

Islamic Economics at Crossroads: A Call for Discussion

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Introduction

The act of revising and evaluating intellectual works is not only a good practice, but a sound requirement necessitated by the norm of seeking change for the better. A nation that does not revise whatever it achieves in the fields of theory or practice, will always remain in the grip of history, tradition and imitation; lagging far behind other nations.

The contemporary call for revisiting economic thought has remained on the table for more than a decade⁽¹⁾; yet it had never become as attractive as it has been after the global financial crisis of 2008. The French economist Andre Orléan in his book titled “The Empire of the Value: Rebuild Economics”⁽²⁾ pointed out that economic science is facing a severe knowledge crisis. According to him, instead of being a means of guiding societies to more rationality and contemplation, economics has become a source of confusion and temptation to error. Andre Orléan believes that the theoretical failure of economic science is not confined to the failure of the neoclassical model, but it is also manifested in terms of misconception and misunderstanding of economic behavior and economic relations. He goes on to argue that the responsibility of economists is to present different options aligned to benefits and costs – a

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(1) **Daniel Klein** (1999) *What Do Economists Do?*, New York: New York University Press.

(2) **Andre Orléan** (2011) *L’empire de la valeur: refonder l’économie*, Paris: Seuil, p. 9.

fact which entails availability of enough diversity in economic science so that choice is not always tied to only one option.

In complete conformity with these meanings several calls for revising economic science also came from prominent institutions like the London School of Economics in Britain⁽³⁾ and the University of Basel in Switzerland⁽⁴⁾; in addition to a number of American⁽⁵⁾, French⁽⁶⁾, Spanish⁽⁷⁾ and other economists.

Calls for revision and evaluation of economics are not restricted to the realm of conventional economics. They have also encompassed Islamic economics; at the methodological, theoretical and practical levels. For instance, on 25 April 1986, The Royal Academy for Research on Islamic Civilization, Al-Albeit Foundation, Jordan organized, in cooperation with the Islamic Research and Training Institute (IRTI), Jeddah, a seminar on “Problems Facing Research on Islamic Economics”. On 1st July 2011, the International Institute of Islamic Thought also organized a seminar on “Methodology of Islamic Economics”. In addition to these two seminars, on 26-27 May 2004, IRTI organized, a seminar on “Current State of Knowledge in Islamic Economics and Development of the Discipline”⁽⁸⁾. Further efforts include the Seventh International Conference on Islamic Economics organized by the Islamic Economics Research Center of King Abdulaziz University (now Islamic Economics Institute), Jeddah, during 1-3 April 2008 under the title of “*Thirty Years of Research on Islamic Economics*”. A number of eminent researchers from the pioneer generation participated in the conference.

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- (3) **London School of Economics** (2006) The Future of Finance: The LSE Report, <http://www.futureoffinance.org.uk/>
- (4) **The Center of Religion** (2011) Economics and Politics (ZRWP), Basel Manifesto on the Economic Enlightenment, the University of Basel, 4 November 2011, www.zrwp.ch/fileadmin/user.../basel_manifesto.pdf.
- (5) **Joseph Stiglitz** (2010) Needed: a new economic paradigm, Thursday, August 19, Available at: <http://economistsview.typepad.com/economistsview/2010/08/stiglitz-needed-a-new-economic-paradigm.html>.
- (6) “Manifesto of the appalled economists”, Real World Economics Review, issue No. 54, 27 November 2010, pp: 19-31, <http://www.paecon.net/PAEReview/issue54/Manifesto54.pdf>.
- (7) “Economists Confronting the Crisis”, www.Paecon.Net/Paereview/.../manifesto54.pdf.
- (8) “Islamic Economics: Current State of Knowledge and Development of the Discipline”, Jeddah: IRTI, May 26-27, 2004.

At this conference, Najatullah Siddiqi indicated that the journey of Research in Islamic economics is not progressing well and that the zeal which was prevalent in the evolutionary decades of Research in Islamic economics has now vanished. Siddiqi also pointed out that the number of registered graduate students of Islamic economics has declined due to the fact that an increasing number of these students tend to pursue suitable qualifications in Islamic finance. Siddiqi then posed the question about the fate of the great idea of presenting a substitute of the capitalist and socialist systems, and asked: "has it yielded to a desire to join the flock at its own terms? I suspect it is so, and that this is rooted, among other things, in the change of times"⁽⁹⁾.

Muhammad Umer Chapra believes that Islamic economics did not move in the right direction so as to help Islamic countries achieve human well-being in its comprehensive sense⁽¹⁰⁾. Anas al-Zarqa argued that research in Islamic economics suffers from three problems. The first problem is lack of those who master dual specialization in economics and *fiqh* (Islamic jurisprudence); the second is ambiguity of whether research in Islamic economics should originate from *fiqh* or from contemporary economics, or perhaps from both; and the third problem lies in lack of interest in contemporary issues of application in the Islamic world⁽¹¹⁾. Rafic al-Masri also seems to support the necessity of revising and evaluating our works on *fiqh* of financial transactions as well as Islamic economics, in order to gain theoretical and practical benefits and passing on those benefits to future generations⁽¹²⁾. Monzer Kahf opines that the current generation of specialists in Islamic economics is completely

(9) Nejatullah Siddiqi (2008) "Obstacles of Research in Islamic Economics". *Journal of King Abdulaziz University: Islamic Economics*, 21(2): 83-95 (1429H), p. 84. Available at: http://islamiccenter.kau.edu.sa/arabic/Magallah/Pdf/21_2/21-2-M_N_Siddiqi_10.pdf.

(10) محمد عمر شابرا، مستقبل علم الاقتصاد من منظور إسلامي، المعهد العالمي للفكر الإسلامي ودار الفكر بدمشق، ٢٠٠٥م، ط٢، ص٤٢٧.

(11) محمد أنس مصطفى الزرقا، بعض مشكلات البحث في نظرية الاقتصاد الإسلامي وحلول مقترحة، ضمن أعمال ندوة "مشكلات البحث في الاقتصاد الإسلامي"، المجمع الملكي لبحوث الحضارة الإسلامية (مؤسسة آل البيت) بالتعاون مع المعهد الإسلامي للبحوث والتدريب، عمان، ١٥ شعبان ١٤٠٦هـ، ص ص: ٧٣-٧٤.

(12) رفيق يونس المصري، ماذا فعل الاقتصاديون المسلمون؟ محاولة تقييم تجربة الاقتصاد الإسلامي من خلال منظريها، الموقع الشخصي للدكتور رفيق على الرابط:

<http://drmasri.atwebpages.com>

engrossed and consumed in the activities of Islamic finance. Therefore, he contends that the best thing that this generation can do is to pass on the torch to the coming generation which could, probably, do something to enhance theoretical knowledge and fill the gaps left open by the previous generation⁽¹³⁾.

Abdul Rahman Yousri indicated that research in Islamic economics seems to have concentrated on theorizing and building of theoretical models which, although have their own scientific value, can hardly be of any practical use in our contemporary societies. In order for such theoretical contributions to be useful there should be complementary research efforts to show how movement from the current position of our modern societies to the ideal situation portrayed by these models can be achieved. Furthermore, Yousri believes that a huge burden of responsibility is to be shouldered by those who are engaged in Islamic economics so as to construct realistic economic models based on Islamic values and spell out clear perceptions about the policies, mechanisms and circumstances required for putting such models into practice⁽¹⁴⁾.

Besides these contributions, the list of those who called for revision and evaluation of Islamic economics is very long⁽¹⁵⁾. In recognition of this widely admitted need for evaluation and revision of Islamic economics, authors of this note took the initiative of launching this call for dialogue with the aim of reaching a suitable diagnosis for the presumed knowledge crisis in Islamic economics. This will be done by posing a number of diagnostic questions in order to know whether there is a real crisis of knowledge in the discipline or not; leaving solution and treatment of the crisis, if any, to be pursued at a later stage. Researchers, graduate students and those who have interest in the subject are invited to contribute to the dialogue with what they deem appropriate. They are welcome to do so whether by posing more questions or by deleting or

(13) **Monzer Kahf** (2004) "Islamic Economics, What Went Wrong?" in *Islamic Economics: Current State of Knowledge and Development of the Discipline*, Edited by Khalid Hussein, Jeddah: IRTI, p. 53.

(١٤) **عبدالرحمن يسري أحمد**، تقويم مسيرة الاقتصاد الإسلامي (١٣٩٦هـ - ١٤٢٢هـ)، ورقة مقدمة للمؤتمر العالمي الثالث حول الاقتصاد الإسلامي، بجامعة أم القرى بمكة المكرمة، ١٤٢٢هـ، ص ٥٧.

(15) **Asad Zaman** (2012) "Crisis in Islamic Economics: Diagnosis and Prescriptions", *Journal of King Abdulaziz University: Islamic Economics*, 25(1): 147-169, 1433H.

adjusting already posed questions; with the aim of making contributions to the search for a *diagnosis of the assumed knowledge crisis*. In this regard, in our view the following questions need consideration:

Is there a real knowledge crisis⁽¹⁶⁾ in Islamic Economics? Or is it an exaggeration in describing the current state of this discipline whereas the whole matter is no more than an incidental case that normally emerges during evolutionary stages of sciences? Can we say that Islamic economics is in the state of passing from one historical stage to another and therefore serious revision is required?

If we assume that there is a knowledge crisis in Islamic economics, in what aspect of Islamic economics does such crisis lie? Does it lie in the scientific aspect, or the practical aspect or both?

Firstly: The Academic Aspect:

If the crisis is confined to the academic aspect, what are its main causes, manifestations and position?

1. Causes of the Knowledge Crisis

Can one say that the main causes of this knowledge crisis are:

- Lack of strategic vision in arranging priorities of research in Islamic economics on the basis of available resources.
- Absence of systematic means and methods that lead to a cumulative process of research in Islamic economics.
- Keeping Islamic economics within the confines of dualism “*fiqh/economics*”, which leads to limitation of the scope of research.
- Absence of comprehensive vision in presentation and treatment.
- Absence of objective and coherent criticism, and hence prevalence of rigidity and monotony.
- Negligence of economic events, which could be utilized in theorizing for adaptation of Islamic societies to new economic realities.

(16) It should be mentioned that the first mission of the economist is to improve and develop knowledge about economic behavior and economic relations in the society in which he lives, at the methodological, theoretical and practical levels.

- Misunderstanding of the texts of the holy Qurān and the Sunnah and the writings on *fiqh* that relate to economic issues.
- Intellectual subordination to the Western schools in theorizing Islamic economics.
- Deficiency in tracing and assimilation of developments in research on conventional economics with its diverse schools.

2. Manifestations of the Knowledge Crisis

Is it possible to attribute manifestations of the knowledge crisis to the following reasons?

- Lack of judiciousness in writings on Islamic economics due to lack of academic competence on the part of those who are engaged in both *fiqh* and economics.
- Environment of research in Islamic economics is not prepared enough to produce outstanding research.
- There is much concentration on Islamic banking and finance and negligence of important applications in the field of Islamic economics; such as those pertaining to *zakāh*, *waqf* and charity.
- Weak coordination between *fiqh* scholars and economists in tackling issues of Islamic economics.
- Pursuit of *fiqhī* concessions and stratagems in Islamic banking and attempting development of Islamic banking through mimicking of conventional banking products and services, but wrapped in Islamic and Arabic terms.
- Inability of Islamic economics to present adequate solutions for the economic problems faced by Islamic societies; such as poverty, unemployment and severe income inequalities.
- Lack of an Islamic economic theory that can serve as a framework for analyzing economic behavior at the micro and macro levels.
- Restricting writings in Islamic economics to specific subjects such as ethics, values and *ribā* (usury) and negligence of other subjects such as poverty alleviation and *awqāf* that are by no means less important.

3. Position of the Crisis

3.1 Historical Context

- Did the first move on the path of Islamic economics stem from a deliberate desire to improve living conditions through application of the Sharī‘ah rules in the field of economics?
- Or was that move due to an ideological intention of exhibiting the identity of the Islamic economic system in the context of the then prevailing national movements for liberation from the grip of the Eastern and Western blocs and the far-reaching stretch of communism and capitalism?

3.2 Naming of the Discipline

- Can we consider the act of designating the discipline as “Islamic economics” as reasonable?
- Is such designation impartial, or does it seem to limit thinking to a specific framework of knowledge that can hardly be escaped?
- Has designating the discipline in this manner been a source of sensitivity that made many eminent economists refrain from enriching the subject?
- Why did researchers in Islamic economics not use other terms such *‘ilm al-ma‘ash* and *ilm al-‘umrān* which had been used in Classical Islamic literature.
- Why did some pioneer scholars of our present times use the term “Islamic economics” to describe “the economic dimension of Islam”, without discussing Islamic economics?

3.3 Essence and Identity of Islamic Economics

- Is there a comprehensive and precise definition of the term “Islamic economics”, which can enjoy wide acceptance among researchers in the discipline? Or is it that this term means different things to different people?
- Should Islamic economics be defined on the basis of what ought to be or on the basis of what actually takes place in Islamic societies?

- Are there diverse forms of Islamic economics, subject to diversity of Islamic societies; and does such diversity necessitate that Islamic economics should not be a homogeneous body, quite like capitalism, which embodies different practical models?
- Is Islamic economics a branch of social sciences? And, if so, is it a branch of *fiqh*?

3.4 Methodology in Islamic Economics

- Does Islamic economics have an independent methodology? Or does it share the methodologies of other economic schools such as the “Historical School” or the “Institutional School” for instance; in describing economic events? Does Islamic economics differ from these schools, with regard to methods of dealing with economic problems, taking into consideration difference in characteristics between one society and another?
- If Islamic economics has an independent methodology, why such methodology does not take a clear shape so that researchers in Islamic economics would not disagree about it?
- If, instead, Islamic economics shares the methodologies of other economic schools, where does the defect lie? Does it lie in describing economic events? Or in presenting solutions for economic problems? Or in both?
- If we assume that the defect lies in describing economic realities;
 - Does it lie in the unrealistic theoretical perception pertaining to activities of production, exchange and consumption of goods and services in Islamic societies?
 - Or does it lie in using analytical tools that do not incorporate economic activity with all its diversity and complexity?
- If we assume that the defect lies in presenting solutions for problems;
 - Does it lie in lack of strict abidance of Islamic societies by the teachings of Sharī‘ah?
 - Or is it that the current state of the Islamic world does not allow abidance of Islamic societies by Islamic values at all levels?

3.5 Multiplicity of Approaches

- Does the problem lie in the nature of the analytical methods used in exposition of Islamic economics?
- In conducting Islamic economic analysis, is it possible to stick to either *fiqhi* or economic method or do we need to use both?
- Are there other analytical methods that entail other dimensions such as sociology, law and politics (systemic approach)?

3.6 Tools of Analysis in Islamic Economics⁽¹⁷⁾

- Do researchers in Islamic economics use the same analytical tools as used in the literature on conventional economics, especially those of the neoclassical and Keynesian models; or does Islamic economics have its own tools of analysis?
- Does Islamic economics have common tools of analysis with conventional economics, besides its own tools such as *sabr* (patience) and *jaza'a* (reward in the Hereafter)?
- Can quantitative tools of economic analysis be partial? Or do they bear specific values that affect the behavior of economic agents?

3.7 Theorizing in Islamic Economics

- What is the main drive behind the feeling that theorizing in Islamic economics is a necessity? Is it the academic urge of applying Sharī'ah rules in the economic aspects of life? Or is it the ideological desire of exhibiting the identity of the economic system in Islam; in the context of the widespread movements of liberation from the influence of the Eastern and Western blocs and prevalence of the communist and capitalist doctrines?
- Is there a theory of Islamic economics that gained consensus of the majority of researchers in this field, or is there no theory of Islamic economics up to now?

(17) Distinction should be made in this context between analytical methods and analytical tools. An analytical method means tackling the economic phenomenon from a given perspective which could be purely economic (neoclassical or Keynesian) or more than that (Historical, Legal or social). Analytical tools refer to concepts and terms used in describing, analyzing and interpreting the economic phenomena such as scarcity, rationality and profit maximization.

- If there is a theory of Islamic economics; at what level does it exist? Does it exist at the micro level (individuals and institutions - banks and insurance companies), at the meso level (different sectors such as the *zakah* and the *waqf* sectors) or at the macro level (national economy)?
- If we assume that there is a theory of Islamic economics, what are the similarities and differences between such theory and that of conventional economics?
- If there is no theory of Islamic economics up to now, what are the reasons behind that?
- Is economic behavior based on rationality and utility maximization not an innate trait that Allah the Almighty has bestowed upon all human beings?
- Should theorizing for economic activities differ subject to difference in time (historical context), place (geographic context) and people (social context)?
- Should theorizing differ, subject to the method through which economic behavior is perceived? Is it confined to a pure economic method, pure *fiqhī* method or both methods? Or does it surpass all that through a multidimensional method (systemic approach) that takes into account fiduciary, ethical, political, economic, social, legal, historical and geographical dimensions?

3.8 Criteria for Verification of Theories

- How can theories developed by researchers in Islamic economics be verified?
- Does verification of theories take place through analyzing causal relationships between the main variables scrutinized or through assessment of applicability of such theories and their relevance to human needs?
- Or, should verification rest on a combination of both aspects, and hence, improvement of living conditions during a specific period cannot facilitate judgment on the validity of a given theory, unless joined with analyzing the causal relationships which constitutes the basic rule for verification of theories?

3.9 Objective of Islamic Economics

- Is the objective of Islamic economics limited to the study of economic options at the level of production, consumption and distribution, subject to available resources; as is the case in political economics?
- Does Islamic economics keep pace with the capitalist system in these options?

Secondly: the Practical Aspect

This aspect includes practical applications in Islamic economics, a role which is assigned to institutions of Islamic financial intermediation in addition to institutions of *zakāh*, *waqf* and charitable work. These institutions are not the only institutions that reflect applications of Islamic economics, yet they are the most prevalent institutions in this field. There are also individual experiments of productive projects and cooperative charities, which are not widespread.

Islamic Financial Intermediation

- Does the theoretical model of Islamic banking introduced by the pioneer scholars of the field seem to be realistic?
- Is there a single theoretical model of Islamic banking, or there are several theoretical models that differ subject to work environment; and hence one can distinguish, for instance, a specific Malaysian or Gulf model of Islamic banking?
- Do Islamic banks have to observe social responsibility? Or should they have their role confined to maximization of financial returns of the owners and shareholders?
- If we assume that Islamic banks have to observe social responsibility, does this mean that they should assign priority to Islamic societies?
- There is a widespread predicament that Islamic banks deviate from the Profit-and-Loss Sharing (PLS) model and mimic conventional banking model. Does this predicament sound acceptable? And if so what are the signs of such deviation?

- There is another viewpoint that the PLS model is by no means the sole model, and that Islamic banking is moving in the right direction, because the whole issue is controversial. To what extent this argument is acceptable?
- Are there any problems in the application of Islamic banking with its different models, including: the model of full-fledged Islamic banking; or the model of partial Islamic banking through independent branches; or that of Islamic banking windows in conventional banks?
- Do the legal and supervisory environments constitute a hindrance that forced Islamic banks to resort to debt-based instruments?
- Can Islamic banks under present circumstances avoid *riba*-based practices; given the fact that interest is the main aspect of banking, quite like gambling which is the prime aspect of stock markets?
- Can not-for-profit institutions of Islamic financial intermediation take part in crystallization of the system? Is the relationship between not-for-profit and profit-oriented institutions of Islamic financial intermediation a competitive or a complementary relationship; or is it competitive sometimes and complementary at other times?
- Can Islamic institutions cooperate with conventional institutions of financial intermediation in financing projects that need big amounts of capital and do not contradict in their content, work and means with the rules of Sharī‘ah?

Institutions of *Zakāh*, *Waqf* and Charitable Sector

- Has academic research given enough consideration to the area of *zakah*, *waqf* and charitable sector?
- Are there any new research contributions in the fields of *zakāh*, *waqf* and charitable work? Or the research work in these areas (or part of it) is, so far, repetitive.

- Have the institutions of *zakāh*, *waqf* and charitable work been able to contribute to alleviation of poverty and ignorance in the Islamic world?
- What are the problems that face the work of the institutions of *zakāh*, *waqf* and charitable work in Islamic societies?
- Do institutions of *zakāh*, *waqf* and charitable work in Islamic societies obtain enough support from governments of the Islamic countries?
- Can the tools of governance be used for enhancing transparency and management of *zakāh*, *waqf* and charitable institutions?