

Islamic Economics: Where From, Where To? **Muhammad Nejatullah Siddiqi**

Comment by: Tariqullah Khan

The author intends to look at the forty plus years of Islamic economics in retrospect with a view to identifying gaps that need to be addressed. One of the key gaps identified by the author in the original agenda is a wide distance of the theory from the ground realities. However, in my view despite his sincere attempt at self-criticism the author maintains his original position in ‘focusing on the desired and ignoring the actual’.

I am familiar with his economic ideas since a long time. It was 1972, in my BA degree I was studying economics, political science and Islamic history. I was trying to make some connection between the three subjects and keeping this in mind I used to visit the Urdu Bazar – the market for books in Karachi. I had found there two rather small books – “*Economic Problem of Man and Its Islamic Solution*” and “*The Economic Enterprise in Islam*”. I treat the first title as an appropriate vision statement and the second as a mission statement for reforming economies from an Islamic perspective.

“*Economic Problem of Man and Its Islamic Solution*” was originally an address given by Syed Mawdudi to Aligarh Muslim University on September 20, 1941. While writing these lines I revisited the booklet and my impression is that if the word “Islam” was not appearing in the booklet, it could have been one of the precursors and could have found a lot of references in the growing literature on behavioral economics on the one hand and institutional economics on the other. The “*Economic Enterprise in Islam*” is the first formal book to my knowledge on Islamic economics that was published by Siddiqi in 1971 and in my view its appropriate title should have been “Islamic Economics”.

After reading “Islamic Economics: Where From, Where To?” I felt that Siddiqi puts the common theme and premise of these pioneering

works in retrospect. Siddiqi recalls that the task of Islamic economics was envisioned (in these books) to be the transformation of behaviors of the actual economic agents in order to fulfill the characteristics of those economic agents that are desired in the primary sources of the Sharī‘ah.

In this context, he highlights a number of points by way of filling gaps in the original “mission statement”. Given his own points I think if Siddiqi had to revise the “*Economic Enterprise in Islam*” he will cater to the following shortlisted methodological gaps.

1. In the original book, the individual was assumed to behave altruistically instead of being selfish as assumed to be in conventional economics. Siddiqi now thinks that the assumption about altruism was not realistic considering the ground realities.
2. Translation of the *fiqh* principles to rule books and handbooks to address the sociological, economic and technological realities was not addressed adequately.
3. There was some sort of cherry picking of favorable examples from history ignoring the political and governance challenges faced historically and failing to draw lessons from such challenges.
4. Discussing economic issues in a vacuum; ignoring policy perspectives of sociological and demographic composition of the population.
5. Being influenced by cultural biases and losing the pluralistic strength of objective approaches and failing to attract a universal appeal.
6. Putting too much hope in the institution of the market and ignoring the institution of the family.

I agree with the gaps that Siddiqi has broadly identified in the original approach and if we critically review the recent literature we will find a trend in addressing these gaps. I don’t intend to write a critique of Siddiqi’s views. My observations are meant to be reflections that I believe we are in the process of understanding.

Islamic financial architecture

Apart from the “*Economic Enterprise in Islam*” Siddiqi’s main contribution during the Sixties and early Seventies was in the area of financial intermediation as an extension of earlier works on two-tier *muḍārabah* model of Islamic banking by other writers specially the 1954 book by Muhammad Uzair. During the late Eighties working at the Islamic Research and Training Institute, Islamic Development Bank as a young researcher I had already tremendously benefited from Siddiqi’s works and advices. When I discussed with Siddiqi in the early Nineties about a possible PhD topic, he motivated me to take up the discrepancy between theory and practice of Islamic banking – theory being entirely based on *muḍārabah* and practice concentrated on *murābahah*. Obviously he has always felt very uneasy about the reliance on *murābahah* by the Islamic banks. In my Ph.D., I discovered for my own understanding a number of interesting issues some of which are relevant to the subject under discussion.

The most critical starting point for any system including Islamic finance is its architectural foundations – the very basis on which the system is erected. Understanding the difference between *ribā* and trade/sale is architectural for Islamic finance. The work of Siddiqi is based on the interpretations of the Holy Qur’ān by Syed Mawdudi. Syed Mawdudi differentiated between trade/sale and *ribā* in that – trade/sale is based on *risk-sharing* (*muḍārabah* feature) and *ribā* is based on *risk shifting* (commercial lending feature). In practice, no one disagrees with this risk sharing versus risk shifting features of trade/sale and *ribā*. What is apparent, however, is that in the work of Syed Mawdudi the notion of trade/sale was incomplete at best. He did not even mention the financing (acquiring assets by creating deferred obligations) potential of trading in the comparison with *ribā* that indeed is only a financing mechanism.

Siddiqi has written a number of critiques of the *murābahah* based practices of Islamic banking. In retrospect, he never addressed the financing potential of trade/sale in comparison to *ribā* as a financing mechanism. Such a comparison is necessitated by the needs of the society. If the bank has to finance asset acquisition for a client like buying a car for self-use *muḍārabah* (profit sharing) becomes irrelevant. Indeed this is the nature of the core business of a bank.

Failing to address the basic architectural issue in the larger interest of the society, the gap becomes even wider because Siddiqi doesn't appreciate how important is debt financing for value creation in an economy and especially for inclusive growth and economic development through making financial services accessible for asset acquisition.

Not recognizing *murābahah* as genuinely Islamic and not providing a substitute to the society to meet its genuine needs, as in car financing, we are creating grave structural risks for the Islamic financial system. Structural risk is a risk in the architectural foundations due to disagreement between the architectures on the design. There are other examples of grave structural risks – *tawarruq* is acceptable and *not* acceptable; repurchase of *ijārah šukūk* at initial price is acceptable and *not* acceptable, etc. I think this is the most serious disservice done to Islamic finance from within.

Islamic finance infrastructure

Once the architectural foundations are completed we need a suitable infrastructure. Financial infrastructure comprises of suitable human resources; Shari'ah governance, legal and regulatory, financial reporting, rating and transparency, and payments and systemic liquidity infrastructures. For example, recently the World Bank established its Global Islamic Finance Development Center in Istanbul Stock Exchange, in addition to the several institutions that were already established by the Islamic Development Bank and other stakeholders. The dilemma of the institutions is that they cannot function efficiently until a financial architecture is in place in the form of agreements and consensus on the core principles of Islamic finance. For example, if important opinion leaders like Siddiqi have to argue that there is no room for government debt finance, how a sound legal and regulatory infrastructure can be laid down for creditors' rights under Islamic finance!

Inclusion

Another gap that Siddiqi's mission faces is in the important area of governance and inclusiveness of institutions. We cannot forget that President Ziaul Haque and President Numeiri were the lead supporters of the Islamic economics and finance agenda in the early days. Siddiqi acknowledges this larger issue of the wrong choice of political alliance and failure of institutions and governance. Why Pakistan failed in

implementing Islamic finance, and Malaysia and Bahrain succeeded to the extent of becoming the lead examples? This has something to do with leadership and aspirations for pluralism. I am certain that if there were a more democratic and pluralistic support for Islamic finance in Pakistan it would have also succeeded as it would not have been considered the legacy of an unrepresentative government. The line of thought process that Siddiqi represents lacks sensitivity to these facts; a far more important gap between aspirations and realities alluded to by him but never recognized ideologically.

The International Association for Islamic Economics is addressing the gaps that Siddiqi has identified, and these gaps will further be integrated into the future call for papers for the Conferences that it organizes. However, thought leaders like Siddiqi are invited to revisit their positions with respect to the basic architectural issues raised above. I request visionaries like him to enlighten us about the difference of trade/sale and *ribā* in terms of the financing (acquiring assets by creating deferred obligations) potential of the two which is indeed the basis of the current Islamic finance architecture, all the businesses and the required infrastructure and policy support. Despite my familiarity with his voluminous and valuable work, I have not seen from him any such attempt.

Tariqullah Khan holds Master's degree in Economics from Karachi University, Pakistan and a Ph.D. from Loughborough University, UK. Currently, he is Professor at Faculty of Islamic Studies, Hamad bin Khalifa University, Qatar Foundation Doha and President, International Association for Islamic Economics and member of the editorial board of Islamic Economic Studies. Previously, he worked as the Division Chief of Islamic Banking and Finance at the Islamic Research and Training Institute (IRTI), Islamic Development Bank (IDB) Jeddah. At IRTI - IDB, he also was the Technical Anchor of the Ten-Year Framework and Strategies for the Development of Islamic Financial Services Industry - a joint IDB and Islamic Financial Services Board (IFSB) initiative - and Co-Leader of the IDB Islamic Financial Services Development program and a member of the IFSB Working Group on Risk Management. He has contributed several research papers in the areas of risk management, regulation, supervision, financial stability, and Islamic financial sector development.

E-Mail: tkhan@qfis.edu.qa