

Islamic Economics: Nature and Need

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It is usually a ticklish task to define a subject. However, the following definition is only a tentative attempt to express the core of meaning as is discernible from the literature:

Islamic economics aims at the study of human falah achieved by organising the resources of earth on the basis of cooperation and participation.

Falah is a both-worldly concept. In this world it represents three things: survival, freedom from want, power and honour. The Qur'an uses the term *falah* or its derivatives at 40 places. A perusal of these verses leads us to determine the conditions of *falah* at the spiritual, economic, cultural and political levels.

The second key concept in the definition is 'resources of earth'. Islamic economics studies human behaviour towards resources of earth and investigates those modes of utilisation which may lead to *falah*. The resources of earth are meant to provide livelihood to the creatures of God. The overall spirit of the *Shari'ah* is that either one may use the resources one has come to possess or may release them for others. Furthermore, the Qur'an informs us that God has created sufficient resources for His creatures (41:10)⁽¹⁾. Therefore, scarcity may be either due to lack of proper utilisation of natural endowments or an imbalanced distribution. Islamic economics studies resources from the point of view of 'adequacy' rather than scarcity. It starts from the premise that the resources of earth are 'adequate' to achieve *falah*. Therefore, if some 'scarcity' is being encountered man must be doing something wrong, and ways and means should be found to restore the natural state of adequacy. This may be by broadening the productive base, improving technical know-how, re-distribution of resources or curtailment of misuse of resources, or of excessive and frivolous wants. Scarcity of resources is a man-made situation and Islamic economics studies it in order to rectify it.

There is a moral dimension to this question. Man is accountable for his deeds in the *akhirah*. Utilisation of resources would also have to be accounted for. The *Shari'ah* has laid down standards of propriety for acquisition, utilisation and transfer of resources.

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(1) All references in parentheses are to the Qur'an, the number of chapter followed by the number of verse.

These standards contain a very high moral content. Islamic economics takes into account these standards and judges human behaviour by them.

The above definition emphasises cooperation in view of the fact that inter-personal relationships in Islam are based on the universal brotherhood (*ukhawah*) of all human beings (4:1). As members of an *Ummah* the Muslims are visualised like one body, so that the whole body senses pain if any organ is suffering from any discomfort (49:10; also Muslim, *Kitab al Birr wa'l Silh*, item 80). The Qur'an has explicitly ordained Muslims to help one another in furthering God-consciousness (*taqwa*) and virtue (*birr*) (5:2). Thus mutual help rather than conflict should be the basis of all economic relationship (41:10).

The Approach of Islamic Economics

How does Islamic economics approach its subject-matter?

The method of Islamic economics presumes a primary and binding role for the ideological content. The basic premises are defined by the *Shari'ah*. The economists develop their analysis by employing reason and real life data to the divinely ordained content. Islamic economics cannot be conceived outside this basic framework.

Islamic economics takes into account the economic behaviour of man in the overall human context. It does not restrict itself to the 'market' variables. It integrates the findings of other social sciences into its subject-matter. In sum, the approach of Islamic economics is inter disciplinary.

Secondly, a very high content of Islamic economics is normative. Muslim economists have the obligation to discharge the Qur'anic duty of enjoining the proper and forbidding the improper. Therefore, Islamic economics studies and suggests ways and means to achieve *falah*. It watches digressions from the *Shari'ah* in the human behaviour and devises policies to attain a higher level of conformity.

Islamic economics foresees latent economic crises that may develop due to the aberrant behaviour of the economic agents. It adopts suitable policy measures to counter these crises.

Thirdly, Islamic economics studies the impact and reaction of various *Shari'ah* injunctions and ethical values on the economic variables. For example, it may be of interest to study the effect of prohibition of *riba* on the level of savings, investment and employment. Another example may be the effect of *zakat* on the consumption level of the society. Such examples may be multiplied. The positive findings of Islamic economics may be utilised for normative policy making.

Islamic economics may utilise the tools of analysis developed by modern economics. Mathematics, statistics, operations research, systems analysis and computer technology may be utilised with benefit to develop Islamic economics. Similarly Islamic economics may adopt findings of Western economics so far as they have a universal application. It, however, would like to sift the total content of economic knowledge to strip it of the temporal and local applications. These findings would then be integrated into the conceptual framework of Islam. The task of developing an Islamic critique of

Western economics and synthesising its relevant parts into Islamic economics is both arduous and time consuming. But Islamic economics cannot discard the valuable insights of modern economics by a simple stroke of disgust. It is satisfying to note that a beginning has been made in this direction by the professionally trained Muslim economists.

Need for Islamic Economics

Most of modern economic analysis is the study of the behavioural patterns of individuals, firms and public bodies of Western capitalist societies. Without questioning the validity of this analysis, it can be safely said that such an analysis need not be universal and valid for all times. It is based on the way Western man behaved or believed to have behaved. But since the cultural, political and social set up of a Muslim society is basically different from Western society, conventional economic analysis may not be applicable in the former situation. Some of the findings of Western economics may, however, be based on the study of human nature, which may be the same everywhere and for all times. To this extent Western economic analysis may be valid for Muslims as well.

Second, the central assumption in the Western economic paradigm is that individuals *maximise* their own satisfaction and in doing so they behave *rationally* in utilizing their resources (Dopfer, pp.5-6). These behavioural assumptions may be traced back to the philosophy of utilitarianism and associational psychology of eighteenth and nineteenth centuries (Ward, p.25). Maximising one's own satisfaction presumes that man is basically selfish by nature and is indifferent towards others. (Ward, pp.199-200 and Boulding, p.131). *Satisfaction* also means satisfaction of body and mind by acquisition of material goods and services (Galbraith, p.47 and Hirsch, p.60). *Maximization* means minimization of direct cost to an individual leaving aside social costs to others and society (Siddiqi, p.19-20). Rationality stands for a pleasure-pain calculus which every individual applies in carrying out economic decisions (Ward, p.25). These assumptions have never been critically examined in their psychological and sociological complexity nor an adequate empirical evidence has been provided in their support (Dopfer, p.28). But a Muslim economist is reluctant to accept them on other grounds. Let us first take the question of human selfishness which is believed to be ingrained in man. Self-interest, of course, is a reality discernible in most individual behaviour. But it is also a fact that human actions are sometimes motivated by altruistic ends. In a Muslim society, caring for others, preferring others over ones' own interest, looking after orphans, widows and invalids, hospitality to guests, mutual cooperation at moments of distress are great virtues and accepted as norms of behaviour. In economically vital areas, individuals do behave in such manner that they sacrifice their personal interests for others. In Western societies as well, people do behave likewise but the Western economic analysis does not take this fact into account.

The assumptions of selfishness, greed, and acquisitiveness as instinctive in man are not supported by Qur'anic injunctions.⁽²⁾ The Qur'an informs that man has been created with an inborn nobility and has been equipped with positive qualities of character. These are universally honoured moral qualities. The frame of human personality was

(2) See the verses (59:9.2:237; 59:9) among others.

devised to contain the best quality but subsequently it degenerated into hedonism and developed excessive fondness for material possessions. As a result, such qualities as selfishness, greed and acquisitiveness seem ingrained in him, although they are only a degenerated form of human nature. The Qur'an says that man can overcome these latter traits of character with the help of faith in God, in the Hereafter and by noble deeds. They can help him reinforce his inborn qualities of character.

Third, similarly the concept of 'Islamic rationality' is significantly different from economic rationality as understood in the conventional economic analysis. A rational act in Islam is, of necessity, the one which brings in a positive reward in the Hereafter (*akhirah*) (28:60; 87:17; 7:8). The cost benefit calculus in the Islamic sense treats accountability of the *akhirah* as of paramount importance. An act which may bring a negative yield in the *akhirah*, however high it may rank on the Benthamite pleasure-pain calculus, is considered an irrational' act. (42:45).

Fourth, the Western economic analysis assumes that the economic agents are busy in the satisfaction of maximum wants for material goods and services. But Islam does not treat the satisfaction of maximum wants as the object of economic activity because such an objective would be a horse race which never ends. Islam treats the object of economic activity as *falah* and not satisfaction of wants.

Fifth, the central object of investigation in the Western economic paradigm is *market* context. (Dopfer, pp.5-6). The variables usually included in the models are related to 'economic factors', and those too, which are susceptible to quantification. Restricting the models to those variables which can be easily quantified, no doubt, makes possible the construction of impressive mathematical models. But it locks away the whole social system. (Myrdal, pp. 83-84). Such variables as population, state of technology, distribution of wealth and economic power etc. are treated as exogenous over the period of analysis. (Dopfer, p.7). Even such 'economic' variables as savings, investment, rate of interest, level of consumption, wage rates, cost of operations, etc. are not traced to their logical origins which if done would lead the economists to benefit from other social sciences. These economic variables are, in fact, derivatives of much deeper social forces and are ever-changing in character. (Hetzler, pp.60-61).

Sixth, like natural sciences, economics applies objective methods to test various hypotheses. The corpus of economics consists of those theories which could not be disproved by empirical evidence*. It implies two things: (a) economics does not accept any metaphysical postulates and discards value judgements as unscientific and unverifiable; (b) since it does not have the benefit of controlled experimentation, the evidence has to be interpreted through personal judgement. The result is that, a given phenomenon may be interpreted in a number of ways. (Robinson, p. 22). This leads to multiplication of hypotheses, even confusion. There is a no final method to reach the truth.

* It is an oversimplified statement of the method of economics. As a matter of fact the whole economic doctrine could be divided into a number of schools, so far as the method of analysis and exposition is concerned. There are a *priorism* and deductive reasoning of Ricardo, Comtean positivism, logical positivism and German Historical School, to mention only the most significant ones by way of illustration. Irrespective of their differences in method of argumentation, the main point we are going to make at this place remains unaffected (For an excellent critical exposition of method of economics, see Homa Katouzian, *Ideology and Method in Economics*, London, Macmillan Press, 1980).

This position is not tenable on logical grounds also. It is difficult to prove that objective reality is independent of the human mind i.e. a *priorism*. The human mind is influenced by a host of factors, some of which pertain to metaphysics, religion, ethics and social values. Ideas based on or influenced by metaphysics may not be empirically testifiable, yet they cannot be termed as 'unscientific' or 'untrue' because the criterion of scientificity (like empiricism) is itself a value judgement and hence to be rejected on the logic of positivism.

But from the Islamic point of view a science which restricts itself to mere empirical evidence and forsakes any supersensory or transcendental source cannot reach the hard core of *truth*. (45:24: 53:28).

Seventh, the content of economic-science consists of two major categories of knowledge, explanatory and prescriptive. The first category is mainly concerned about the analysis of events as they occur. The second category relates to policy matters, suggesting modifications and adjustments in the economic environment.

In Islamic economy, like all Muslims, the economist has a normative role. He is a critic and leader in the society. He cannot be assigned the duty of merely studying a given phenomenon. Instead he critically examines various socio-economic trends in behaviour, predicts possible pitfalls, forecasts future crises and assumes the role of an architect of the society. Part of the responsibility of an Islamic economist is to study the extent of divergence in individual behaviour from the *Shair'ah* and to suggest policy measures which keep the economic system within the constraints of the *Shari'ah*.

Eighth, the Western economics has disregarded the question of distribution. Its main focus has been on 'production': One of the basic tenets of the *Shari'ah* lays down equitable distribution of income as imperative (59:7).

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