

Muhammad Nejatullah Siddiqi
Teaching Economics in Islamic Perspective
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Reviewed by:

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This book provides a very useful descriptive (non technical) explanation of the principles of Islamic economics. The author, Dr. Muhammad Nejatullah Siddiqi, at the outset, very humbly claims that his book is primarily addressed to teachers and can be used as a source of economic teachings of Islam. The book deals with a variety of disciplines in Islamic economics and is useful to a wide variety of readers, from those who are not familiar with the issues and the debates of Islamic economics to those who deal with the issues every day. Moreover, it offers researchers many research ideas.

The book includes six chapters on economic issues and a reading list on Islamic economics and traditional non-Islamic economics. It starts with microeconomic issues like the need, rationality and satisfaction in Islamic and non-Islamic worlds, production, distribution, markets as well as wages, profits and prices from both Islamic and non-Islamic perspectives. Zakat, financing of capital in an Islamic system (profit sharing), interest on capital in contrast to rental price of capital, as well as neo-classical economics are explained in a very useful and descriptive manner.

In Chapter 2, Dr. Siddiqi covers issues in macroeconomics. The aggregate economic variables are discussed. Money and its functions as well as the role of fiscal and monetary policies from both Islamic and traditional non-Islamic aspects are discussed. Demand for and supply of money, consumption, savings, and investment functions, as well as labour market, aggregate supply and aggregate demand from both Islamic and traditional non-Islamic economics are covered.

Chapter 3 covers issues in public finance. The chapter covers goals and functions of an Islamic state. Functions, according to the Qur'an, *Sunnah*, *ijtihad* and people's own choice are explained. Public expenditures and revenues, according to Islamic goals and functions, are fully and elegantly covered. Issues on taxes and zakat from both their imposition and impacts are explained. Deficit and debt financing by taxation, money creation, domestic and foreign financing are also described. Finally, many interesting recommendations are offered.

Chapter 4 is devoted to international economics. In this chapter the author provides an Islamic view on transactions, in general, while introducing Islamic terminology on prohibited practices like usury, gambling, etc. A very descriptive and comprehensive explanation on theories of international trade and commercial policy is provided. Concepts on balance of payments, exchange rate (fixed and flexible regimes) and mobility of capital from an Islamic perspective are explained.

Chapter 5 covers economic development. After providing a useful historical background, the author presents sections on Islamic strategies for development, factors mobilities (both human and physical resources), trade and development, and planning.

The final chapter is devoted to money and banking. The monetary equilibrium from an Islamic point of view, Islamic financial intermediaries, central banking and conduct of monetary policy in an Islamic system are explained. A very interesting section on house financing in an Islamic framework (i.e. rent sharing, deferred payment and corporate housing) is provided. This chapter also provides a section on government deficit financing and a critique of conventional banking and monetary reform proposals.

I believe, in his hook, Dr. Siddiqi provides a very comprehensive guideline for teaching Islamic economics. There are many overlapping sections in different chapters as one can find in different courses in economics. However, there are some points, which in my opinion, deserve special attention and should perhaps be considered for the next edition of this book.

1. Special attention should be given to the concept of stability in both chapters 1 and 2. The existence of an equilibrium point does not guarantee that it will be attained. In other words, there is no guarantee that the equilibrium price (or quantity) will be established if the market is not in equilibrium when the market is not stable. An equilibrium is stable if a disturbance results in a return to equilibrium; otherwise, it is unstable. In an Islamic economic system stability is guaranteed. For example, speculative activities, which are strongly discouraged in an Islamic economic system, result in departure from equilibrium prices. These activities often overshoot prices and create bubbles in stock prices, currency exchange rates, etc. If speculative activities result in a return to equilibrium prices they usually accelerate, rather than moderate, the return so that they lead to a turmoil in the market. Bankruptcy and other economic disasters will follow. The prohibition of speculative activities in an Islamic system, therefore, guarantees stable markets. Another

destabilizing factor in financial markets, for instance, is the volatility of interest rate. Consequently, interest-free financial markets are more stable.

2. In teaching Islamic economics, it is extremely important to teach students the reality rather than idealistic theories. What ought to be in an Islamic system is different from what has been in the history of mankind. Mankind by creation is selfish. In Islam, human beings are encouraged to maximize their utilities and profits. However, utility and profit functions contain an extra factor. This extra factor is pleasing God. The satisfaction of God makes utility and profit functions of believing and practicing Muslims dynamic and ever lasting.

The question is whether or not all Muslims follow such utility or profit function. The answer is negative since not all believing Muslims are practicing Muslims. Consequently, developing an idealistic Islamic model where all individuals in the economy follow 100% the Islamic belief may not have a practical application for an Islamic society.

I should, of course, mention that Dr. Siddiqi is fully aware of this fact as he says “We do not reject self interest. We hypothesize that other motives coexist with self-interest, qualifying it and constraining it. We shall spell out these constraints and qualification as we analyse human behaviour as producer, as consumer, etc.” (p.8) However, later, on p. 9, he suggests; “We dilute the assumption of maximization of profit in case of the producer by admitting motives other than profit, including motives that relate to others, --- labour., consumers, other producers, or the entire society.” Then he mentioned that “It is a more realistic assumption to make in relation to the contemporary Muslim society.” My suggestion would be the introduction of at least two kinds of utility (or profit) functions for a Muslim society: one for what a practicing Muslim possesses and one which is constructed based on pure selfishness. Then one of the goals of the Islamic government would be the promotion of the first kind of utility or profit function. We can see, e.g., again on p. 29 and p. 38, Dr. Siddiqi assumes only a true and practicing Muslim’s utility and profit functions.

I think teachers should make clear to the students that Islam is a realistic and practical religion and, therefore, idealistic or unrealistic assumptions may not correspond completely to Islamic societies, I would modify the sentence on p. 79 by adding “all of” (underlined) to the sentence so to be read: “It may also be pointed out that the Islamic approach, while fully recognizing the role of legitimate self interest on part of any participant in the decision making process, can not accept the theory that *all of* these participants seek to maximize their own advantages guided only by their self interest.” As history proves there have been (and so will be) rulers in Islamic societies who consider the interests of others and society in their decision making, but not all of the rulers followed and will follow this Islamic rule. To these rulers, the religion is the way to get power. Consequently, Islamic models should allow all of these possibilities. Then potential output and maximized welfare level can be constructed based on what the Muslim society should be.

3. Dr Siddiqi provides two reasons for the absence of liquidity trap in Islamic economics: (i) the existence of a zero-interest money market and (ii) the existence of a zakat-levy on cash as well as on the income yielding assets. I think the first reason is sufficient for the elimination of liquidity trap. Instead of predetermined interest rate, demand for money in an Islamic system is a function of expected rate of return besides other things. Noting that zakat is a pillar of Islam and the fact that its calculation (according to determined rate!) and the time of payment are determined by the individual believing and practicing Muslims. A practicing believer who follows exactly the rule of zakat according to the Qur'an and Sunna of Prophet, peace be upon him, should know speculative activities in Islam are not allowed and hoarding money is not encouraged in Islam. Consequently, these Muslims do not resort to speculative activities by hoarding money. Therefore, zero-interest environment is a sufficient condition for the elimination of liquidity trap.