

Asad Zaman

Crisis in Islamic Economics: Diagnosis and Prescriptions

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1. Introduction: Preliminary Comments on Asda Zaman's Views

Asad Zaman's ideas on Islamic economics are now well known. He is critical of neoclassical economics as well as the current status of Islamic economics literature. He thinks Islamic economists have, by and large, unable to present a real alternative of present day capitalist economics. His diagnosis for this failure is that

“ (M)ethodological foundations of western economic theory are fundamentally flawed. Mostly, Muslim economists have uncritically accepted claims that economic theory is “positive,” or factual, and many other methodological assumptions. Attempts to combine these with insights from the Islamic tradition have failed, because the two are in conflict.” (p. 10).

In his view one of the most fundamental (flawed) assumptions of neoclassical economics is that human beings are selfish. In my view from this he means, as consumers they maximize their own utility / happiness through purchase of goods and services without any concern for others in the society, and as producers they maximize profit without any concern for others and compete with each other for maximum gain rather than cooperate for the overall

(1) I have deepest respect for Professor Asad Zaman and his ideas related to Islamic economics. The difference of opinion expressed here is pure academic.

benefit of the society. I will comment on this most important issue later in this rejoinder. Let us look at two of his other criticisms on which, like many others in the west and in the east, I am in agreement. They are:

(1) Neoclassical economics treats economics as a positive science and hence leaves distributional aspects outside of the scope of economics and,

(2) Neoclassical economics uses excessive mathematics.

I have not met or read an Islamic economist who will disagree with Asad Zaman on these two criticisms. Similarly, there are many economists and some schools of thought in the western economics tradition who also share this view. For example, the Post Keynesians, the new and old Institutionalists, neo Ricardians and neo Marxists, they all bring distributive issues at the fore front of economics discipline. On the other hand, many economists who might be otherwise following neoclassical, Keynesian or other schools of thought, are critical of excessive use of mathematics in economics. The methodology of Austrian school excludes any use of mathematics at all! On the other hand economists including some of those who follow neoclassical economics have debated the importance of complex and intricate mathematical and /or econometric models and their predictive power.

While excessive use of mathematics does not seem to be useful, from Quesnay and Ricardo in to this date, simple application of mathematics has given extremely important insights. Similar is the case with econometrics. If we understand the limitation of mathematics in economics, and are not aiming for kind of precision and exactness possible in natural sciences such as physics, appropriate use of mathematics is almost universally accepted by a great number of economists of diverse schools of thought. Indeed this does not mean that an academic exercise in economic theory cannot be carried out without the use of mathematics.

Asad Zaman is well aware of and cites a number of criticisms emanating from the west against neoclassical assumptions and on the failure of the capitalist system especially in the wake of present financial crisis. However, he does not see any viable alternative arising in the west. He claims that there has been so much investment made in the west on contemporary literature on neoclassical economics that an overthrow through alternative economics on new foundations seems unlikely.

The situation thus provides a great opportunity to offer Islamic economics as a real alternative to the neoclassical capitalist system. He then deliberates on an Islamic alternative.

2. Asad Zaman's Solution

Asad Zaman proposes three pronged strategies to build Islamic economics. First, to transform Muslims into pious beings; Islamic economists should teach their students about helping poor and themselves become living examples for them. Second, as Islam requires Muslims to be generous and there is evidence that they are, Islamic economists should be working with the assumption that Muslims are not greedy but they are generous (although he does not exactly use these words, in my view this is what he is suggesting). Finally, it should be assumed that Muslim producers will cooperate among themselves for the benefits of the society rather than compete with each other for maximizing profits.

“If Islamic ideals of service prevail, then firms will cooperate to provide the best possible service to the society, being oriented towards the spiritual and the rewards of the Akhirah” (p. 15; my emphasis)

I presume Asad Zaman is not claiming that Islamic ideals of service currently prevail among contemporary Muslim consumers and producers. What he is claiming is that these ideals could be inculcated through teaching and persuasion. The basic task of Islamic economists is thus to transform the hearts and minds of economic agents so that they become best Muslims and behave ideally in the market place. This will automatically solve all the economic problems of a Muslim society. If followed by other societies, they will also solve their economic problems.

If my presumption about his first strategy is correct then his second and third strategies cannot be implemented as long as the goal of the first strategy is not achieved. If so, his suggestion of *three pronged strategies* cannot be implemented simultaneously. The last two strategies cannot be instigated even when we assume that Muslim consumers are *comparatively* less greedy and the intensity of competition for profits among Muslim producers is *relatively* less than their western or non-Muslim counterparts. So his three pronged strategies actually boil down to his first strategy. The success or prevalence of first strategy is necessary as well as sufficient condition for the other two.

An economist, when advising economic agents how to behave, how to be generous and how to be honest, works as a preacher and he can do that. In late 19th century under somewhat comparable perspective, John Neville Keynes had remarked that economists can take the role of social philosophers and public policy makers and suggest particular economic policy among several options, on moral grounds. He only cautioned that economists should be clear on their role as positive scientists (setting aside for the moment the issue of economics

being positive science) when they analyse economic phenomenon or develop economic theories, and when they try to act as a social philosopher⁽²⁾.

No one will dispute that what Asad Zaman is suggesting must always be done by Islamic economists as well as other people in the society specially those who are in a position to influence large number of people. However, I do not think the number of people behaving ideally will rise and remain to such a high level that the role of the government and its agencies in systematic organization of the economy on Islamic principle will become superfluous. In no way I am suggesting that Muslim societies are empty of generous people. Far from that, even in poor countries like Pakistan hundreds and thousands individuals and local organizations are giving their time and wealth to help poor and in almost all cases they are far more efficient than any government departments created for such purpose. But Islamic economics is not only about organization of charity and alms giving, its main task is to help organizing an economy where each person looking for livelihood is able to find a suitable solution, and harmony among different factors of production is achieved through economic justice based on Islamic principles. Can this task be completed without the help of the government and its agencies?

Although not explicitly said by Asad Zaman, he thinks if his prescription is implemented, there will be no need for a government and its various agencies to solve economic problems. Nowhere has he given any idea about the role of the government in the economy. It will not be too far-fetched to claim that, in his view, governments and its agencies cannot be helpful in solving economic problems and hence should not be relied upon or there is no need/role of a government in his strategic plan.

Asad Zaman's position could be compared to two important ideals of western socio-economic thought: (1) to Marx view of communism where state withers and the economy is based on the principle of 'from everyone according to his abilities to everyone according to his needs, and (2) to libertarians who idealize a society where individuals could do their production and consumption and everything else in their lives without any help from the state.

However, according to Marx, at the early stages of the road to communism, the revolutionaries must take over the government to abolish the rule of capitalists. For libertarians, the government is always a problem rather than a solution! They would prefer communities creating their own police, charity network, etc., rather than a government taking away peoples' hard earned

(2) J.N. Keynes (1890), *'The Scope and Method of Political Economy'* pp. 12-13.

earnings and utilize them in a *tyrannical* manner. I wish Asad Zaman had explicitly said something on this issue as it could have clarified his position; it appears he wants Islamic economists only to preach how economic agents should behave and does not see any role of the governments and its various agencies organizing and facilitating the economy.

3. Is Neoclassical School Totally Flawed and Utterly Useless?

Since its birth in the late nineteenth century, neoclassical school has been criticized by many individual economists and different schools of thought. The fact that so far, not only that it has not been dislodged, it has remained the dominant school of thought, need some serious contemplation. This school was born when Marshal brought the supply curve (that represented the ideas of the classical school) together with the demand curve (that summarized the thinking of the marginalist school) to create perhaps the most important tool in economic analysis. It has been used for explaining the market value or exchange value of a good or service. There are many critics of this tool including Asad Zaman. However, it has survived all criticisms, in my view, because it is flexible enough to handle many different situations that can affect the shapes of the demand and/or supply curve. Also because there is some truth in the assumptions of diminishing marginal utility that produces a negatively sloped demand curve and that supply of many goods and services generally increase with increase in their prices all other things being unchanged. There exist anomalies in demand and supply framework but by and large it has remained a useful tool in guiding different sectors of the economy and economists!

There are suggestions made by the institutionalist school that exchange prices are not determined freely as claimed by the neoclassical school, rather it is controlled through manipulation made by powerful agents in the economy that affects the demand and/or the supply. While this claim could be true (at least in some cases) it does not completely destroy the usefulness of demand and supply tool. Manipulation of demand and supply would affect the position of the demand and/or the supply curve but the analytical tool could still give insights into the prevailing exchange value or price of a commodity. Furthermore, there is no alternative apparatus that provides a better explanation of exchange values in market economies.

The apparatus also allows explaining how a government may use support prices for agricultural products to stabilize their prices for the benefit of all sections of the society. The same apparatus also explains how different vested interests can use governments to arrange a favourable support price causing inefficiency and hurting consumers. There are other important contributions made by the neoclassical school that has been accepted by other schools of

thought, the neoclassical-Keynesian synthesis in macroeconomics being one of the most important.

4. Causes of Failure of Islamic Economics; An Alternative View

In my view, the cause of failure of Islamic economics and finance is something else. Most writings by Islamic economists and other Islamic scholars who wrote on economic issues did not come up with concrete proposals of reforms that could have significant effects on distribution of income. For example, the largest volume of work in Islamic economics and finance has been on Islamic banking and finance. Also, this is the only sector of economy in Muslim countries where an Islamic injunction pertaining to economics has witnessed some implementation. But what has been the result? Largely, tremendous growth in bank deposits and, creation of bank positions for *fiqh* scholars who were mainly concerned about the legality of a product in light of the verdicts of past *fuqaha*. Apparently, their methodology lacked any concern for distributive justice or undesirable outcome such as consumerism and extravagance unleashed through certain products.

The most fundamental flaw in this respect, in my view, was the acceptance of *bay` bi-thaman ajil* (with higher than current price) by Muslim economists which has paved the way for the use of conventional banking products with Arabic names – all other things being (almost) unchanged. For me, this acceptance has been made possible through reference to non-unanimous *fiqhi* verdicts and without any consideration of distributive justice and contemporary realities. This is fundamentally a flaw of methodology adopted by many Islamic economists and Islamic scholars writing on economic issues where *fiqhi* verdicts of the past becomes the yard stick for allowing, disallowing or suggesting an economic activity even if those verdicts happened to be disputed or nonaligned with *al-maqasid al-shar`iah*. It can be construed that Islamic economists either agree with the dominant religious verdicts or think they lack proper religious credentials to oppose them. As far as I am concerned I will continue to raise my opposition to *bay` bi-thaman ajil* (with higher than current price) unless convinced otherwise.

Same is the case with land reforms. Islamic economists have not argued for land reforms and as a group have followed the dominant *fiqhi* view that does not permit ceiling on agricultural land holdings often acquired through supporting colonial or illegitimate domestic powers. Similarly, Islamic economists seldom write on labour issues or taxation on capital gains on land and other assets; issues that have significant implications for distribution of income. Thus, as far as land and labour issues are concerned, one can agree with Asad that Islamic economists are not different from neoclassical school.

However, the reason is not that Islamic economists accept economics as a positive science but it is their flawed methodology of following the past *fuqaha* without evaluating them especially in the light of contemporary realities.

Asad is right when he claims that no appropriate book has so far been written on a complete system of Islamic economics and finance. Although there are some books available with the title of Islamic economics, perhaps none of them meet all that is needed to clear outline the system. This is a huge task and we all need to work on that⁽³⁾.

5. What Do We Do to Asad Zaman's Solution?

In my view, we should agree with Asad Zaman with his first strategy that Islamic economists should teach their students (and others, whenever possible) how to behave in economic spheres. It does not mean however that this is the only job they should do or this is a task that must only be carried out by them. For his other two strategies, in my view it would be inappropriate to accept them. We should reject his proposal of discarding the (neoclassical) assumption that most people, most of the time, act in their self-interest in the market place (which does not necessarily imply greediness or selfishness on their part).⁴ Similarly, we should also reject his other proposal of making the assumption that Muslim producers, in general, cooperate among themselves for the benefit of the society (rather than compete among themselves to gain more and more profits). By and large they do try to compete with each other through price cuts and better product and services which actually goes in favour of ordinary individuals in the society. Indeed they also wage war of (excessive) advertisement, apparently a waste of resources. For such kinds of acts we may need proper government intervention.

Islamic economists along with other relevant members of the society should not leave any opportunity to teach and preach and be good examples of Islamic behaviour in the market place. However, this is a duty that every Muslim in his capacity should always be mindful of. But being economists, Islamic economists have the daunting task of presenting the details of a system of production and exchange and related institutions, rules and regulations that (a) *incorporate* Islamic economic principles and (b) *help* individual Muslims behave according to the teachings of Islam. How should they proceed?

(3) On my part, I am trying to use different material of my papers into one coherent unit, a book on Islamic economics and finance.

(4) For a detail treatment of this issue please see my paper, ““A suggested Methodology for the Political Economy of Islam”, *Journal of King AbdulAziz University: Islamic Economics* (Volume XII, 2000), pp. 3-27.

Asad Zaman has correctly claimed that the present capitalist system is based on a world view different from the Islamic view. However, there are two important aspects of the capitalist system that are also integral part of an Islamic economic system; the role of the market and permissibility of private ownership of means of production. It must be emphasized then that a contemporary Islamic economic system would allow the markets to, by and large, work freely. Muslim societies have been practicing this since the time of the Prophet (PBUH) whose gave clear instruction for prices to be determined through markets, i.e., with the interaction of demand and supply. The Prophet (PBUH) and later Muslim scholars and rulers emphasized to remove any unwanted and unfair means such as hoarding and other practices that could hinder the fair play of demand and supply.

It could be thus suggested that Islamic economics should not reject the theory of (exchange) value of goods and services espoused by neoclassical school⁽⁵⁾. The contribution of neoclassical school in price theory and how prices are determined under different market structure is important even if there are some unsolved issues. For example, if there is a big difference between exchange value (partially determined by purchasing power) and the use value of the good, then there is a case for government intervention specially to deal with essential commodities⁽⁶⁾. I would also like to emphasize that the difference between the two values could be minimized through a proper distribution of income in the economy. Indeed, when it comes to the pricing of factors of production such as wage and rent, interest and entrepreneurship, like some other heterodox economics, Islamic economics can have serious differences with neoclassical economics⁽⁷⁾.

Throughout the Islamic history the sanctity of private property has remained non-controversial. While government has been assigned the duty to make sure that the wealth is not concentrated among the few, as a principle, individuals are generally allowed to pursue their material struggle within the boundaries and environment created by the Islamic state in accordance with Islamic economic

(5) In late nineteenth century Austrian economist von Weiser had raised the issue of exchange value and intrinsic value of a commodity; the former determined by the desire usefulness of a commodity as well as the purchasing power of the person who wants to buy the commodity. On the other hand the intrinsic value of a commodity is its ability to satisfy the desire of a person with no reference to her purchasing power.

(6) This point was made by von Wieser.

(7) For my views on this topic, please see my paper, "Factors of Production and Factor Returns Under Political Economy of Islam", *Journal of King AbdulAziz University: Islamic Economics*, (Vol. VIII, 1996), pp. 3-28.

teachings. One of the important parameters of such environment could be derived from the following verse of the Quran:

O Children of Adam! Take your adornment (by wearing your clean clothes), while praying and going round (the *Tawaf* of) the Ka'bah, and eat and drink but waste not by extravagance, certainly He (Allah) likes not *al-Musrifun* (those who waste by extravagance). *Surah al-Maidah*, Verse 31⁽⁸⁾.

The government of an Islamic economy, however, will be always looking for the opportunities and possibilities of improving distribution of income as and when appropriate and desirable.

The capitalist system that has also evolved on the above two foundations thus provides a surface (if not a structure) on which a system of Islamic economics can be developed. The primary challenge for Islamic economists is to determine the goals of Shari`ah in economic sphere and devise a strategy to achieve these goals. In my view the two broad goals of Islamic economics is to develop an economic system where (a) collective responsibilities of the society are undertaken by relevant authorities/people, and (b) individual Muslims find it conducive and encouraging to follow the teachings of Islam in economic affairs. Below I make an attempt to elaborate this point.

5.1 Distribution of Income: The main pillar of an Islamic economic system

In the context of a Muslim society the issue of distribution of income and wealth has particular importance. Both Qur'an and Sunnah of the Prophet (SAW) give numerous instructions and principles that Muslims are supposed to follow in their individual and collective affairs. As far as I understand, the following verse of the Qur'an gives a clear instruction to governments and the people of Muslim societies:

"Whatever [spoils taken] from the people of those villages God has turned over to his Apostle __ [all of it] belongs to God and the Apostle, and the near of kin [of deceased believers], and the orphans, and the needy, and the wayfarer, so that it may not be [a benefit] going round and round among such of you as may [already] be rich. Hence, accept [willingly] whatever the Apostle gives you [thereof], and refrain from [demanding] anything that he *withholds* from you; and remain conscious of God: for, verily, God is severe in retribution." (59:7; my emphasis)⁽⁹⁾

(8) Interpretation of the Meanings of The Noble Qur'an, published by Dar-al-Salam Publications.

<http://www.dar-us-salam.com/TheNobleQuran/index.html> accessed on February 23, 2012.

(9) (59:7), as translated by Muhammad Asad in the Message Of The Qur'an

This Ayah provides one of the basic principles of Islamic economics i.e., the government of a Muslim country has an obligation to prevent the concentration of wealth in few hands *even if* the income or wealth could have been acquired through proper means. This provides a clear justification for the government to use tax and transfer policies to impede concentration of wealth after the production process is completed and factors of pr. It is also important to note that individual Muslims are asked to willingly accept any government decision to take away some of their wealth that they have earned lawfully.

It is quite understandable that in any society, whether their inhabitants are Muslims or not, many people would be tempted to become wealthier even if it is achieved at the expense of others or by exploiting others. On the other hand, many people belonging to relatively lower income groups could be jealous and envious of the rich. Such feelings are a matter of human instincts. Muslims are asked by their Creator to control these instincts:

"O You who have attained to faith! Do not devour one another's possessions wrongfully _ *not even* by way of trade based on mutual agreement _ and do not destroy one another: for, behold, God is indeed a dispenser of grace unto you! And as for him who does this with malicious intent and a will to do wrong _ him shall We, in time, cause to endure [suffering through] fire: for this is indeed easy for God." (my Italic) (4: 29-30)⁽¹⁰⁾

and

Hence, do not covet the bounties which God has bestowed more abundantly on some of you than others. Men shall have a benefit from what they earn, and women shall have a benefit from what they earn. Ask, therefore, God [to give you] out of His bounty: behold God has indeed full knowledge of everything. (4:32)⁽¹¹⁾

These three verses above are good examples of what are required by the governments and individuals of Muslim societies. Muslims are asked not to be jealous of others, not to do any harm to other parties in order to clinch a favourable business deal, and pay taxes willingly. We should admit that while

(10) Asad Muhammad, The Message of The Qur'an. It is important to note that in the translation of this Ayah, Asad has adopted the meaning of "*illah*" as *not even* instead of its usual meaning *except*. Please see his explanatory note # 38 of Chapter IV. However, for our current purpose any of these meaning is appropriate although the one adopted by Asad is more forceful. As I understand, it implies that economic or business transactions must be based on inherent justice and not only apparent agreement of the concerned parties.

(11) *ibid*, p. 109.

many Muslims would adhere to these commandments of their Creator, many others would tend to neglect the teachings. It is, therefore, inappropriate to assume that because Muslims are asked by their Creator to behave in the above manner, they will actually do so. Nor should one claim that an Islamic system, through its educational and economic policies, would be able to obliterate the causes of these natural instincts completely. But a properly designed economic system with appropriate rules and regulation, which addresses the issue of income distribution, could provide a social environment that will *help* its people to restrain and inhibit these passions. Judicious government *spending* and *redistribution* schemes could provide such an environment that would create the desired results.

One way to thwart the concentration of wealth is to formulate appropriate tax and transfer policies. However, if this is the only formula, there is a danger that it may either impede economic activities and lead to inefficiency (if over utilized) or fail to achieve the objective satisfactorily (if underutilized). It then becomes clear that the greatest task of the political economy of Islam is to devise a production mechanism which is not only efficient and addresses the issues of unemployment and inflation, but intrinsically and endogenously tackles the problem of distribution, not leaving it as a residual issue.

One can argue that the neoclassical school does not throw away the question of distribution, it only attempts to separate this problem from that of efficiency i.e., the market is allowed to determine a major part of the production process and the resulting distribution of income pattern but any *serious* injustice is corrected through taxation and transfer policies. However, an advantage of tackling both the problems in a single and exclusive set up is that it may foster a production process that leads to a more desirable income distribution pattern intrinsically and abbreviate the extent of reliance on tax and transfer policies. Furthermore, as we have emphasized above, there is a limit to which these transfer policies can be used. This is why, under the neoclassical framework, the resolution of distributional question has manifested in accommodating the sentiments of the relatively low income groups of people against the rich instead of containing the concerns of the rich by allocating them just enough so that they remain active in the production process.

There is a vast difference between these two approaches: in the former case a minimum possible part of income is allocated to low income groups of people to keep them from agitating whereas in the later approach the strategy is to allocate, through the production process, a minimum possible portion of income to the rich so that they remain in production. An important point worth noting in this context is that the neoclassical solution is a source of increasing or at least

maintaining the gap between the rich and the poor that has been a continuous cause of resentment and indignation in many societies of the world.

In the methodology of the political economy of Islam, therefore, a central issue would be to devise a production process which, primarily through the market forces but under a different organizational set up with different rules of the game and the resulting power structure, allocates the minimum possible part of income (to the relatively rich class) to secure efficiency. This is in contrast to the neoclassical solution of redistributing a minimal part of the income (after efficient production) to avoid serious injustice and discontent.

6. Concluding Remarks

It is quite clear that I have significant differences with Asad Zaman's diagnosis and solutions. However, I share his concern that Islamic economics is in crisis. I also thank him to highlight this concern and present his views on a solution. I am sure there are many others who also agree with his ideas. I request and hope he and all those who are in agreement with him would also give a serious consideration to the observations made by me and others who were asked to comments on his paper. We are in here for an important academic / intellectual deliberation. I hope this will clarify our views and lead to better understanding even if, at the end, we agree to disagree on certain issues.