

***Hossein Askari, Zamir Iqbal and Abbas Mirakhor:***  
**Introduction to Islamic Economics - Theory and Application**  
Singapore: John Wiley & Sons, (2015)

***Reviewed by: Mohamed Aslam Haneef***

Hossein Askari, Zamir Iqbal and Abbas Mirakhor as well as John Wiley Publishers have built a growing reputation over the last decade or so as one of the most productive partnerships in Islamic Finance publishing. Thus, it was with great anticipation that this 2015 text entitled *Introduction to Islamic Economics- Theory and Application* was received.

The text comprises almost 400 pages and is divided into 14 Chapters. In the first four chapters the authors develop the foundational and institutional base covering the economic system: its conceptual foundations, the institutional framework and key institutions culminating in what represents an Islamic Economic System. Chapter 5 discusses key microeconomic concepts. Chapters 6-14 cover what would usually be subject matter found in a macroeconomics course: key concepts, output and macro equilibrium, the role of the state, followed by discussions on major macroeconomic policies, ending with a discussion on growth/development and welfare. In addition, the authors add a chapter that overviews the socio-economic conditions of OIC countries. One immediately notices that the book is focused on macroeconomics, with only one chapter on microeconomics. Why this is the case, is left without an answer, as the book does not have an introductory chapter or a preface that usually would explain the rationale and focus of the topics covered. Authors are advised to address this issue in future versions of the book.

Chapters 1-4 attempt to explain the foundations of an economic system and to develop an institutional framework highlighting key features of an Islamic economic system. In doing this the authors adopt a comparative approach, trying to differentiate between an Islamic economic system with that of capitalism, the mixed market system, mixed socialist system and a command system. From a policy perspective, the authors point out (p. 3) that ‘the most critical characteristic that distinguishes economic systems is the relative importance of markets and governments’ in answering the main questions of economics, i.e., what, how and for whom. This is followed by a brief overview of the current state of the global economy (pp. 8-18) that highlights the inequities, instability, the neglect of human welfare and the destruction of the environment. Despite discussing briefly some contemporary alternative approaches that have tried to show the irrationality of the rational – self interest assumptions of modern economics (Sen) - the authors rightly point out that modern economics is still dominated by the central assumption of ‘human animal spirits’ (Akerlof and Shiller) that maintain the glorification of the ego.

The authors then discuss the ‘Islamic economics paradigm’, rather too briefly, followed by a somewhat ‘misplaced’ short history of economic thought in Islam. Chapter 2 is where the authors set out to elaborate the foundations of an Islamic Economic Paradigm. They start by a brief mention of four fundamental concepts of Islam as a rules-based religion: *walaya*, *karamah*, *meethaq* and *khilafah*<sup>(1)</sup>, that leads to a ‘meta-framework and archetype of economic rules’ that provide ‘universal-specific rules of behavior and the institutional structure needed for organizing human society’. This framework requires ‘rules compliance’ and that is what the agent-trustee relationship in Islam requires in the economic sphere. These rules go beyond the usual pro-growth rules such as property rights protection, enforcement of contracts and good governance. In Islam these also encompass rules of seeking knowledge; avoiding waste, harm or injury; pursuing hard work; not engaging in fraud, cheating or abuse of property. Moreover, according to the authors,

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(1) Other scholars like Khurshid Ahmad (1976) have identified *Tawhid*, *Ibadah*, *Khilafah* and *Tazkiyah* as the four philosophical foundations of an Islamic economic system. Other scholars also have slight variations to the discussion of fundamental/philosophical foundations of Islamic economics.

these rules need to be internalized, thus ensuring a well-functioning market. In addition, there will be an incentive structure and enforcement mechanism that reduces uncertainty and ambiguity in decision-making choices. Hence, the Islamic economic system has all the necessary features to function effectively.

The authors then elaborate on some central economic concepts such as scarcity, rationality and freedom of choice, individual obligations, rights and self-interest and justice. Scarcity is discussed at three levels: at the global/macro level, the Creator has provided sufficient resources; at the micro-individual level, it is possible to have relative scarcity due to inequitable distribution, greed and gluttony. At the level of individual's decision-making, where due to his finite conditions he is faced with 'real scarcity' that require him to make the 'right/best' choices according to the rules of Islam. Man is free to make these choices and makes rational choices when he chooses to follow the rules, i.e., when he uses his 'aql (intelligence - whereas reason is related to the heart) in conformity with the Shari'ah for his benefit in this world and in the world hereafter. Hence, while rationality, self-interest and freedom of choice are central in classical-neoclassical and Islamic paradigms, they are radically different in their substance. The overall goal of all this is to achieve justice: justice to oneself, to others and to nature. Justice occurs when one consciously acts according to the Shari'ah, both in its procedures and substance.

While the present writer is in agreement with most of the general elaboration on the discussion of Chapter 2, the rather brief discussion of the Shari'ah and the representation of Shari'ah as 'the law' (p. 44) - despite their acknowledgement that etymologically Shari'ah means 'the road or path' is one limitation that requires debate. In many ways this position taken by the authors is the standard limited understanding of the term that has overwhelmed the Muslim ummah, and possibly, the authors themselves. While the Shari'ah certainly does have a law dimension, to 'limit' Shari'ah to the law seems to neglect the importance played by ethical rules, especially in the economic sphere. Law is not sufficient for life and life is certainly not limited to the law. For contemporary scholars to contribute to the development of Islamic economics requires extensive exposure to many disciplines other than the law. To be fair to the authors,

this wider position is implied in the box on p. 46 that presents a very much wider discussion of the Sharī'ah, translated as law.

The authors continue to elaborate their discussion of an Islamic rules based system in Chapter 3. Agents who manifest behavior according to these rules will allow the system to function effectively. In order to accommodate and promote the desired behavior, key rules of the ideal economy must cover property ownership, contracts and contractual obligations, trust, markets and the code of conduct, risk sharing, wealth accumulation and utilization, wealth distribution and redistribution, work and work ethics and finally, competition and cooperation. Discussions on pp 53-72 provide details of all these rules that together form the institutional framework of the ideal economy. The overall objective of this framework is to achieve social justice. The authors have to be commended on their exposition of these important rules and taken together with Chapter 4 the discussion deserves a separate review and would serve as a very useful paper for debate and further elaboration.

In Chapter 4, the authors translate the institutional framework of Chapter 3 into objectives and features of an Islamic Economic System. First and foremost is social and economic justice represented by the Qur'ānic terms of *qisṭ* and 'adl. The former, according to the authors, refers to human-human and human-nature relations, whereas 'adl refers more to 'balance', where everything in the cosmos is in its right place. Hence a just economy is part of a just, healthy and moral society. As far as economic justice is concerned the authors rightly point out three important components i.e. equality of opportunity, justice in exchange and distributive justice. In addition to justice, the other features of an Islamic economic system discussed by the authors are the prohibition of *ribā* and the risk-sharing alternative. As for the former, Islam differentiates between lending and investment. Lending (money) involves only time and hence does not qualify to receive a yield. The latter denotes that an economic activity is undertaken, thus qualifying for a share of the profit (or loss). Hence all types of interest are considered to be within the definition and scope of *ribā*.

The preferred alternative to an interest-based economic system in Islam is a risk-sharing economic system. According to the authors, Islam offers a comprehensive application of risk-sharing that 'goes beyond

anything put forward by modern economic theories' (p. 84). Wealth must circulate via an economic and financial system based on three sets of risk and return sharing: risk-sharing instruments in the financial sector, redistributive risk-sharing instruments (rich share risks of the poor) and inheritance rules that discuss inter and intra generational equity. The second set are unique as they are 'rights-based' i.e., involving redemption of rights and repayment of obligations. The authors specifically discuss the concept of *al-bay'*, which to them indicate 'exchange of property rights claims', which in turn, denotes sharing of risks. In order to promote these risk-sharing arrangements, the rules-based market system in Islam facilitates its functioning. The authors argue that this system is potentially more stable than its conventional counterpart and that this is 'proven' in theory and practice.

While arguing for a market system, the authors also clearly indicate that the state is 'indispensable for the orderly organization of social life, the achievement of legitimate objectives, the creation of material and spiritual prosperity, and the defense and propagation of faith' deriving its legitimacy from enforcements of Sharī'ah rules. Chapter 9 explains in greater detail the policy spectrum that the state is to have in order to achieve the objectives of Sharī'ah.

The only chapter on microeconomics, Chapter 5, argues that Islamic economics has to begin with a redefinition of the basic assumptions made in conventional economics. These assumptions are inherited from the enlightenment movement of the 17<sup>th</sup> and 18<sup>th</sup> centuries and led to the extreme secularization of thought and life. This underlying secular enlightenment philosophy is at odds with the Islamic worldview. The authors accept the possibility of utilizing the tools of analysis used in modern economics but with important modifications that reflect different ideas stemming from the Islamic paradigm. While the terminology of goals and features of the system may be somewhat similar, what it means and how these goals are achieved, will reflect the Islamic worldview. The authors then discuss the various key concepts in microeconomics that cover the usual 'micro' problems. Needs versus wants, consumer behavior, theory of the firm (including the risk and profit sharing feature), dynamics of demand, supply and equilibrium, efficiency versus equity, different market structures and the role of state. As mentioned in the introductory comments in this review, the lack of emphasis on

microeconomics in this book is quite manifest. However, the points covered in this chapter make a very interesting and important basis for greater discussion.

Chapters 6-11 cover standard macroeconomics topics. Authors' attempt to integrate/include Islamic inputs into these chapters is laudable. In fact, while the 'structure' of discussion is modelled after a standard text in macroeconomics, the content of these chapters involve discussions in an Islamic economy. Modern economic terms and models are utilized but always with reference to an Islamic economy. For example, when modelling the economy, it is an interest-free economy that is modelled, stemming from the Islamic paradigm that prohibits *ribā*/interest. While this is well appreciated, it would probably have been more effective to put the mathematical formulation of equilibrium in an Appendix rather than as part of the text.

Chapter 8 covers in detail the financial system in Islam, again incorporating the risk-sharing features mentioned earlier. Topics covered here include banking, capital markets as well as the derivative and *takāful* markets. Chapter 9 discusses in greater detail the role of state, its functions and the comprehensive economic goals to be achieved. Chapters 10 and 11, focus on fiscal and monetary policy respectively. Again, the relatively well-integrated Islamic inputs into the 'standard' macroeconomics topics come out as a strength of this book. For example, in the discussion of fiscal policy, the authors develop a unique public finance approach that utilizes *ṣukūk* as well as another index-based security called 'national participation paper' (NPP). In the Chapter on monetary policy, the risk-sharing theme is prominent. Utilizing a 100% reserve requirement system, the authors argue against government borrowing. Public-private partnerships are presented as the preferred option. This alternative would involve the stock market, *ṣukūk* markets, and other equity participation or asset-linked securities. Again one sees the rather extensive emphasis given to monetary policy in this book, something that would serve as a basic document for extensive debate and discussion.

Chapter 12 discusses economic development and growth, again as a macroeconomics topic. Consistent with the foundations discussed in early chapters, development is tied to not only growth of output but its

distribution as well. Authors repeatedly emphasize risk and profit sharing in the system, as well as the importance of the role of state. Chapters 13 on 'welfare' and Chapter 14 on the state of OIC Countries (the MENA region in particular), mainly discusses indicators and performance of OIC countries over the last 2 decades. The central theme of these two chapters is that while having made some progress, OIC countries, especially those blessed with natural resources, have not progressed as much as they could have. Implicit in their argument is that Muslim countries have not performed as well as Islam would require them to do. Hence, their final argument states that reforms in-line with the Islamic paradigm would assist OIC countries making positive change.

All in all, *Introduction to Islamic Economics - Theory and Applications* is a welcome addition to the still scarce number of reference books available on Islamic economics. It is written in a very clear and lucid style, reflecting the experience of the authors. It will certainly be an indispensable supplement to all Islamic economics programs or in institutions that have concentration courses in Islamic economics. The microeconomics deficit in this book is a shortcoming, as is the absence of an introductory and concluding chapter. Credit must also be given to the inclusion of sections on learning objectives, key terms, end-of chapter questions, and discussion boxes in all chapters. There is also a useful glossary of Arabic terms and an excellent bibliography. Overall, the book certainly *is* an important reference material for teachers and students alike. However, more work on the few gaps mentioned in this review is needed for the book to become a standard textbook in future, something I am sure the authors are well capable of doing and may already be working on. We look forward to the next edition of this text.

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