Awqaf can be found.

Even in Islamic finance, the record of application does not have silver lining. Products of ill repute that are prohibited by decisions of the International Fiqh Academy dominate the Islamic finance industry in some countries.

Several gaps in Islamic economics need to be filled by both scholars and practitioners. When the count of such gaps started for the purpose of writing a keynote speech for a seminar sponsored by Aston and Dirham universities last month, it reached seven. Now, it seems to be increasing.

First Gap: Division of Labor between Economists and Shari'ah Scholars

An important reason for such dilemma is that there is some disagreement regarding the nature of Islamic economics. Such disagreement has arisen during the practices of Islamic finance. Shari'ah scholars occupied a front seat in such implementation. Then, many acquired the impression in academic and professional circles that Shari'ah scholars are "Islamic economists." The media often introduces them as such. Considering the time and effort involved in studying economics, we cannot imagine that Shari'ah scholars would instantly turn economists, once they supervised Islamic financial transactions.

In fact Islamic finance has such a narrow scope in Islamic economics, yet it attracts disproportionate attention. The twelve Islamic finance and investment contracts can be quickly learnt by an economist. In addition, economists would have a comparative advantage over Shari'ah scholars in defining Maqassid Al-Shari'ah in the field of economics, which is something to which Shari'ah scholars pay little attention.

Shari'ah as they are totally absorbed in assessing and insuring the formal validity of contracts, sometimes with total disregard to their consequences or Ma'alat⁽¹⁾. They seem to be satisfied with any contract, once they find a text in the old Fiqh literature in its support. While they understand well the importance of Maqassid, they pay little attention to them in practice.

As example of this is the fact that the prohibition of Reba would automatically indicate that any transaction that boils down to exchanging spot for future money at a premium should be prohibited. Yet few scholars insist that Tawarruq transactions are lawful, although their ultimate result is the trade of spot for future money at a premium.

(1) For example, the author estimates that Tawarruq products represent 80 percent in Saudi Arabia and 50 percent in the UAE. Products based on debt sale dominate 60 percent of the total in Malaysia.

Economists in contrast are particularly trained in assessing the consequences of actions. Their attention is always fixed towards ultimate consequences. To do otherwise would be contrary to the methodology of their discipline.

The first gap we can find in Islamic economics is the encroachment of Shari'ah scholars on the field of economics, without being true to its methodology, nor being able to learn the basics that any economists worth his/her salt must know.

We must therefore admit that Islamic economics is a branch of economics and not of Shari'ah, and Islamic finance is a branch of Islamic economics. Consequently, the tone of this discipline must be set by economists.

Economists and Shari'ah scholars must therefore agree on the division of labor. Shari'ah scholars can continue to do the job they know best, which is ascertaining formal validity of contracts, but the more important validity of purpose must be left to economists.

Second Gap: The Absence of An Islamic Economic System in Real Life

The second gap lies in the absence of a model of Islamic economics that is applied in the real world. We can find countries with various political systems that raise the flag of Islamic economics. Implementation, however, is limited to scattered applications, like some application of Zakah, Awqaf and Islamic finance with predominance of products of ill repute, without a coherent common denominator between them.

In contrast, there is one country that practices totalitarianism and military rule, but has made some modest advances in Islamic finance and macroeconomic policies.

At the end, we notice that we do not have an economic system that approaches the application of the Islamic paradigm. Compared to economics studying other systems, e.g., socialism and capitalism, Islamic economists find themselves at a big disadvantage. Undoubtedly, the presence of a social and a capitalist system has helped economists to introduce realistic and purposeful models for analysis which have later become a source of intellectual innovation.

Third Gap: The Absence of a General Equilibrium Model for An Islamic Economy

The third gap appeared when the paradigm of Islamic finance took a wrong detour from the very start. We concentrated on the prohibition of Reba or interest and how to provide finance in an interest-free environment. An economist would notice that Islamic finance is based on the prohibition of trading present against future money, which means that money would have a time value only when traded against non-monetary commodities. This would require a more detailed general equilibrium model in which there is a market for trading each commodity, either spot, against deferred payment or with deferred delivery. Agios in such market, namely markups and rentals would have difficulty finding a balance, because of the absence of an integrated debt market and the prohibition of debt trading. Arbitrage between, e.g., the wheat and the cotton markets for deferred payments and deferred delivery is not directly obvious and has not been considered theoretically. Add to this, the fact that we ignored the problem of term structure in such markets. Compared with conventional finance, such agios in addition, rates of return on Musharaka and Mudaraba, and fees on investment Wakala replace the rate of interest. Little has been said about whether their payment would have the same inefficiency effects that result from the substitution of real resources for money in transactions⁽²⁾.

One of the reasons for such gap in our analysis lies in the way we began in the late seventies analyzing Islamic finance in a pure profit-sharing model. Somewhere along the way some of us forgot that pure models are tools of theoretical analysis rather than paradigms. Some came up with attacks on sale finance, particularly Murabaha as not being consistent with profit and loss sharing.

Another reason is that Islamic economists have mostly been students of the Anglo Saxon School of commercial banking. Very few of us came to learn about universal banking. Being a model of pure financial intermediation between borrowers and lenders, commercial banking made the model of Islamic banking look rather impossible⁽³⁾.

(2) Mabid Ali Al-Jarhi (1983)

(3) Mabid Ali Al-Jarhi (2003)

The detour has been long and bumpy calling for speedy correction. Our perception of the paradigm of Islamic finance requires refocusing on the absence of spot-against-future money market. This would lead to two inevitable consequences. First, finance must be redefined to indicate the provision of required commodities through deferred payment, deferred delivery, partnership or investment agency. Second, banking should be redefined to include investment and trading activities. These two steps represent a good part of the revolution of Islamic economics against the received doctrine.

Fourth Gap: The Role of Shari'ah Boards

The fourth gap emanates from Islamic finance practices, which is the absolute requirement of Shari'ah boards in Islamic financial institutions. The function of Shari'ah boards is to structure Islamic financial products. This may have been necessary when Islamic finance was an infant industry. Now Islamic financial products are well defined. Most of them are considered lawful, *Halal*, by most Shari'ah scholars. Few are considered unlawful, which I prefer to call “products of ill repute,” that include Tawarruq, debt trading, 'Eina sale and risk-trading products⁽⁴⁾. Sadly enough, in some countries products of ill repute dominate the Islamic finance market.

Placing the definitions of Islamic finance products into the banking and financial market laws would significantly reduce the need for Shari'ah boards and replace them gradually by legal experts with sufficient understanding of Shari'ah to apply such definitions⁽⁵⁾.

Fifth Gap: The Absence of A Unified and Well-defined Shari'ah Methodology

The fifth gap lies in the yet to be perfected methodology of Shari'ah scholars. On the one hand, they accept theoretically that giving the validity of purpose in Islamic financial contracts must take precedence to formal validity. The ultimate consequence of contracts would therefore become the acid tests for its validity. On the other hand, most of their

(4) Mabid Ali Al-Jarhi (2007).

(5) Mabid Ali Al-Jarhi (2012).

judgments are based on formal validity. Such approach appears to be similar to partial in contrast to general economic analysis.

This calls for a revolution in Fiqh Al-Muamalat. Since in such field, economics and Shari'ah disciplines have to be used together, Shari'ah methodology must be adjusted to give precedence to Maqassid, properly stated. Otherwise, Islamic finance will continue to be open to sharp differences, depending on whether scholars stress Maslaha, Sadd al-Altharai'e, different dosages of each, or ultimate Maqassid.

Once the methodological gap has been filled, Shari'ah boards will seize to apply ingenious ruses to mimic conventional financial products carefully dressed in Islamic garb.

Sixth Gap: Central Banks Treatment of Islamic Finance

The sixth gap is related to the way central banks define their relationship with Islamic banks. Central banks generally ignore the differences between Islamic and conventional banks. This raises two complications. One is that the investment activities of Islamic banks may escape legitimate scrutiny from central banks, which focus on financial soundness and pay little attention to investment-related activities like feasibility studies and reviews. Central banks would not like to look into such technicalities as they are outside the competence of their supervisory staff.

The other complication lies in the fact that central banks do not wish to involve themselves into Shari'ah matters. While they provide banks with licenses to work as "Islamic banks" that are supposed to have Shari'ah-compliant activities, they would not withdraw such licenses from banks that violate such licenses by supplying conventional financial products carefully dressed to appear as Shari'ah compliant.

In the first instance, central banks must regulate and properly supervise Islamic banks' investment activities. They should review investment procedures, feasibility studies and investment worthiness of Islamic banks' use of funds. Limiting supervision to the financial review of Islamic banks is by no means sufficient.

In the second instance, central banks must make their judgment about the Shari'ah compliance of Islamic banks, depending on their own methods and expertise and not just those of banks' Shari'ah boards. This can be done through external Shari'ah auditing, or simply applying the definitions of Islamic finance products mentioned in the banking and financial market laws to the actual products provided by banks. The reputation risk faced by Islamic banks has been rather serious and has not been fully eliminated by their Shari'ah boards. Such elimination would require extra actions from central banks.

Seventh Gap: Central Banks Application of Capital Requirements of Islamic Banks

The seventh gap is the way central banks calculate capital requirements for risk and liquidity management in Islamic banks. It is perfectly understandable to consider equity as a highly risky endeavor by conventional banks. Their liabilities are generally short term loans whose repayment is guaranteed (both principal and interest). Naturally, their assets must be equally short-term debt whose repayment is carefully guarded with collateral and other guarantees.

Islamic banks, meanwhile, have liabilities drawn from shareholders' funds and investment deposits. None of such liabilities is guaranteed debt, but rather profit sharing funds. The maturities of the funds can be extended through the proper introduction of restricted and long-term investment deposits.

Equity finance itself is an investment that entitles the bank to continuous and inexpensive monitoring. It is therefore relatively free from information asymmetry and consequently protects banks from risks of adverse selection and moral hazard. In contrast to being a source of exposure to high risks in conventional banking, equity finance turns out to be an important risk mitigant to Islamic banks. Therefore, central banks must stop penalizing Musharaka finance through heavy capital requirements. Instead, they should instruct Islamic banks to use Mudaraba finance solely with Musharaka.

Eighth Gap: Faulty *Sukuk*

The sixth gap is related to Islamic financial assets and *Sukuk* in particular. *Sukuk* are supposed to be Islamic financial assets that represent common undivided shares in Shari'ah-compliant real and financial assets. *Sukuk* therefore would be like shares in companies that represent equity investment. However, *Sukuk* have been entrusted to the financial engineering talents of a group of Shari'ah scholars who view them not as Islamic financial instruments but are rather "Islamic bonds" or fixed income instruments that have cleverly been made up to look Shari'ah compliant.

The global financial crisis has succeeded in washing out the thin Shari'ah compliance paint from several issues of *Sukuk*. Suddenly some *Sukuk* appeared to be pure conventional loans indicating no title to any asset. The philosophy of Islamic financial engineering has been set from the beginning to dish out bond-like instruments, paying no attention to the Islamic finance paradigm. Obviously, a revolution is urgently required to correct our thinking towards securitization in order to stop issuing titles to common shares in debt under the name of *Sukuk*. A lot of work is required in this regard. Notable is the effort of Dubai Financial Market to issue its *Sukuk* standard which will hopefully appear by the end of this year.

Ninth Gap: The Hiatus between Monetary Policy and Islamic Finance

The ninth gap is the absence of any measurable link between monetary policy and Islamic finance. Financial instruments issued by monetary and financial authorities are mostly conventional. Changes in the monetary base or high-powered money largely depend on the debt money markets rather than the investment markets.

Gaps like these must be filled through the correction of our understanding, the reorientation of our analysis, and the straightening of our applications. This requires extra efforts from Shari'ah specialists, economists, finance specialists and practitioners. It is my sincere belief that Islamic finance, when properly perceived and correctly applied will produce a new economic order that benefits humanity. It therefore deserves proper perception and correct application.

How to Fill the Gaps

The responsibility for filling the gaps in the field of Islamic economics lies squarely on economists' shoulders. Currently, and after the first generation of Islamic economists, we need a second generation that has a strong command of the tools of analysis as well as a good understanding of *Fiqh Al-Muamalat*.

The second generation must start with learning the contributions of the first generation and build upon them in order to present further contributions.

The last step requires a selective approach to research topics. The new generation must avoid topics which are too general or concern some limited applications.

Articles regarding environment, sustainable growth and other topics in economic development usually have very little added value. Other non-analytical articles about *Zakah* and *Awqaf* should also be shunned away.

Some of the possible solutions are:

First, providing scholarships to economics students to write PhD dissertations in Islamic economics. The scholarship must include paying for studying Shari'ah in the area of Maqassid, policies and Muamalat.

Second, printing and distribution of some of the contributions of the first generation. For example, the author's article entitled: towards a monetary and financial system for an interest-free economy deserves attention. None of the younger generation has shown familiarity with it nor built upon it any further analysis. The article has seen further extensions by the author which have not been published yet.

Third, appointment of some members of the first generation as professors to teach their own thought and perceptions of Islamic economics to graduate students.

Fourth providing assistance to the countries of the Arab spring, which desire to introduce Islamic finance, in order to enable them to build up a credible applied model and put it to practice gradually, in order to provide theoreticians with real-life experiments.

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