

Hafiz Muhammad Yasin and Atiq-uz-Zafar Khan

Fundamentals of Islamic Economics and Finance

Islamic Research and Training Institute,

Islamic Development Bank, Jeddah, Saudi Arabia, 2016, pp. 556.

Reviewed By: Mohammed Saeed Khan

Associate Professor in the Department of Economics

Aligarh Muslim University, India.

A few years ago Asad Zaman (2012, p. 145) lamented in an article: “There is no textbook of Islamic Economics, despite numerous efforts to create one”. This astutely exposes the state of affairs with regards to the availability of reliable textbooks in the field of Islamic economics, a discipline which is more than fifty years old and which is taught not only in the universities of a number of Muslim countries but even outside the Islamic world. Its principles are successfully put into practice by financial institutions across the globe. A book in Islamic Economics authored by Mohammad Abdul Mannan as early as 1970 is believed to be the first text book in the discipline as it was written the way contemporary textbooks of other subjects were being written. Almost every topic was treated with an Islamic perspective, though Islamic economics as a formal discipline was still in its infancy. Thereafter, despite exponential growth, good textbooks did not appear and this shortage is seriously felt even today. It is pertinent here to mention that a text book was written about a decade ago which failed to impress the readers as it seriously missed references to a host of Islamic literature with good academic worth (Yusoff, 2008, p. 91).

It is in this context that the book under review deserves serious attention. The presentation of the book is excellent and comparable to any textbook pub-

lished by the best publishers of the world. It has all the ingredients such as boxed information with colored backgrounds, highlights of the contents of each page on the side margins of the page itself, review questions for each chapter, as well as photographs. This, together with the list of contents, raises the expectations of the reader of Islamic economics where there is a dearth of good textbooks – despite plenty of literature having been produced on the area over the last three to four decades.

The book is divided into four parts namely, Basic Concepts, Islamic Economic Theory, Islamic Economic System, and Islamic Economics: Past and Present. Of these, it is Parts II and III that give extensive coverage of conventional economics along with its imperfections, and bring out Shari‘ah principles to demonstrate to what extent such imperfections can be overcome. The book covers a wide range of topics which offers an opportunity to readers, whether they are doing an undergraduate paper on Islamic economics or reading out of curiosity. Besides the basic premise of Islamic economics, the text attempts to put together theoretical constructs and an economic system it seeks to put in place.

The opening section of the book, Part I, has three chapters; Foundations of Islamic Economics, Islamic Guidelines for Economic Behavior, and Methodolo-

gy and Goals of Islamic Economics. This section helps inculcate in the reader the nuances of Islamic economics while also drawing a line between Islamic and conventional economics. It begins by outlining the basic tenets of Islamic faith like *tawhīd* (unity of God), *risālah* (prophethood), and *ākhirah* (the Life Hereafter). Validity of these tenets is unquestionable. Guiding principles in the form of the Holy Qur'ān (the revealed book) and the Sunnah (the Precedence of the Holy Prophet) are the prime sources of Islamic Injunctions. These principles cannot be breached in any way while theorizing any aspect of the subject. Any subject matter which militates against Islamic Injunctions (*derived from the Qur'ān and the Sunnah*) does not qualify to be called Islamic. Thus Islamic economics has to be necessarily in conformity with Islamic injunctions. Though the chapter goes on to explain the secondary sources of such injunctions as well, probably the purpose would have been best served without such detail. So the first two chapters of the book are more about 'Islamic fundamentals' rather than 'Islamic economics'. The value of the book would not diminish if these chapters were merged into one.

Chapter three, "Methodology and Goals of Islamic Economics" begins with a critique of conventional economics right from its definitions (by many economists from Adam Smith to Lionel Robins) to the methodological elements of it. In the process it provides the reader with a tour of the subject matter as well as the methodology of conventional economics (and more than that of Islamic economics). The gist of such criticism is that it does not address the ethical and moral questions as Islamic economics does. The focus of the criticism remains embedded in positive economics that does not question value judgment in the discipline. It barely touches upon welfare economics. The criticism of conventional economics would have been excellent, if sound critical arguments had been brought against welfare economics as well. Further, there was ample scope for bringing in a fair amount of detail about Islamic economics' methodology in the main text which the authors prefer to keep as footnotes. This can be seen in the case of reference to Yousri, (footnote on p. 41) who in turn refers to the work of *imām* Abu Yusuf, *imām* Ibn Taymiyah, Ibn al-Qayyim and Ibn Khaldun, on matters of crucial significance such as the

demand-price relationship and the possible control (manipulation) of supply by merchants. There is a little discrepancy too (which could be a typo error) in writing the year in the reference to Yousri in the above mentioned footnote and the one in the bibliography as 2000 and 2002 respectively. The mention of deductive and inductive methodology in a colored box with bullet points could not be adequately correlated to the context and requires a connecting thread.

Part II comprises of chapters on Islamic Economic Theory. It covers almost every aspect of economic behavior the conventional economic theory deals with, such as consumption, business firms, market structure, distribution, money, public finance and even macroeconomic modelling from an Islamic perspective. Here it is pertinent to mention the authors' own belief (in the Preface of the book), and probably rightly so, that Islamic economics has not yet developed paradigms and that it is an emerging and developing discipline. In view of such wide coverage of yet to be fully developed paradigms, the book makes a very significant contribution in bringing together Islamic injunctions (scattered in various diverse areas from Islamic writers and philosophers). If the subject that subscribes to definite and unambiguous positions can be translated into economic models, it will give a quantum leap to the discipline as the theoretical tools in Islamic economics are yet to fully develop. In the absence of such tools, Islamic economics is widely perceived to be revolving around interest-free banking and finance alone. The concept of 'absolute versus relative scarcity' as brought out here deserves special attention. If taken further it has implications, not only for economic theory but also for evolving an economic system that is egalitarian in nature and significantly different from 'socialism'. The difference lies in property rights which 'socialism' denies and the Islamic system protects. By creating a system of state ownership of the means of production, socialism kills incentives for work efforts on the part of the people. It also remains deprived of market signals that are important for the allocation of productive resources in an economy. The Islamic system is not 'Capitalist' either as it does not concede unbridled rights to the private sector. Simultaneously, it challenges the basic foundations of the existence of conventional economics which is premised on scarcity of resources and

unlimited wants. The position, well supported by Islamic tenets that state that sufficient natural resources have been created by Allah, if utilized in the permitted way, resource constraints might not be felt. Thus it could be a preliminary idea for the creation of an economic system in which every person contributes to growth and reaps its benefits by enjoying more (but *halāl*) consumption which neither of the above mentioned two competing systems (one of which is already discredited) could ensure. Therefore the Islamic system has the inherent qualities that simultaneously address the issues of optimum production, fair distribution, and appropriate consumption. But it needed to be demonstrated that such a system along with its institutions is very much practical and not utopian. The book on the one hand questions the wisdom of existing models of conventional economics by pointing to their inconsistencies but on the other uses the same methodology. The book mentions the study that attempts to incorporate the utility derived from the expected reward in *ākhirah* into the theoretical tools of conventional economics as consumption is not considered to be the final goal in Islamic economics and thus perceived to be not bringing utility the way conventional economics believes.

Chapter: 5 is on the ‘Business Organization and Behavior of Firms’. It consists largely of the literature in conventional economics though it places emphasis on Islamic concepts such as *muḍārabah*, *sharikah* etc., by creating scope for them in the appropriate place in the chapter. It uses various studies published between 1984 and 2002 which throw light on various aspects of Islamic entrepreneurship. However, it still gives the reader an impression that the two are unconnected. The only connecting thread is the invoking of Islamic injunctions that forbids certain activities to which conventional economic theory is indifferent. It is worth mentioning a paragraph from the book: “Habib Ahmad (2002) argues that proper tools are needed to analyze the micro foundation of Islamic Economics. In the absence of such tools, the study of an economic system becomes perplexing and consistent analysis is not possible” (p. 105). The context of the above observation is the problem as to how the efficient allocation of resources in consumption and production will materialize in the market economy given the condition that Islam envisions fair

play in the market. The solution proposed by Ahmad is that neoclassical tools of analysis can be used so long as they are not in conflict with Islamic principles.

Chapter: 6 ‘Market Structure in Islamic Framework’ begins by laying emphasis on business ethics as directed by Shari‘ah that seeks fair play on the part of both buyers and sellers. Two elements are significant here; one, Islam protects property rights – it opposes the state ownership of means of production, a socialist or communist proposition – and two, it is against state intervention in the market. So much so, that when prices were soaring during the Prophet’s (peace be upon him) time and it was mentioned to him about this, he declined the request by saying Allah alone grants plenty or shortage and that He is the real price maker (cf. *al-Tirmidhi*, 1975, 3:597, *ḥadīth* no. 1314). This raises a few questions; if state is supposed not to intervene in the market process, the issue of ‘merit goods’ will remain unresolved, that is to say, what if the market-determined price of certain necessary goods such as food is high enough to make it unaffordable to a section of the population? In fact, as Ibn Taymiyah forcefully claimed, it was a special case and not a general ruling. The price may be fixed administratively even in an Islamic system if imperfection arise in the market (for a detailed discussion of Ibn Taymiyah’s views on this issue one can refer to Islahi, 1988, pp. 94-97). The book argues later in the chapter that perfect competition is a desirable market structure but how could it be ensured remains unanswered. It is in this sense that the book does a great service as it brings out (may be unintentionally) areas that require the attention of Islamic economists and scholars.

Chapter: 7 ‘Theory of Distribution’ begins by introducing the reader to various tools used in the literature on conventional economics like the circular flow of economic activity, functional distribution of real income generated, and the measure of inequality. It moves on to bring in the Islamic position on the matter. The book brings out the Islamic approach that deals with the issue of distribution in a comprehensive manner. The significant element here is the right of every individual to exploit natural resources. But it remains short of pointing to the institutional arrangements to ensure such equality. It emphasizes the fair treatment of labor by the timely payment of pre-

contracted wage, though it does not answer as to how the fair wage will be determined. It goes on to list the comprehensive program stressed by Islam for the redistribution of income.

Chapter: 8 ‘Money and Interest’ is the area which is probably the most researched one in Islamic economics. The chapter pieces together all the important elements on the subject. Notably among them are the recognition of the difference between money and capital. It deals with the whole issue of interest and other related questions by going deep into the conventional economic theory that explains and justifies the existence of interest (*ribā*) as well as the determination of its rate. Islamic economics offers an alternative model to eliminate interest. It’s not that it does not recognize capital as a factor of production and the cost of its use and also its share in income generation. Islamic models eliminate from the system the element (fixed and predetermined reward on capital) which is most exploitative in nature and makes the owner as well as the user stakeholders in the deployment of capital. The whole range of issues is nicely captured in the chapter.

Chapter 9 of the book on ‘Public Finance in Islamic Framework’ is a bit incoherent. It begins with the basis of public finance in general and naturally makes the distinction between public and private goods. It rightly mentions the characteristics of the latter. These are ‘non-rival consumption’ and ‘non-feasible exclusion’ because such goods cannot be provided through the market mechanism. But while giving examples of public goods, schools and hospitals are also mentioned which are private goods as in their case, consumption is rivalrous and exclusion is feasible. They can be publicly provided as private goods. Often government provides them as the market will do this inefficiently. Therefore, a separate term ‘merit good’ is used for such goods. Had there not been extensive coverage of the subject matter of public finance, such inaccuracy would not have mattered as education and health are private goods but provided as if they are public goods. What is of greater incoherence is the mention in this chapter, “... an Islamic State has to intervene in the market mechanism, where necessary, to safeguard the interests of individuals and to ensure the resources are equitably distributed in the society” (p. 21). This is in total contradiction to what has been said in chapter: 6

about the price in the market where Prophet (peace be upon him) refused to intervene in the market as the shortage and abundance are created by Allah. But the authors did not heed this point.

Anyway, whether public goods or merit goods, their provision requires revenue. The sources of revenue are primarily derived from taxes. The book brings out an important element here; the reference to a *Kulya fiqhiyah* [*kullīyah fiqhīyah*] – a general jurist principle – that if something is not explicitly prohibited in Shari‘ah it is permitted (by default). The need to provide services to the people offers the rationale for tax. But taxes have got to be just. Although it brings out various Shari‘ah compliant sources of public revenue and various types of public expenditure, it appears that the area of public finance remains largely under researched in Islamic economics.

The last chapter of Part II is ‘Macroeconomic Modelling Attempts in Islamic Perspective’. It seeks to amalgamate Islamic injunctions with the analytical framework of conventional economics. The chapter begins with the concept of the consumption function – an important component of ‘aggregate demand’ which in turn determines the level of income and employment. The book presents as to how the consumption function should behave differently in an Islamic framework where consumption gets regulated with certain kinds of consumption not permitted and the *zakāh* contribution that has a bearing on personal disposable income which is an explanatory variable to the consumption function. A good observation has been brought here that when the Islamic concept is applied to the conventional economic framework – Keynesian path breaking hypothesis with regard to the form (slope and Marginal Propensity to Consume) of the consumption function and what would cause a shift in it – it will have a considerable bearing on the CF (consumption function). It is because of the difference in the MPC derived from *zakāh* payment and receipt. To what extent this will shape the CF in an Islamic setup can be tested only with empirical studies but it is a good step towards theorizing Islamic injunctions. Besides consumption, it presents some of the models for investment functions as well. The studies included here build on the simple production function; $Y=f(K,L)$ by bringing in the return on capital as envisaged in Islamic economics. It is done by splitting profit between the owner of

capital and the entrepreneur (*muḍārib*). This difference should have a significant bearing on investment patterns and net returns. The book under review goes on to discuss other models of conventional macroeconomics and shows what change in the behavior of variables is expected if a certain model is used with Islamic injunctions. The chapter offers hope that Islamic economics can be studied as scientifically (its variables can also be quantified) as conventional economics with better outcomes for individuals and society. It also needs to be borne in mind that Islamic economics formally began its journey at least two centuries later than conventional economics.

Part III ‘Islamic Economic System’ once again presents, in a bit more detail through its five chapters, a survey of Islamic literature and how it shapes (or proposes to shape) the economic system and its institutions. These chapters are; Salient Features of an Islamic Economy, Financial Architecture of an Islamic Economy, Banking and the Monetary System in the Islamic Context, Fiscal Policy and the Role of State, Economic Growth and Development, and Comparative Economic Systems. It provides a bird’s eye view of the contribution of great Islamic scholars along with Islamic terminologies some of which have already found mention and elaboration in earlier chapters. So there is a certain amount of repetition that could have been avoided. Provided these things are arranged in a more coherent manner, they would convince the reader that Islamic economics can evolve into a ‘unified social science’. Researchers in the area may explore the possibility and take the discipline forward. The one area in which Islamic economics succeeds in developing an elaborate workable system is its financial architecture with the coming into being of institutions and their regulatory mechanisms. So much so, that the capitalist world has been motivated to look to Islamic economic and financial principles and giving it a try. One obvious problem with this section of the book is that it recalls many things from conventional economics all over again. This points to a lopsidedness in the planning of the book.

The last section of the book Part IV Islamic Economics: Past and Present – comprising two chapters – outlines the evolution of Islamic ideas and the state of affairs in the Islamic World. Authors would do well to enrich this section, especially the chapter on

‘Islamic Economic Heritage’, by carefully re-arranging the material in the book as it would provide the reader more coherence. This would also reduce the number of pages to an optimum level. This chapter can be built into a brief history of economic ideas to offer the reader an opportunity track (in a nutshell) of the evolution of Islamic economics along with the dialogues and debates per period of time. In chapter 17 on Islamic Economic Heritage, the authors give preeminence to various political developments. It would have been better if there was more discussion on Islamic economic thought.

The following is the takeaway from the discussion above; the presentation of the book is very impressive, the authors as well as the publisher deserve full credit for it. Somehow, the authors succeed in meeting the expectations the book raises. Certain aspects brought out by the book may go a long way to evoke interest of scholars in Islamic economics. One serious limitation is that a substantial part of the text has been dedicated to conventional economics while Islamic economics could not be sufficiently positioned against it. At times, incorporating the provisions of Islamic economics into the analytical tools of conventional economics gives an academic new look to the subject with novel conclusions and important implications for public policy.

There are some misspellings which could be typographical errors but when these involve a name of a thinker it looks odd. One such example is on p. 506 where Abdul Rahman Ibn Hasan al-Jabarti is misspelled as ...Hassan Jabati. The book also suffers from inconsistency in the use of the transliteration system. Just a few examples from page 219 where we see ‘*baitul mal*’ and ‘*bait-ul-mal*’ (*bait* or *bayt al-māl*), ‘*Ad-Deen*’ (*al-dīn*) but correctly Al-Shatibi (not Ash-Shatibi). IRTI, the publisher of this book itself has a standard transliteration scheme that should have been applied or they could have used the transcription scheme of the JKAU: IE. This is important as students should also learn how to write Arabic words and terms correctly. It is advisable to provide a glossary of Arabic terms and a standardized transliteration scheme in the next edition. However, despite all such imperfections the book is useful, readable, and worth to be prescribed in universities and colleges. It fills the gap of an Islamic economics text book to a great extent.

References

- Islahi, Abdul Azim** (1988), *Economic concepts of Ibn Taimiyah*, Leicester, UK. The Islamic Foundation.
- Mannan, M.A.** (1970), *Islamic Economics: Theory and Practice*, Lahore: Sh. Muhammad Ashraf.
- al-Tirmidhi, Muhammed bin Eisa** (1975), *Sunan al-Tirmidhi*, Egypt: Mustafa al-Babi al-Halabi.
- Yusoff, Wan Sulaiman Bin Wan** (2008) “Book Review: *Introduction to Microeconomics: An Islamic Perspective*, by Zubair Hasan”, *JKAU: Islamic Economics*, **21**(1), pp. 83-91.
- Zaman, Asad** (2012), “Crisis in Islamic Economics: Diagnosis and Prescription”, *JKAU: Islamic Economics*, **25**(1), pp: 147-169.

Mohd Saeed Khan is Associate Professor in the Department of Economics, Aligarh Muslim University, India. He obtained his Ph.D. degree in Public Economics from the same University. In his long teaching career spanning roughly three decades, besides guiding Ph.D. students he taught Public Economics, Micro and Macro Economic Theories, History of Economic Thought, Comparative Economic Systems at Graduate and Undergraduate levels. He has published various research papers in variety of areas with public policy as common thread running through them all. His research papers have also been published in some edited volumes. He has co-authored a book on ‘Federal Finance in India’ which has received citations by other researchers. He has presented numerous research papers in various conferences in India and abroad. He has delivered many invited lectures to academic gatherings in universities and colleges in India. He is on the panel of referees for a couple of academic Journals. Currently he is working as visiting Associate Professor in Saudi Electronic University, Jeddah. Saudi Arabia.

E-mail: msk2313@gmail.com