

Method and Substance of Islamic Economics: Moving Where?

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Abstract. Islamic economics started as a challenge and a fundamental critique of conventional economics, and the ambition of most Islamic economists of the first generation was the replacement of mainstream economics by a new paradigm based on or at least consistent with comprehensive Islamic worldview. It is questionable whether this goal has been achieved. A growing volume of literature with an 'Islamic economics' label follows the same quantitative approach and differs from mainstream only in so far as it deals with phenomena in Muslim countries, especially with aspects of Sharī'ah-compliant banking and finance. Such studies of economic issues from an Islamic perspective are deeply rooted in conventional economics and lack the systemic or holistic dimension which is indispensable for the establishment of a new paradigm for a science of Islamic economics. Islamic economics as an autonomous discipline requires a systemic orientation, and it is conceptually inextricably linked with Islamic theology and law. However, the necessary intellectual interaction between economists and Sharī'ah scholars is deficient. While Islamic economists had come forward with models of a financial system based on participatory modes of finance and widespread risk-sharing, many scholars of Islamic law were more concerned with the replication of conventional instruments for risk-free fixed-return transactions or with Sharī'ah-compliant derivatives. Their efforts have moved Islamic finance closer to the conventional *status quo* and further away from an alternative system of financial intermediation. This did not contribute to the development of a new paradigm of Islamic economics, but this process is reversible.

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1. Introduction

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 many prefer – ‘economics from an Islamic perspective’⁽¹⁾ (both hereafter 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 from Keynes (1917) about the German Historical School comes close to the basic tenor of IE: “[German Historical School]⁽²⁾ calls itself ethical; it regards political economy as having a high ethical task, and is 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”⁽³⁾.

If the above quotation is fairly close to 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

(1) There is a debate whether Islamic economists have been successful in establishing a new economic paradigm (with fundamentally different explanations of real world phenomena) that could replace ‘conventional economics’ as an academic discipline. If so, it would be most appropriate to label this new way of analysis ‘Islamic economics’. However, if this goal has not yet been achieved, it may be better to speak of ‘economics from an Islamic perspective’, indicating that basic paradigms of economics are still used but with an explicit consideration of peculiarities and dimension of the Islamic worldview which require modifications and adjustments of ‘conventional’ models; see, for example, **Hasan** (1998), 111-113, and 2006, v-vii.

(2) Modified by Editor.

(3) **Keynes** (1917): 23.

century ago: the original quotation refers to the 19th century German Historical School⁽⁴⁾.

- This school of thought was forcefully and successfully attacked by Max Weber for its co-mingling 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.

- These methodological debates in conventional economics were not assimilated in IE. This has tied resources in unnecessary repetitions of old controversies. However, it seems that over the last three to four decades the interest of mainstream economists in methodology and in debates thereon has decreased considerably or even vanished. This may change somewhat in the future because the failure of mainstream economics to foresee the recent global crisis gave fresh impetus to reconsider basic paradigms and methods of conventional economics.

- The Western concept of 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 many structural similarities with IE – including its neglect by Western mainstream.

(4) Compare the quote 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 judgments may be needed within the Islamic value framework.” (p. 20).

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.

2. Knowledge, Reason and Faith

There is a variety of definitions of economics. Probably the most frequently quoted one was given by Lionel Robbins in 1932: “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses”⁽⁵⁾. As a science of purposeful behavior (or choice), economics 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 (explanations). 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 in the realm of economics is *understanding*: it would be irrational to believe that a real-world proposition is true, but not to understand its meaning. But this statement cannot be reversed: it is possible to understand a proposition, but not to believe in its truth when it is not sufficiently *justified*. In mainstream economics, constative beliefs are typically justified by appeal to ‘the facts’, to empirical evidence, and disconfirming evidence may lead to the rejection of a statement that is well-understood but not believed.

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 justifi-*

(4) Here quoted from the 2nd edition: **Robbins** (1945): 16. New insight gained in psychology and behavioral economics may require a qualification and extension of the traditional view of economics as a formal science of choice; see the **Caplin** and **Schotter** (2008).

cation. 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*. However, for principle reasons we have to acknowledge that it is *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 one's 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 largely 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⁽⁶⁾. 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⁽⁷⁾.

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 criterion to find out their truth value, *i.e.*, they cannot be true or false.

(6) See **Popper** (1959), (1966).

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

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.

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’⁽⁸⁾. 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⁽⁹⁾. 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

(8) 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): 137.

(9) “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): 140.

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 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 their own mind and emotions). The recognition of God through His works may confirm the faith of the believers and strengthen their conviction 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* (real-world) 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 may be even far-reaching *revisions* of doctrinal systems (e.g., of the church)⁽¹⁰⁾ 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 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 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

(10) 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.

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 since it covers the meaning of all things (and their relations to each other), it will extend to *all* dimensions 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, *inter alia*, proposition for the economic life. An academic discipline emerged that can be called ‘Christian economics’⁽¹¹⁾.

In 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 substances 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 labor 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 and its subsystems must *not* look like.

3. Evolution of Methodology in Economics

When economics emerged as an independent science in the 18th century, classical rationalism and empiricism were the dominant epistemologies.

(11) See, for example, **Himes and Cahill** (2005), **Harper and Gregg** (2008).

3.1 Classical Rationalism and Empiricism in the 18th and 19th Century

It was a widely held belief that the truth of propositions or theories could be proved beyond any possible doubt 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 looking for supporting evidence, for a ‘*verification*’ of their ideas. Cases of disconfirmation were not considered as falsifications of the theories but 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 Stuart Mill and Nassau W. Senior⁽¹²⁾.

- *Positive economics* (= science of political economy) was understood as a ‘collection of truths’ which “takes cognizance of a phenomenon, and endeavors to discover its law”⁽¹³⁾.

- *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”⁽¹⁴⁾.

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 do not have to incorporate moral judgments.

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

(13) **J.S. Mill**, quoted by **Hutchison** (1964): 24; see also **Senior** (1852).

(14) **J.S. Mill**, quoted by **Hutchison** (1964): 27.

3.2 Value-free Social Sciences in the 20th Century

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* ⁽¹⁵⁾. A social scientist who strives for true knowledge about the factual world could and should, for methodological reasons, not disseminate value judgments as a social scientist.

This implied that the political economy of the 19th century loses its normative branch: the two postulates of freedom from value judgments 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 an 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” ⁽¹⁶⁾.

- Despite his postulate of freedom from value judgments 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

(15) See **Weber** (1949), 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.

(16) **Popper** (1966): 224-225.

consequences which the realization of a certain practical [= normative, V.N.] evaluation must have ... Far from being meaningless, value-discussions of this type can be of the greatest utility as long as their potentialities are correctly understood”⁽¹⁷⁾.

- 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”⁽¹⁸⁾.

- 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 judgment? ... So long as a value judgment is non-basic 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 distil a pure value judgment [which is held under all conceivable circumstances, V.N.] ... that we have exhausted the possibilities of rational analysis”⁽¹⁹⁾.

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 especially 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

(17) See **Weber** (1949): 20-21.

(18) **Popper** (1966): 232.

(19) **Blaug** (1980):133. The distinction between basic and non-basic value judgments was proposed by **Sen** (1970).

profession) 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 judgments in a positive science became the prevailing position in mainstream economics during the first half of the 20th century.

3.3 From Critical Rationalism to “Anything Goes”

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.⁽²⁰⁾ 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.

Although mainstream rhetoric adopted Popper’s method, research programs rarely (if ever) followed its prescriptions. When disconfirming evidence was found, theories were not given up but

(20) See Hutchison (1938): 1964.

“improved”⁽²¹⁾. Since it 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 does not falsify the hypothesis that epistemology and methodology are no longer on the agenda of mainstream economics⁽²²⁾.

- Another indication for this lack of interest is provided by the curricula of economics degree programs in universities which have been revised recently. Special courses exclusively on methodology

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

(22) This, however, does not mean that these topics have disappeared completely in 21st century Western economics. As examples of recent contributions see, **Mäki** (2009), **Backhouse** (2010), **Boumans and Davis** (2010), **Free** (2010) (part I). It is also noteworthy that Routledge has published in total 15 books in its series “INEM Advances in Economic Methodology” (sponsored by the International Network for Economic Methodology [INEM]) since 2003, but with a substantially increasing output in the last few years (9 books since 2009). Of particular interest are **Putnam and Walsh** (2012) and **Mosini** (2012).

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 at most 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 behavioral 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 modeling, or the conduct of interviews.

In the years following the outbreak of the financial crisis, another longstanding methodological postulate was effectively abandoned, namely that of freedom of value judgments. Economists were continuously asked for their opinion on what went wrong, why they did not foresee it, and what they suggest as a solution – and nearly all spontaneously answered 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 judgments 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”⁽²³⁾. 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.

It is not the *method* but the *object* of knowledge that 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⁽²⁴⁾. From an *epistemological* point

(23) See **Feyerabend** (1975).

(24) 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

of view, a scientist may choose whatever objects he or she wants to explore with whatever method. 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.

4. 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 of *any* methodology – from empirical testing over mathematical modeling and behavioral experiments to deductive apriorisms based on ‘self-evident’ axioms – as long as it is “reasonable” and promises to contribute to knowledge.

4.1 Islamic Economics as a Widely Disregarded Field

Islamic economics is widely ignored in mainstream economics. The largest (probably) 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 for keywords. The keyword “Islam” yields a total of three records!⁽²⁵⁾ But that does not mean that Islamic economics is totally ignored. AEA’s electronic bibliography, EconLit, indexes a number of specialized journals⁽²⁶⁾ as well as books on Islamic economics and finance, and the keyword ‘Islam’ yields approx. 1,400 results.

determines for everybody in the same way what is “reasonable” and what is 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.

(25) Accessed October 6, 2012.

(26) In particular: Journal of King Abdulaziz University: Islamic Economics, Islamic Economic Studies, Journal of Islamic Economics, Banking and Finance, Journal of Islamic Economics and Finance, Journal of Economic Cooperation between Islamic Countries, Journal of Research in Islamic Economics, Review of Islamic Economics.

The reasons for the marginal consideration of Islamic issues in prominent mainstream journals can be many, 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 analyzed 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 *zakāh*, *waqf* and *ribā*-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 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 fields 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 is rather irrelevant for non-Muslims.

However, it seems the neglect of IE in Western economics has been reduced over the last few years. Although IE was (and still is) not of interest for the AEA journals, EconLit shows that non-AEA mainstream journals have started to publish papers on ‘Islamic’ topics, and publishers in particular in the UK and US have started to regularly produce books and specialized journals in this field. 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.

4.2 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 – Qurān and Sunnah.

Neither the Qurān nor the Sunnah 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 the society, but exact cause-effect relations are usually not expounded. For example, one of the most debated economic instructions in the Qurān is the prohibition of *ribā*. The Qurān spells out the consequences for someone who deals in *ribā* (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 *ribā* 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)⁽²⁷⁾. 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 only few directly applicable instructions (for example precise rules for heritage) but mostly general principles and normative orientations to guide people in this world⁽²⁸⁾. But the interpretation and application of normative Qurānic 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 is 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.

- Mainstream 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.

(27) The most prominent Sharī‘ah authority which declared that interest on Government Investment Certificates and on similar financial instruments such as Postal Saving Accounts would not fall under the prohibition of *ribā* was the Mufti of Egypt, **Muhammad Sayed Tantawi**, in 1989. He questioned, *inter alia*, the exploitive character of interest payments in these cases. For a summary of the discussion on the legality of interest in Egypt, see **Khalil** and **Thomas** 2006; see also **El-Gamal** (2006) and **Ahmad** and **Hassan** (2007).

(28) 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.

- 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,⁽²⁹⁾ 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.

4.3 “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 Sharī‘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 Sharī‘ah-compliant deposit insurance scheme, but do not ask whether such a scheme supports or violates basic tenets

(29) 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.

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 analyze 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-mu‘āmalāt*) [see section 5 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’ study 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 (sometimes 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 of 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., in the field of social security, *takāful*, *zakāh* 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 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.

4.4 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 it must also deal with the transition from X to Z.

While there 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,⁽³⁰⁾ 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 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

(30) For example, there is a consensus that *ribā* is prohibited, but there are divergent ideas on how a *ribā*-free Islamic finance system has to be designed ‘properly’. There is a consensus on the implementation of *zakāh*, but there are very different views on the ‘right’ basis for this levy in a modern economy and on the ‘correct’ determination of the legitimate beneficiaries.

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 persistence) after the collapse of communism since 1990s. Insights have been gained, for example, on interdependencies of religious values and 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, for many German neoliberals the systemic evolution of the model of the German Social Market Economy was actually a process of continuous erosion by political interventions. Another 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’ 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, 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 designed 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 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.

5. The Unsettled Relation between Islamic Economists and Shari'ah 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.

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 substantially increased the number of managers of Islamic financial institutions with a conventional background and mindset. This group 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 certify 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.

5.1 Law without Economics: Form over Substance

For centuries, theologians and jurists were the undisputed authorities for guidance in all human affairs, including economic matters. But since the emancipation of economics as an independent science in the 18th century, economics and jurisprudence developed different methods and perspectives. After the industrial revolution the world has become much more complex than ever before. Traditional legal doctrines on *maqāṣid al-Sharī‘ah* and *maṣlaḥah*⁽³¹⁾ which gave guidance not only to individuals but in particular to the rulers of Islamic states for centuries now look rather abstract; leave much room for interpretation and require political decisions in countries with secular jurisdictions and governments.

For economists, *fatāwá* for the justifications of concrete products or techniques of modern-day banking and finance based on traditional concepts of *maṣlaḥah* often look arbitrary because various contrasting recommendations can be justified with reference to the same general principles (such as justice, fairness, protection of wealth, etc.). This became an even greater and more acute problem recently when the public perception of the financial world in general and of many financial products and instruments in particular changed substantially in the aftermath of the financial crisis.⁽³²⁾ The old legal elaborations on *maṣlaḥah* and *maqāṣid al-Sharī‘ah* do no longer carry practical significance for today’s commercial and economic problems. They require substantial (re)interpretations before they can be applied in commerce and politics. For necessary interpretation, legal scholars must use the expertise of those disciplines that can explain social

(31) See, for example, Attia (2007): 211-225; Auda (2010): 236-258.

(32) 2012 differs from 2007 insofar as it had become apparent

- 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,
- 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 behavior 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.

consequences of individual behavior. The interpretation of what may be considered as public interest or *maṣlaḥah* today requires inevitably a systemic approach. If it is not for philosophical reflection but for political or commercial action (and legal opinions of Sharī‘ah boards are explicitly directed towards action), then the definition of *maṣlaḥah* must be related to 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 behavior 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 must come from 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 concept of *maṣlaḥah* for the world after the financial crisis of 2007-8.

Islamic economists have given (explicit or implicit) interpretations of *maṣlaḥah* in many books and essays on an Islamic economic system since the 1970s (and even before), but the substance of these writings seemingly did not have an impact on Sharī‘ah scholars who approve or assist the engineering of advanced Sharī‘ah-compliant financial products. This may not come as a surprise if one considers that only 20% of today’s Sharī‘ah scholars had a formal education in economics⁽³³⁾.

Under these circumstances it is very difficult, if not impossible, to come to a wide consensus on a general positive definition of *maṣlaḥah* and to an agreement on how it can be actively promoted. Fortunately, however, such a generally accepted positive definition is not a prerequisite for individual or political guidance in many cases. 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, for example, the use of financial instruments and techniques with particular characteristics would contribute to the spread or reinforcement of a systemic crisis with huge negative externalities for taxpayers, workers and many other ‘ordinary citizens’ (‘harm to others’); it should not be too difficult to prove that these

(33) See Ünal (2011).

instruments and techniques do not necessarily promote the public good and that their use should at least be monitored if not regulated.

Sharī'ah scholars certify the Sharī'ah-compliance of tool boxes that can be used for leveraged (and speculative) trading of financial assets within the financial sector with no apparent or at best very weak links to the real economy⁽³⁴⁾. 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⁽³⁵⁾.

5.2 Sharī'ah-Compliant Structured Finance after the Financial Crisis

Against this background, Sharī'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. Violation of a principle may be justified (forgiven) if this is in the public interest, i.e., if it promotes *maṣlahah*. A popular argument was that it is in the interest of the Muslim community to have a financial system which is as efficient as the conventional system. Otherwise the Muslims would be in a disadvantaged position. Now that serious inefficiencies of the conventional system and their huge costs in real economic terms have become apparent, 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 *maṣlahah*. Further, it would only be consequent 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 may be formulated.

(34) The (binding) unilateral promise (*wa'd* - وعد) has become a kind of 'magic bullet' in Islamic financial engineering; for a critical assessment, see **Al-Masri** (2002). The *wa'd* is not subject to the restrictions of exchange contracts and it facilitates the structuring of Sharī'ah-compliant replication not only of futures and options but also complex (synthetic) derivatives; see, for example, **Kunhibava** (2010), **Jobst** and **Solé** (2012), **Eisenberg** (2012).

(35) For more details see **Nienhaus** (2010, 2011).

6. Islamic Financial Intermediation: Banks Versus Funds

Suspension of a principle is particularly precarious when an alternative is conceivable, i.e., if the same desirable social service can be achieved without violating important Sharī‘ah principles. However, a systemic alternative to the replication of conventional products and techniques was never seriously considered by most Sharī‘ah scholars who serve on the Sharī‘ah boards of Islamic financial institutions (and supervisory and regulatory authorities).

Islamic economists have indicated systemic alternatives already in the mid-1970s (i.e., when modern Islamic banking had just started)⁽³⁶⁾. It is timely to start (or re-start) a debate on a more fundamental financial system reform. In the aftermath of the global crisis, the interest in ‘unorthodox’ models of financial intermediation has grown in academia and media as well as in politics and the business community. The economic core of the early profit and loss sharing models of Islamic economics (financing only for the real economy and sharing risks between financiers and entrepreneurs) indicates the direction for a systemic reform of the Islamic finance industry: a shift from the banking model of financial intermediation to a more capital market and funds based model. The development of a viable alternative to the banking model would raise the bar for Sharī‘ah scholars to approve replicates of 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 *muḍārabah* contracts) and that the value of their funds is exposed to an investment risk.

- Once the ‘deposit illusion’ is gone, investment account holders will become more risk sensitive and concerned about the use of their funds.
- For the modest returns they have received in the past (in line with

(36) The economists at that time could hardly quote any contemporary Sharī‘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 **Kahf** (1978). For a complete English translation of Baqr Al-Sadr’s major book on economics (*Iqtisādūnā*) in one volume see **Al-Sadr** (2010).

interest paid for secure conventional deposits), they will hardly accept high risks. Leverage had boosted the returns for shareholders, but not for the investment account holders. This went widely unnoticed so far due to the deposit illusion of investment account holders and the opaqueness of Islamic banking.

- Most probably ‘enlightened’ investment account holders will ask for the disclosure of the risk profile of their investments.

- An Islamic universal bank that co-mingles its own funds plus funds raised on the Islamic capital market plus investment account holders’ funds in one large pool will have difficulties 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 recently in the final report of the High-level Expert Group on reforming the structure of the EU banking sector⁽³⁷⁾. 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 would be a system where savers place their money in mutual funds with different and *ex ante* disclosed investment strategies and risk profiles. A large variety of investment funds with different profiles will emerge: from very secure investments in sovereign *ṣukūk* with relatively low returns over diversified portfolios of corporate and project financing and a mixture of debt and equity instruments 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 Sharī‘ah requirements are observed).

(37) See High-Level Expert Group 2012.

- 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)⁽³⁸⁾.

- In contrast to opaque Islamic banking practices, the saver should know in advance whether his money is invested in bubble prone markets, speculative commodity transactions, the short selling of stocks, sovereign *ṣukūk*, 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 *muḍārabah*-based savings and investments, and it would bring finance closer to the much cherished basic principles of Islamic finance in substance. This concept of *narrow banking* cannot be elaborated any further in this paper⁽³⁹⁾. Here it is sufficient to indicate that serious alternatives to the conventional finance are conceivable. Therefore, the Sharī‘ah approval of functional equivalents of complex instruments of conventional universal banking with a mere reference to inherent necessities or *maṣlahah* is no longer a convincing practice. As a result, IE would severely restrict the discretion of Sharī‘ah scholars for the approval of functional equivalents of conventional financial instruments.

(38) However, Sharī‘ah-compliant capital protection strategies could be designed for participants in medium to long-term investment schemes.

(39) 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-Diwanly** (1997)).

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منهج وموضوع الاقتصاد الإسلامي إلى أين المسير؟

فولكر نينهاوس*

المستخلص. بدأ الاقتصاد الإسلامي على يد رواد الجيل الأول كتحديد ونقد بديل للاقتصاد التقليدي. تبلور هذا الطرح في الدعوة إلى علم اقتصاد جديد قائم بشكل وثيق بالرؤية الإسلامية. بعد مضي هذه المدة غير اليسيرة على تلك الدعوة يطرح التساؤل الملح نفسه: هل تحقق ذلك الهدف؟ إن عدداً لا يستهان به من الأدبيات التي تحمل نعت "الاقتصاد الإسلامي" تطور ونما باستخدام ذات المسلك الكمي المتبع في الاقتصاد التقليدي، فلم يختلف معه إلا في ارتباط تلك الدراسات بالدول الإسلامية، وخاصة ما تعلق بمظاهر الصيرفة والتمويل "المتوافق مع الشريعة". أظهرت هذه الدراسات أنها مرتبطة بشكل جذري بالاقتصاد التقليدي، مفقودة؛ بل ومبتعدة عن المنهج المتناسق الذي يمثل أحد الدعائم الأساسية لقيام علم مستقل اسمه "الاقتصاد الإسلامي". إن قيام علم اقتصاد إسلامي مستقل يتطلب اتباع منهج قائم على النظرة الشمولية المتناسقة التي تربط هذا الحقل المعرفي بالدين الإسلامي وشريعته؛ غير أن التفاعل المفترض بين الاقتصاديين المسلمين، وعلماء الشريعة أظهر عجزه في تحقيق هذا المبتغى؛ فالاقتصاديون المسلمون نظروا لنظام مالي قائم على صيغ المشاركة في المغامر والمغرم، في مقابل ذلك اشتغل علماء الشريعة باستنساخ أدوات مالية "إسلامية" شبيهة بأدوات التمويل التقليدي القائمة على العائد "ذي الهامش الثابت" أو "المشتقات المتوافقة مع الشريعة"، إن هذه المنهجية الأخيرة - التي سلكها أعضاء هيئات الرقابة الشرعية]- جعلت التمويل الإسلامي أقرب إلى مبادئ وأسس التمويل التقليدي منه إلى مبادئ وأسس الاقتصاد الإسلامي. إن هذه العملية لم تسهم في بروز علم اقتصاد إسلامي واضح القسمات كما دعا له الأوائل بل ساهم في تراجع تلك الدعوة وعودتها "القهقري".

(*) أستاذ شرف بجامعة بوهم بألمانيا، وأستاذ زائر بمركز (ICMA)، مدرسة هنلي للأعمال بجامعة ريدينج ببريطانيا، وأستاذ مرتبط بمركز انسيف (INCIEF)، بكوالالمبور بماليزيا.