

**Response to Comments on:  
Crisis in Islamic Economics: Diagnosis & Prescriptions**

Asad Zaman, JKAU, Vol. 25 No. 1, (2012)

***Rejoinder by:***

**Asad Zaman**

*International Institute of Islamic Economics*

*Islamabad, Pakistan*

[asadzaman@alum.mit.edu](mailto:asadzaman@alum.mit.edu)

## **1. Introduction**

The main assertion of my earlier paper is that, as a whole, Muslims are following western models for development instead of the model so successfully demonstrated by our Prophet Mohammad S.A.W. Some preliminary clarifications of this idea are needed before I turn to the comments of my critics.

### ***1.1 Spiritual Development led to Rapid Economic Development***

The most amazing incident in the history of mankind is the advent of Islam. In the pre-Islamic era, the Arabs were among the most backward people living on the planet. The Chinese, Persians, Byzantines, and other contemporary civilizations were far ahead of them in science, technology, literature, arts, crafts, culture, and philosophy. Yet the message of Islam catapulted them from the very bottom to the very top in a very short period of time. Furthermore, this leadership was not a short term phenomenon, but was maintained for more than a thousand years.

My article is based on the idea that the message of Quran has exactly the same power today as it did fourteen hundred years ago. If we accept, understand, and absorb this message, it is perfectly sufficient for the solution of all problems facing the *ummah* today. The Quran itself asserts that it contains complete and perfect guidance for us until the day of Judgment. Incorrectly believing that the Quran's message is not complete, many Muslims are trying to

supplement it by adding contemporary economic theories. My contention is both that these theories are wrong, and that they are in conflict with the message of the Quran. The attempt to mix the two has failed. The solution lies in rejecting the message of Samuelson in favor of the message of the Quran.

### ***1.2 Just One Islamic Concept Necessitates Revising Entire Neoclassical Theory***

In this short rejoinder, I cannot restate all conflicts and contradictions between Islamic concepts and neoclassical theory; there are too many to list. I content myself with a single simple observation. Islam distinguishes clearly between needs and wants. It encourage fulfillment of needs and strongly discourages fulfillment of idle desires. Just this one idea is enough to radically change neoclassical economics, which is firmly committed to the idea of consumer sovereignty. For example, Samuelson and Nordhaus ([19], p 26) state that economists “must reckon with consumer wants and needs whether they are genuine or contrived.” In contrast, the Quran condemns those who take their desires for their God, and encourages self-restraint:

79:40 But unto him who shall have stood in fear of his Sustainer's Presence, and held back his inner self from base desires, 79:41 paradise will truly be the goal!

Simply taking this one idea from Islam seriously – that desires are not on par with needs – would be enough to force radical revisions in all economic theory textbooks. Taking luxury goods away from the super rich in order to provide bread to the poor would be considered socially beneficial by Muslim economists – conventional economic theory considers this to be a value judgment since it is not a Pareto improvement, but rather a redistribution. Similarly, if a country exports wheat in order to buy luxury items, banning trade might improve the lot of the poor, contrary to the theories of comparative advantage. The way we measure GNP would change, since we could not count the production of superfluous goods like “Pet Rocks” on par with essentials.

### ***1.3 Courage is Required for A Paradigm Shift***

A general problem that all of my learned critics seem to have in understanding what I am trying to say is the following:

I am arguing that

[A] *we should reject Western economic theory because it is wrong.*

However my critics insist on believing that I am arguing that

[B] *we should reject Western economic theory because it is from the West.*

There is a dramatic difference between [A] and [B]. If I was arguing for [B] than it would be valid to give counter-arguments like that of the Ditch, which was a Persian innovation borrowed by the Muslims. The fact that my clear statement [A] keeps on being misread as [B] itself illustrates the main theme of my critique: that many Muslims are so much in awe of Western economic theory that they cannot contemplate the possibility that it might be all wrong. Once [A] is impossible to contemplate, then automatically it is assumed that the reason for rejection must be [B].

Due to the influence of materialistic world views, we have learned to believe that the world we live in is made of bricks and wood. In fact, to a much larger extent than we realize, the world we live in is a social construct – a set of ideas and arrangements that we have agreed to believe in. For example, the country we live in (like USA or Pakistan) is purely a social construct – it exists because we human beings mutually agree to believe in its existence. Nations would cease to exist tomorrow if we could come to a mutual agreement on new terms on which we could live together in universal harmony. Thus our ideas create the world we live in.

Western economic theory shapes the world we live in. Just as the Copernican revolution changed the world we live in, so rejecting this theory involves radically re-structuring the world we live in. A very large number of new questions arise and must be resolved before we can contemplate such move. Both deep dis-satisfaction with existing theory, and an equally deep optimism about the possibilities for finding a revolutionary new basis for organizing our economic affairs is required. It is only faith in Islam and the revolution it brought to the world that can provide the courage required to make the transition.

#### ***1.4 Fundamental Flaws In Secular Approach to Knowledge***

The current structure of Western Knowledge is the outcome of the Enlightenment Project of Europe. The Enlightenment Philosophers sought to overturn all accepted knowledge – in particular, Christianity – and derive everything from fundamental principles of logic and observation. For example, David Hume asked that: “Can I be sure that in leaving all establish'd opinions I am following the truth?” The Enlightenment Project has failed. The spectacular collapse of Logical Positivism in the mid twentieth century established that facts and reason are not sufficient as foundations for the stock of human knowledge. The foundations of economic theory are based on logical positivism, and hence fundamentally flawed. These foundations have not been revisited since the collapse of logical positivism, so that the methodology of economics is fundamentally flawed.

My paper is a call for Muslims to have the same amount of courage that the Enlightenment Philosophers did – they were able to contemplate rejecting the entire inherited stock of human knowledge, and rebuilding from ground zero. I ask my fellow Muslim economists to be skeptical of the entire stock knowledge known as Western social science. Despite the sophistication of these theories, they have led to the destruction of families and communities, and led to huge numbers of hungry and homeless in the midst of plentiful wealth. Failures of economic theory have become obvious, as evidenced by the global Financial Crisis of 2007-8, and the “Occupy Wall St.” movement. Unlike the physical sciences, the social sciences deal with human beings and societies. No one knows human beings better than Allah ta`ala who is our creator. Those who deny God cannot know how to structure human affairs in the social, political and economic realms better than the teaching of the Quran. Those who do not believe in God, do not know the purpose of human existence, and deny the existence of the spirit (ruh), are characterized by Allah as follows:

2:13 When it is said to them: "Believe as the others believe:" They say: "Shall we believe as the fools believe?" Nay, of a surety they are the fools, but they do not know.

### ***1.5 A Guide to More Detailed Explanations***

The project that I propose to fellow Muslim economists is extremely ambitious. I suggest that we must reject the entire stock of Western economic theory and rebuild from scratch on Islamic foundations. Economic theory is built from axioms of human behavior using pure mathematics, and economists are taught to regard particular historical events as irrelevant to the scientific study of economics. This leads graduates to the illusion that sophisticated mathematics, instead of history, leads to insight into economic affairs. Yet, economic history, which we have been led to believe is irrelevant, provides several examples where free trade led to recessions, and protection led to economic growth and development. Paul Bairoch in “Economics and World History: Myths and Paradoxes” discusses twenty myths generated by fallacious economic theory which contradict the historical evidence. Instead of taking the historical evidence seriously, economists have generally responded by stating that economic theory cannot be challenged by historical events – if protectionism led to growth, then free trade would have led to even more growth! Conversely, if free trade led to recession, then trade restrictions would lead to deeper recession. Thus economic theory is a faith that cannot be challenged by mere observations.

The space limitations of a journal article force me to give short answers to my commentators. The truth is that rejecting the entire stock of contemporary

economic theory raises a very large number of unanswered questions which require detailed answers. Some of the key articles which provide these details are summarized below. Others are summarized at the point where needed in the following discussion.

[23] *“An Islamic Worldview: An Essential Component of an Islamic Education”*: A worldview is a set of assumptions, often unarticulated, which underlie any discourse. Fundamental to the Western worldview underlying modern economics is that the world was in darkness prior to the Enlightenment of Europe. Europeans were the first to see the light of reason, create science, democracy, capitalism, and all good things. In contrast, Islam asserts that the best of times was the time of the Prophet Mohammad. S.A.W. These two worldviews are dramatically opposed to each other in many different dimensions. Today, the dominance of the Eurocentric worldview has indoctrinated Muslims into accepting many un-Islamic beliefs. Understanding and absorbing the Islamic worldview is a necessary antidote.

[24] *“Origins of Western Social Science”*. This paper points out that the roots of social science lie in the rejection of Christianity in Europe. “What is the basis for morality?”, “What are worthwhile objectives to strive for in life?”, “How should we structure families, communities, states, etc.?” -- a long list of questions to which religion provided answers were re-opened for investigation by means of reason and empirics alone. In fact, logic and empirics were stretched beyond the breaking point to provide secular answers to these questions, which religion answers. This paper shows how secular answers conflict dramatically with Islamic answers, for which reason contemporary Western social science cannot easily be assimilated into Islamic forms.

[28] *Islamic Economics: A Survey of Literature*: This survey paper provides a condensed summary of the conflicts between Islamic and Western views across a wide spectrum of economic issues. It starts by arguing that both economic theory and the institutional framework embodying this theory have evolved within the European historical context. Thus economic theory has been strongly shaped by historical forces, but this is not acknowledged in conventional textbooks, which claim a positive, objective and factual status for western economic theory. Islamic civilization has had different economic experiences which lead to different theories.

[31] *Islam Versus Economics*: In this paper, I have argued that the fundamental message of economics is that economic growth is the solution to all problems of man. I show that tremendous economic growth has taken place in various regions over various period of time without solving economic

problems. In fact, oppression, increasing inequality, poverty, massive environmental damage, damage to communities and societies, and many other kinds of evils can be directly attributed to growth oriented policies. In almost every dimension of human life, Islam offers superior alternatives to dominant capitalist institutional structures.

[9] *The Empirical Evidence Against Utility Maximization*. Over the past thirty years or so, people have tried to match predictions of economic theory with actual human behavior. Conflicts have been observed over a wide range of situations, and in a variety of different fields. This paper summarizes the most startling and striking kinds of empirical evidence which show that utility maximization is a complete failure as a description of human behavior.

[33] *Principles of an Islamic Education*. The Prophet Mohammad S.A.W. was sent to this world by Allah as a teacher. He was the best of teachers, and his teachings changed the world forever. Today, awe of Western accomplishment has led Muslims to model educational processes on western patterns. The methods of teaching and learning taught by our Prophet, which are the best of models, have been largely forgotten by the Muslims. This essay reviews these principles and shows how Muslims must modify our methodologies of teaching and learning to conform to Islamic principles.

## **2. Response to Dr. Mohammad Nejatullah Siddiqi (MNS)**

For convenience, abbreviation, and to distinguish him from other commentators, I will henceforth use the initials MNS to stand for Dr. M. N. Siddiqi. I am encouraged that MNS supports my call to build Islamic Economics on new foundations, supported by ideas, data and history. MNS makes four points which are enumerated and discussed in separate sections below.

### **2.1: Taqwa Versus Knowledge**

I am in complete agreement with MNS that Taqwa cannot take the place of Knowledge. In Section 4.1 of my “Islamic Economics: A Survey of the Literature” [28] I have discussed the historical conflict between external and internal knowledge represented by the `Ulama and the Sufis and how Islamic teachings require a judicious balance between the two. I have no quarrel with acquiring knowledge, whether it is from China or from England. At the same time, I am sure that MNS will agree that we should not accept the idea that  $2+2=5$  just because some Western economist has said so. In “Empirical Evidence Against Utility” [9], I have collected and summarized a massive amount of empirical evidence showing the people *do not* maximize utility in

making decisions with economic consequences. The entire field of “Behavioral Economics” emerged because the behavior of people is dramatically in conflict with economic theory. While those who have heavy investment in modern economic theory must act like ostriches in face of this evidence, we in the Islamic world are under no compulsion to follow.

## **2.2: The Role of Incentives**

MNS proposes that we should take greed into account as a motivator of men. There is a long history of how greed was legitimized in the West. It went from being socially un-acceptable to socially acceptable, and indeed approved and recommended; witness the “greed is good” slogan of Wall St. Among many others, Pizzigati [15] in “Greed and Good” has documented the disasters that have resulted.

The message of the Quran is very clear on this issue. Those who hoard gold and silver without intending to spend it for the sake of Allah are condemned, and generosity is praised and recommended. This is exactly my message; that we should follow the teachings of Islam and try to encourage and spread generosity. Islamic history shows that this is not a vain effort. The quantity, variety and wealth of awqaf devoted to social welfare in the Ottoman Empire are astounding. Very high levels of generosity were displayed, and can be achieved if the society is shaped in appropriate ways. Adil Najam’s [13] research on the charitable behavior of the Muslim community in the USA brought to light the following three very important and interesting findings:

1. Muslims were more generous than comparable communities with similar income levels.
2. This generosity was based on religious teachings.
3. Muslims did not think of themselves as being particularly charitable.

This shows how Islamic teachings have the power to make people more generous. At the same time, through widespread influence of Western teachings, we have come to think of this type of behavior as rare and exceptional. In fact, the idea that greed is a fixed and unchangeable characteristic of men is simply mistaken. Substantial amount of recent research shows that money is only a weak motivator. Humans are much more strongly motivated by achievement, reciprocity, fairness, and other human factors. The reduction of man to one dimension is empirically wrong; see Henrich et. al. [5], who searched in vain for *homo economicus* across fifteen different cultures. Just because economists are blind to nobler characteristics of man, we Muslims need not be blind followers and accept this one dimensional caricature of human behavior.

New research shows that human beings are far more motivated to action by considerations of trust, loyalty, achievements, intellectual or spiritual challenge instead of money. This violates economic theories of the labor market. Mahmood [10], and Mahmood and Zaman [11] document the conflicts between observed motivational factors and the assumptions of economic theory, and also provide a guide to the extensive literature on the subject. Again, this re-inforces the basic message of my paper: economic theories of the labor market are wrong, conflict with observed behavior of human beings, and also with Islamic teachings. Islamic teachings about the labor market, emphasizing dignity of work, and equality of participants within a firm which makes a collaborative effort to serve society, provide us with far better ideals to work to achieve. These teaching are summarized and further references are provided in section 4.4 of “Islamic Economics: A Survey of the Literature” [28] . A more extensive discussion of the Islamic theory of incentives and how it contrasts with neoclassical theories is given in the following article:

[26] *Islamic Attitude towards Motives, Incentives of Economic Agents and the Role of Information*: Islamic theories of what motivates human beings, and how to motivate them, differ drastically from conventional economic theories. We discuss these differences, and show how Islamic theories provide a better match to observed behavior and also many insights not available to conventional economists. A longer and more detailed version of these arguments is given in Zaman [27].

### **2.3: Transformative Role of Islam**

The teachings of our prophet Mohammad S.A.W. changed the course of history. His message has the same power to do so today. I have detailed some of the essential ingredients required to bring about the change in my essay on “*Islam versus Economics*”[31] . The main message of economics is that wealth is the solution to all problems of man. The central accomplishment of the prophet Mohammad S.A.W. was to change human beings. Those who buried their daughters alive and fought and killed at small provocations changed to become paragons of human behavior for all time. As the conventional strategies of accumulation of wealth have failed on many fronts, many eyes have turned towards the central role of human beings. A recent publication entitled “Where is the Wealth of Nations?” [21] documents that most of wealth is embodied within human beings. But this is still a substantial underestimate of the true potential of man, which can only be achieved by spiritual development. If we focus on spiritual development, which is the main goal of Islamic teachings, we can achieve the same revolution that was achieved fourteen hundred years ago. As long as we keep focusing on wealth accumulation as the solution to our problems, following the lead of the western economists, we will fail miserably.



This is, I think, the crux of the difference between myself and MNS. If we think that transformation involves building industries, institutions, technology etc. then there is room to believe that we might be in need of borrowing from others. If it is building human beings that is of the essence, then there is no wisdom available from the west, and we must rely entirely on the Quran. It is the second task that was accomplished by our prophet.

#### ***2.4 Task is Not Easier for Muslims***

I have argued that Muslims have been presented with a golden opportunity. The West is saddled with heavy investments in Enlightenment based ideas about human beings and societies which have proven to be fundamentally flawed. The flaws have been discovered both empirically and theoretically. However, the West is floundering for solutions because no genuine alternatives to secular and positivist thinking is available in Western ideas, whether radical or conventional.

MNS suggests that the division of the world into East and West is an illusion. In contrast, a large number of eminent historians and social scientists have written books attempting to explain why the West is unique in several characteristics. “The Rise of the West” [12] by William McNeil is a typical example. One of the most significant books of the twentieth century was “Orientalism” [18] by Edward Said. The main theme of this book is that the Western conquest of the world<sup>1</sup> created a superiority complex which penetrates the entire stock of Western knowledge about the East. The fact that European accounts are seriously biased towards projecting the superiority of the western civilization has been recognized as “Eurocentricism”. For example, “The Theft of History” [4] by Jack Goody documents how achievements of other civilizations were claimed as Western innovations. A very useful account of this bias found in leading western intellectuals has been given by Blaut in “Eight Eurocentric Historians” [3]. Karl Polanyi has documented “The Great Transformation” [16] that took place in Europe, where the war between the newly emerging market economy and traditional society transformed the social order, and led to radically different ways of thinking. In fact, it is essential to understand the deep insights of Polanyi, in order to get an understanding of how modern western economic theory was shaped by European history. Because the original is long and rather hard to read, I have provided a simplified summary in “The Rise and Fall of the Market Economy.” [25]

---

(1) about 90% of the world was under control of European powers in the beginning of the twentieth century.

Muslims have two advantages. One is that the penetration of social sciences in the Islamic countries is peripheral at best, so there is no equivalent of the deep investment that has been made in these erroneous ideas. The second is that we have genuinely deeper knowledge of what human beings are, what the purpose of our existence is, and what hidden spiritual capacities lie within us. We have been given a perfect model to emulate in this regard. God has commanded us to be happy with what we have received in the message of the Quran, as it is far better than whatever the West can gather. My message is precisely this: if we look to the Quran for a solution to our economic problems, we would do far better than we can by following Samuelson. A direct comparison of the two, and the superiority of the Quran solutions is documented in an “Islamic Critique of Neoclassical Economics” [30] .

### **3. Response to Dr. Shameem Siddiqi (SS)**

The point to focus on, as the common thread in my response, is the goal of Islam, which is the spiritual transformation of human beings. This is what ended the Jahilliyyah in Arab, and this is what is necessary to today to transform the lot of the Muslims. The main response to my proposals in the paper is contained in section 5 of SS, which we will discuss first, as it is central. Then we discuss several peripheral issues raised by SS.

#### **3.1 Accept Morality; Reject Generosity and Cooperation**

SS considers the main proposal of the paper to be a three pronged strategy:

1. Work on spiritual and moral transformation of Muslims
2. Build Generosity instead of Greed
3. Create Cooperation instead of Competition.

He is in favor of the first, but rejects the second and the third. This seems paradoxical: how can spiritual and moral transformation be achieved without trying to inculcate generosity and cooperation? He also considers that this is a sequential process in which 1 must be carried out before 2 and 3 can be attempted.

Actually, the three points mentioned are fundamental principles rather than a detailed game plan. More details on how the Islamic system would differ from current western systems are provided in my more recent paper entitled “Islam Versus Economics.”[31] A more detailed discussion of the steps required to bring about such a system are provided in my paper entitled “Rebuilding Islamic Societies” [32] described in the following paragraph:

[26] “*Re-building Islamic Societies*”. Colonization destroyed Islamic political, economic and social structures all over the world. The genuine Islamic spirit had gone out of these structures, so that the form was left without the spirit. The idea that modern western institutions are ideal forms which everyone must follow has now been largely abandoned except by diehard modernists. All over the Islamic world there is a search for methods of genuine Islamization. This paper presents a critique of the dominant approaches to this problem, and provides a practical alternative.

To think that there is a sequencing required such that first we must build character, and then we will do other things is a common misunderstanding among Muslims. The radical innovation of Islam was to create spirituality within the context of worldly pursuits. This is why the honest trader will receive a place with the best among the pious on the day of Judgment. The Muslim trader conducts trade in obedience to the orders of Allah as an act of worship, instead of time sharing between worship of Mammon and that of God. This was one of powerful elements which created the revolution in the early times, and which has largely been forgotten by the Muslims.

It is not that we must take our students to meditate in some cave or jungle for ten years, and then we will tackle social problems. Rather, it is in the process of tackling social problems that we will learn spirituality. This is reversal of usual priorities which have been unthinkingly borrowed from the west by many Muslims. There is a tremendous amount of evidence that practical actions to help others are rewarded much more heavily than individual acts of worship. However, it is also true that these practical actions must be done with sincerity of intention of pleasing Allah alone, without thought of worldly rewards or compensations. Learning this sincerity requires intense worship, which is what we were created for. The point is that Islam proceed simultaneously on the spiritual and worldly fronts, and worldly pursuits, done correctly, are a means of spiritual progress.

As far as points 2 and 3 are concerned, both are taken directly from the Quran. The Quran is *full* of ayat recommending spending for the sake of Allah – that is generosity. The Quran is also *full* of Ayat recommending cooperation and brotherhood and unity among the Muslims. I am merely repeating this Quranic advice and saying we should use these principles to structure Islamic societies. Both the Siddiqi’s argue against this, illustrating perfectly the central theme of my paper. None of the conventional economics textbooks mention generosity; they all praise selfishness as a means of creating economic efficiency. In case where Muslim economists have found conflicts between the Quran and Samuelson, they have accepted the message of Samuelson, and sought

interpretations of the Quran to harmonize the two. In general, we can find many papers by Muslim economists arguing for self-interest and utility maximization, when the Quran urges us to spend on others, and to be compassionate, kind and generous.

It is important to understand why this is so; why Muslims have made such a gross error. Economists claimed that their subject is a positive science. The law of supply and demand is like the law of gravity. Muslims accepted this false claim. Having accepted it, they thought that arguing against greed is like arguing against the law of gravity – or more generally, like closing one’s eyes to the facts. Analysis of human behavior shows that it is quite plastic and flexible. Humans can be generous, selfish, cooperative, competitive etc. as anyone who is not brainwashed by economic theory can readily see. What determines behavior is social norms. The prevalent norms are taught to children in families, and they learn to behave according to them. Islam urges us to structure our societies using the norms of cooperation and generosity. Obviously this is possible otherwise God would not have sent us over one hundred ayat in the Quran urging generosity.

### **3.2 Islamic Governments**

Dr. Shameem Siddiqui starts by asking me to clarify my views on the role of the government. This has been discussed extensively in section 5 of my paper “Islamic Economics: A survey of the literature.” [28] The most fundamental role of the government is to enjoin the good and prohibit the evil. That is, the main duty of an Islamic government is also the spiritual transformation of human beings. In most of the Islamic world, governments are based on the colonial model: the goal of the government is to exploit the people for personal profits of a minority elite. How can we get from the currently abysmal reality to the sublime ideals of Islamic governments? This requires coordinated multidimensional effort on several fronts simultaneously. Some of the key ingredients have been discussed in my essay on “Rebuilding Islamic Societies,” [32] mentioned earlier. This essay also discusses some of the common traps and false ideas about how to bring about change.

### **3.3 Is Neoclassical Theory Completely Useless?**

SS is justifiably puzzled at the continuing dominance of neoclassical school of thought, despite numerous severe and powerful attacks. This is indeed a major puzzle that arises in the acceptance of my thesis: if modern economic theory is all wrong, how does it continue to be taught at universities throughout the world? An equivalent puzzle is the continuing prevalence of atheism, despite the many cogent, coherent and compelling arguments for Islam and the

existence of the God. A clue is furnished by the fact that many of the leading Quraish came to believe in the validity of Islam, but continued to resist it for the fear that rejecting idols would destroy their trade relationships and wealth. As has been brilliantly and convincingly demonstrated by French philosopher Michel Foucault, theories become dominant when they serve the interests of the powerful, and not because they depict the truth. I have illustrated this theme in the context of how false economic theories prevail because they serve the interests of the powerful in my paper entitled “Power/Knowledge and Economic Theories” [36]. Because of this link between power and knowledge, it is especially dangerous for the weak and oppressed to rely on theories developed by the powerful. “Confessions of an Economic Hit Man” [14] and “A Game as Old as Empire” [6] provide detailed evidence of how economic theories are used as weapons by the powerful to exploit the weak.

We must go to the trouble of understanding and evaluating the arguments for ourselves, instead of relying on the verdict of Nobel Prize winners. For example, following the Great Depression, unemployment in excess of fifteen percent remained for over fifteen years. Why did the market not obey the law of supply and demand and come to equilibrium? I have given several other examples of the failure of supply and demand in my original paper. A deep theoretical conflict between the general equilibrium model, and the partial equilibrium supply and demand model, has been pointed out in Zaman and Saglam “The Conflict Between General Equilibrium and the Marshallian Cross.” [34] This paper shows that it is impossible to construct a supply curve, or a demand curve, in certain common economic situations.

Similarly, failure of utility maximization has been extensively documents in my paper entitled “The Empirical Evidence Against Utility Theory.” [9] Similarly, there is extensive evidence that firms do not maximize profits. Given that all of these fundamental building blocks of economic theory are wrong, how can we believe that a superstructure based on these errors would be right? The only answer is that we are in awe of West and therefore refuse to use our brains to evaluate arguments, preferring to trust the judgment of western experts.

### ***3.4 The Real Problems***

Dr. Shameem Siddiqui considers that the real problems lie in acceptance of wrong fatawa. Let us accept his argument that there should be no difference between the cash and credit price of an object. It is not exaggeration to say that the entire Islamic Banking industry is based on the assumption that a difference between the two is permissible. Therefore a consequence of accepting his argument would be a collapse of the current Islamic Banking industry. There is

no doubt that serious consideration should be given to his idea. However it is equally important to note that collapse of the Islamic Banking industry would not be enough to create a genuine Islamic alternative – it would leave the Ummah groping for solutions as before.

It is similarly true that insufficient attention has been paid to property rights, and justice in this dimension would be very helpful in promoting equity, a desirable Islamic goal. However I believe that these technical issues are secondary to the primary issue of creating the desire for justice within the human heart. Once the faith in Allah creates the motivation to strive for justice, then these technical issues will be resolved. Once again, the key to building an Islamic society is the spiritual transformation of human beings, as demonstrated by our Prophet Mohammad S.A.W. and as noted in the Quran.

### ***3.5 Islam Has Free Markets and Private Property***

At the start of the twentieth century, 90% of the Islamic world was colonized. It was in the process of the liberation struggles that the issue first arose of which type of economic system would be used in the post colonial era. Indigenous systems with Islamic roots had been ruthlessly crushed and even their memories are currently lost to the Muslims. As a practical matter, there were only two major economic systems: Capitalism and Communism. Of the two, Capitalism offered free markets and private property, whereas Communism had regulated production and prices, no real markets, and government ownership of means of production. Of the two, it was clear that Capitalism was much closer to Islamic concepts.

However, only a few Muslim economists looked beyond the superficial similarities between capitalism to a detailed examination of the capitalist doctrines. Those who did found that both private property and free markets are drastically different in Capitalism and in Islamic Law. We discuss some of these differences below.

Whereas private property in Islam is a trust, which must be used responsibly or forfeited, Capitalism promotes an absolute and in-alienable right to property. The conflict between these views is brought out in the Quran:

*(Q 11:87) They said: "O Shu'aib! Does thy religion command thee that ... we leave off doing what we like with our property? "*

A somewhat more detailed discussion of the differences between Islamic views of property and the current capitalistic views is given in Section 4.3 of my paper "Islamic Economics: A Survey of the Literature." [28] A very

illuminating history of the current capitalist views on property and how they came to dominance is given by Kogl [8]. She shows how these views are extremely unreasonable in allowing capitalists the right to refuse to share property with the hungry, even when the property is accidentally or unfairly acquired (instead of earned).

The case of free markets is similar. While there is a superficial similarity between the Islamic concept and the Capitalist concept, on deeper examination there are very strong differences and conflicts. Regulation of markets, formalized in the institution of Hisbah, has been present in Islamic societies from the earliest days of Islam. See section 6.4 of my paper “Islamic Economics: A Survey of the Literature” [28] to see how this market regulation differentiates Islamic free markets from Capitalist ones.

### ***3.6 Distribution of Income is the Islamic Solution***

SS writes that:

“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.”

Although we are in fundamental agreement here that Islamic solutions lie in redistribution, rather than in accumulation of wealth, there is a subtle point which requires further clarification. In Islam, achieving a just income distribution is not the end-goal; rather, it is striving for equity and justice which is a means of purification of the heart. Taking this into considerations requires understanding the following two points clearly:

1. The primary purpose of charity is to purify the heart.

A detailed discussion of the many ways that this is clear from the Quran and Hadeeth is given in my essay on “Principles of an Islamic Education.”[33] For the present consider the Quranic ayat that:

3:92 By no means shall ye attain righteousness unless ye give (freely) of that which ye love; and whatever ye give, of a truth Allah knoweth it well.

If our giving was meant for the benefit of the poor, then a more appropriate order would be to take into consideration the needs of the poor and give them

whatever is of maximal use to them. However, for the purification of our heart, it is best that we give that which is most beloved to us. Note that this is the opposite of the utility maximization or greed based model recommended by Samuelson and western economists and blindly supported by his Muslim followers.

2. State support and Organizational Structures do not satisfy this purpose.

That is, if the state provides complete support for the poor, raising desired money via taxes, this will not serve the purpose of cleansing the hearts by giving freely to other out of the love of Allah. This is not to say that states should not support the poor, but rather that there is a tension between state responsibility towards the poor, and the individual responsibility. Section 5.5 of "Islamic Economics: A Survey of the Literature" [28] provides a brief discussion of this tension, which is also alluded to in the following Ayat of the Quran:

36:47 And when they are told, "Spend ye of (the bounties) with which Allah has provided you," the Unbelievers say to those who believe: "Shall we then feed those whom, if Allah had so willed, He would have fed, (Himself)?- Ye are in nothing but manifest error."

Certainly, God can feed all the world, but has asked us to do so, so that we will purify ourselves by fulfilling these commands of Allah. This will also generate in our hearts the compassion for the poor that is required for followers of the Mercy for All Mankind. These purposes will not be achieved if God (or the government or other organizational structures) do the feeding on our behalf.

#### **4. Response to Dr. Seif Tag-el Din (STeD)**

In his opening paragraphs, Dr. Seif Tag-elDin complains that my critique is based on Western and Leftist ideas, rather than on genuine Islamic heritage. Also, that my alternatives do not draw on the deep heritage of the Islamic economic thought of our distinguished ancestors. My view is that the process of creating a genuine Islamic alternative to Capitalism requires several steps. So many Muslims have been enchanted by the rhetoric of Western economic theories, that the first step is to show that these are false. Given that western intellectual prowess is supreme in their minds, it is necessary to appeal to critiques from these same sources to attract their attentions. For those who give priority to Islamic teachings over Samuelson, I have written "An Islamic Critique of Neoclassical Theories,"[30] which shares nothing with existing western critiques.

Once we wake up to the fact that the Quran offers superior guidance to all existing economic theory, than we can consider the second step of looking at the Islamic heritage for alternatives to western ideas and institutions. This has been done in my paper "Islam Versus Economics." [31]



#### **4.1 Universal Laws of Economic Theory**

STeD affirms universal laws without addressing the substance of my critique, which consists of two closely related points.

##### **1. Laws claimed as universal by economics are not universal laws**

For example, it is claimed that utility maximization is a universal law of human behavior, applicable across cultures, and across time. Henrich et. al. [5] did experiments in fifteen different societies “In search of homo economicus” but could not find him anywhere. Similarly, I have detailed the failure of the standard microeconomic model of consumer behavior in my paper entitled “Empirical Evidence Against Utility Maximization.”[9]

##### **2. Particular Historical Circumstances are not studied, since these are not universal**

For example, an economic model of trade between India and Pakistan has no way of taking into account the political tensions between the two countries, as well as the specifics of goods produced and other particular historical circumstances which affect trade. Recent research shows that emigrant communities create links which have substantial impact on trade with mother countries. One can get a Ph.D. in Economics at the finest schools without learning anything about the economic circumstances that prevailed in the twentieth century. I would strongly recommend *The Shock Doctrine* [7] by Naomi Klein to all readers as an eminently readable capsule summary of major economic events of the late twentieth century. A full fledged Ivy League Ph.D. program in Economics provides nowhere near this amount on information on the actual history of the interaction between Economic theory and the Real World events.

#### **4.2 Positive Normative Distinction is Valid**

STeD argues that the positive normative distinction is grounded in Islamic materials and is a valid distinction. I am not taking a position on this issue as an abstract philosophical matter<sup>(2)</sup>. What I state is economists claim that the body of economic theory is a positive theory, when in fact it is a normative theory. As already discussed earlier, utility maximization does not hold for human behavior, and hence this theory is not positive. Detailed evidence is provided in my paper entitled “Empirical Evidence Against Utility Maximization.”[9]

---

(2) The clearest exposition of the current philosophical position is given by leading philosopher Hilary Putnam in his book “Collapse of the Fact Value Dichotomy”. It is clear that some statements are factual while others are value judgments. However, a large number of propositions combine the two (facts and values) in a way where one cannot be separated from the other. The Positive Normative distinction is based on the fallacious assumption that we can always separate the two.

Similarly, comparative advantage is used to justify free trade. Superficially it appears like a positive theory, but many normative judgments are hidden within its folds. As those who have studied the details know, trade will benefit the rich capitalist groups at the expense of the laborers. Thus the justification is given that “if the beneficiaries can compensate the losers” then we will consider the trade as beneficial. It is recognized that the compensation must actually take place for this to be valid, but this is ignored in presenting the theory. Nonetheless, the theory is presented as objective and factual.

In my paper entitled “The Normative Foundations of Scarcity,” [35] I have argued that the fundamental concept of scarcity is not objective and factual as claimed, but based on normative principles. A more transparent argument for the same idea can be found in my recent paper on “Islam Versus Economics.” [31]

#### ***4.3 Neoclassical Tools Can Be Used For Islamic Purposes***

STeD refers to his own paper which combines neoclassical concerns with production and Islamic concerns with morals. I have done something similar in my paper entitled “Towards A New Paradigm for Economics” [29]. Even though neoclassical methodology is fundamentally flawed, in the right hands it can be used to produce interesting and potentially useful results. This does not relate to the point I am trying to make: The main body of results currently found in neoclassical textbooks is dangerously false and misleading as guide to conduct of economic policy. The Quran offers us much better guidance on economic issues. Perhaps we could also use neoclassical tools to affirm Quranic wisdom, but that would be besides the point.

### **5. Response to Dr. Masudul Alam Choudhury**

I am seriously handicapped in responding to Dr. Masudul Alam Choudhury by my inability to understand what he is saying. To give just one example, he writes in response to my critique of universality of economic laws as follows:

“The concept of universality of economic postulates thereby remains impossible in economic theory. Yet universality is possible under the relational and symbiotic theory of organic unity of knowledge and its epistemic consequences on the construction of the relationally unified though complex world-system. This is made possible in the Qur’an by learning in *Tawhidi* unity of knowledge pervading in continuum.”

Despite repeated reading, pondering, and trying to understand what MAC is trying to express, I could not understand any of these sentences. MAC has provided additional references as well. In the hope that these might contain a

clearer expression of his views, I explored some of these writings as well. However, these were also marked by the same level of opacity; I could not understand them at all.

To put the matter in the style favored by him: Despite Herculean hermeneutic efforts, penetrating through to the semantic and epistemic content of his complex, colorful, and labyrinthine collocation of polysyllabic articulations proved tasking beyond my morphogenetically constrained capabilities.

I will forge ahead, trying to guess at what MAC is saying as a critique from clues dropped in the occasional sentences that I am able to follow. It is quite possible that I have seriously misunderstood what MAC has written, but I do not see any remedy for this. I will list some of the ideas that I grasped, and try to respond to them.

**Retain the good from the old, without casting it away, but introduce new ideas. There should be intellectual exchange between the new and the old.**

My main contention is that the neoclassical paradigm is fundamentally incompatible with the Islamic paradigm. It is precisely the “mixture” being recommended above which is the source of the problems with Islamic Economics. From the above quote, it would seem that MAC has equal difficulty understanding my writing as I have in understanding his.

**It is impossible to achieve the ideals of Islam. (Asad Zaman’s) approach is utopian.**

I have discussed this point in detail in Section 5. I reproduce one sentence from my paper: “The goal of the normative ideals is to set the direction for the struggle, even though the ideals are themselves unachievable.” Apparently, MAC did not reach this section in his reading of my paper, or he would not have raised this objection.

**Thus the Qur'an is the book of perfect guidance in its episteme.**

On this point we agree, with the reservation that I do not know why MAC limits the perfection of the Quran to its episteme. I think the Quran is perfect in its *techne* and in its *phronesis* as well. The main message of my paper boils down to this: that Quran is sufficient for our guidance, and not in need of any supplementation from neoclassical economists.

**(Asad Zaman's) interpretation of the Keynesian forecast is not authenticated in Keynes' writings**

To prove his point, MAC cites the Keynesian tract on "Economic Possibilities for our Grandchildren." However, the Keynesian forecast of World War II due to unfair treatment of the Germans is contained in his immensely popular and influential book entitled "The Economic Consequences of Peace."

**It is a misunderstood and misconstrued complaint among the less mathematically motivated that elegance of mathematization of economics took out the reality behind such elegance.**

I can only guess at the meaning of this sentence and the passage which contains it. My article quotes Nobel Laureate Paul Krugman, who has said that the entire field of economics went astray because it mistook the beauty of the mathematics for truth. If I understand him correctly, MAC is arguing that because Paul Krugman is *less mathematically motivated*, he failed to understand that "mathematics is a powerful language and has an etymology that explains complexity". MAC seems to suggest that if we used topology instead of calculus, that would solve the problems we face. This seems very simple minded, and ignores the fact that tremendous amount of efforts to apply Differential Topology, Catastrophe Theory, Chaos Theory and other complex branches of mathematics over the past forty years or so have failed to produce a single worthwhile or substantial contribution to our understanding of the economic affairs of man.

**His paper ... has nothing to contribute ... where Islamic contributions can be profound. See Choudhury's ideas ..**

I quite agree that I have nothing to contribute. All I am trying to point out is that the Quran contains complete and perfect guidance, and is in no need of any supplementation either from neoclassical economics, or from my own self. As far as the profound contributions of Choudhury are concerned, I am afraid that they are beyond the limited amount of understanding that has been granted to me by God.

**Scarcity is negated by the continuous production Knowledge**

Choudhury writes as follows:

What establishes the premise of abundance of resources and thus negates the postulate of scarcity upon which economic theory rests, is the continuous production of knowledge perceived as continuum (systemic) symbiosis to reproduce more knowledge.

In my paper entitled “Islam Versus Economics,” [31] I quantified the massive amounts of wasteful and harmful production, which is more than enough to provide food, education, health, housing and a comfortable life for everyone on the planet. To me, this seems a much clearer negation of scarcity than the impenetrable phrase: ‘continuous production of knowledge perceived as a continuum (systemic) symbiosis to reproduce more knowledge’. Instead of striving for growth to remove scarcity, we need to work on mechanisms for creating equitable distributions of wealth.

## **6. Conclusions**

Ibn-e-Khaldun had remarked on the tendency of defeated nations to imitate the conquerors in all ways. Repeated defeats over the last few centuries have demoralized the Muslims and led to an inferiority complex. Instead of trying to analyze and solve our own problems, we have become reliant on Western experts to tell us what is wrong with our social, political, and economic structures, and how to fix them. The glaring failure of the economic theorists to predict the global financial crisis, and the current record homelessness and hunger in the USA should be sufficient as a wake-up call. Instead of learning from theories which are demonstrated failures, let us turn to the successful model demonstrated by our Prophet Mohammad S.A.W. Instead of seeking to replicate European growth along the seven stages of Rostow (which took three hundred years), let us study the model of our Prophet Mohammad S.A.W. which lead to world leadership in only thirty years.

Three central points that I would like to re-inforce are as follows:

1. Awe of European social science has prevented Muslims from applying our own minds, traditions, and Islamic knowledge to the formulation and solution of our economic problems. The ten points of the Washington Consensus were acknowledged to be failures even by Williamson, the man who invented the term. A detailed analysis of the failure has been given by Rodrik [17]. Based on this failure, economists have now come up with a twenty point agenda. My point is that NONE of these twenty points touch the most important problems facing the Muslims. As long as our debate is confined to the agenda set by Western experts, we will be futilely discussing the failure of the revised Washington consensus, and a new thirty point agenda devised for us in the next decade. If we use our own minds to look at the world around us in the light of Quranic teachings, we will come up with an entirely different diagnosis of our problems and correspondingly different methods to solve them.

2. Anyone who has studied actual behavior of human beings (and this has been done in a large number of different social science disciplines, including

practical and pragmatic business departments) has come to the conclusion that the utility maximization model does not describe human behavior; See Aknin et. al. [1] or Karakuca and Zaman [9]. What is the alternative? Consensus is slowly developing that social norms play a key role in determining behavior. This means that our society will be generous or selfish depending on how our children are brought up. Recent empirical work shows that empathy, caring for others, and generosity is built into the nature of infants, but that they can be trained out of these characteristics; see Zahn-Waxler [22]. This is directly contradictory to economic teachings which presuppose that we are hardwired for selfishness and greed. If we teach our children in accordance with the guidelines of the Quran, which strongly encourages generosity and discourages selfishness, greed, and pursuit of wealth and luxury, we can create a society which does not conform to the ideals of neoclassical microeconomic theory.

3. Because Social Science avoids explicit normative theory, after reaching the point of understanding the real development must refer to the development of human capabilities, western experts cannot go on to state what these capabilities should be; see Sen [20]. The Quran provides clear and explicit guidance on the characteristics of humans which are loved by Allah, and also those which are disliked. Similarly, what an ideal society looks like is outside the purview of western social science, but our Prophet was sent with complete guidance by Allah. His teachings provide us with ideal models, and utilizing these to target our efforts for reshaping our societies will prove a far more efficient method for achieving development than current policies based on theories which are acknowledged and demonstrated failures.

## 7. References

- [1] **Aknin, Lara B., Christopher P. Barrington-Leigh, Elizabeth W. Dunn et al.** (2010) *Prosocial Spending and Well-Being: Cross-Cultural Evidence for a Psychological Universal*. NBER Working Paper 16415, downloadable from: <http://www.nber.org/papers/w16415>
- [2] **Bairoch, Paul** (1995) *Economics and World History: Myths and Paradoxes*, University of Chicago Press.
- [3] **Blaut, James M.** (2000) *Eight Eurocentric Historians*, The Guilford Press.
- [4] **Goody, Jack** (2012) *Theft of History*, Cambridge University Press.
- [5] **Henrich J, Boyd R, Bowles S, Camerer C, Gintis H, et al.** (2001) "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies" *American Economic Review*, **91**:73–79.
- [6] **Hiatt, Steven and John Perkins** (2007) *A Game As Old As Empire: The Secret World of Economic Hit Men and the Web of Global Corruption*, Berrett-Koehler Publishers (February 28, 2007)
- [7] **Klein, Naomi** (2007) *The Shock Doctrine: The Rise of Disaster Capitalism*, Metropolitan Books.

- [8] **Kogl, Alexandra** (2005) "Enclosure and Exclusion: The Invention of Private Property" Paper presented at the annual meeting of The Midwest Political Science Association, Palmer House Hilton, Chicago, Illinois, April 07.
- [9] **Karacuka, Mehmet** and **Asad Zaman** "The Empirical Evidence Against Utility Theory" submitted to *Journal of Economic Surveys*.
- [10] **Mahmood, Saima** (2011) *Efficiency Wages and Non-Monetary Motivational Strategies: An Experimental Approach*. Ph.D. Thesis, Pakistan Institute of Development Economics, Islamabad.
- [11] **Mahmood, Saima** and **Asad Zaman** (2010) "Monetary and Non-Monetary Gift Exchange", *Pakistan Development Review*, Vol. **49** number 4, Winter 2010.
- [12] **McNeill, William H.** 1963 (1991) *The Rise of the West: A History of the Human Community* [With a Retrospective Essay], University of Chicago Press.
- [13] **Najam, Adil** (2007) *Portrait of A Giving Community: Philanthropy by the Pakistani-American Diaspora*, Harvard: Harvard University Press.
- [14] **Perkins, John** (2005) *Confessions of an Economic Hit Man*, Plume.
- [15] **Pizzigati, Sam** (2006) *Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives*. The Apex Press, NY. ISBN 1-891843-25-7.
- [16] **Polanyi, Karl** (1944) *The Great Transformation*. Boston: Beacon Press.
- [17] **Rodrik, Dani** (2006) "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's "Economic Growth in the 1990s: Learning from a Decade of Reform" *Journal of Economic Literature* , Vol. **44**, No. 4 (Dec., 2006), pp. 973-987.
- [18] **Said, Edward** (1979) *Orientalism*, Vintage Books, New York.
- [19] **Samuelson, Paul A.** and **William Nordhaus** (1989) *Economics*, 13<sup>th</sup> Edition.
- [20] **Sen, Amartya** (2000) *Development As Freedom*, Anchor Press.
- [21] **World Bank** (2006) *Where is the Wealth of Nations?*.
- [22] **Zahn-Waxler** (1990) Carolyn and Marian Radke-Yarrow, "The Origins of Empathic Concern," *Motivation and Emotion*, **14**(2).
- [23] **Zaman, Asad** (2007) "An Islamic Worldview: An Essential Component of an Islamic Education," *Lahore Journal of Policy Studies*, **1**(1): 95-106, June 2007.
- [24] **Zaman, Asad** (2009) "Origins of Western Social Science" *Journal of Islamic Economics, Banking and Finance*, vol. **5**, number 2, May-August 2009, p. 9-22
- [25] **Zaman, Asad** (2010) "The Rise and Fall of Market Economies," *Review of Islamic Economics*, **14**(2).
- [26] **Zaman, Asad** (2009a) "Islamic Attitude towards Motives, Incentives of Economic Agents and the Role of Information" entry in *Encyclopedia of Islamic Economics*, to appear.
- [27] **Zaman, Asad** (2009b) "Contrasts between Islamic and Economic Views of Incentives" submitted to *Islamic Economic Studies*, IRTI E-Journal.
- [28] **Zaman, Asad** (2009) "Islamic Economics: A Survey of the Literature," , Published in three parts: Part I: *Islamic Studies* 48:3 (2009) pp. 395-424. Part II: *Islamic Studies* 48:4 (2009) pp. 525-566. Part III: *Islamic Studies* 49:1 (2010) pp.37-63. Also available as Discussion Paper No 22, Religion & Development Project, University of Birmingham.
- [29] **Zaman, Asad** (2005) "Towards a New Paradigm for Economics," *Journal of King AbdulAziz University: Islamic Econ.*, **18**(2): 49-59 (2005 A.D/1426 A.H)

- [30] **Zaman, Asad** (2012) “An Islamic Critique of Neoclassical Economics,” *Pakistan Business Review*, April.
- [31] **Zaman, Asad** (2012) “Islam Versus Economics,” submitted to *Islamic Economic Studies*
- [32] **Zaman, Asad** (2010) “Rebuilding Islamic Societies.” Chapter 6 in *Lecture Notes on Islamic Economics*, draft 2010.
- [33] **Zaman, Asad** (2010) “Principles of an Islamic Education,” Chapter 1 in *Lecture Notes on Islamic Economics*, draft.
- [34] **Zaman, Asad** and **Ismail Saglam** “The Conflict Between General Equilibrium and the Marshallian Cross,” submitted to *American Journal of Economics and Sociology*
- [35] **Zaman, Asad** “The Normative Foundations of Scarcity,” submitted to *Economics Research International*
- [36] **Zaman, Asad** (2011) “Power/Knowledge and Economic Theories,” *Lahore Journal of Policy Studies*.