

## The Ethical Rules for Research in Islamic Economics

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### 1. Background and justification

There is a belief among many Muslim economists that Islamic economics has come of age. It really has not and may take a long time to do so. What has happened is a noticeable growth of studies in Islamic banking and finance commensurate with the rapid growth of petro dollar in the oil producing countries of the Middle East which happen to be Islamic. In their understandable eagerness to gain control over these investable resources, western banks and financial institutions hurriedly learned about Quranic prohibition of interest (*riba*) and set up Islamic windows in their own banks. They are offering many sharia compliant products and have succeeded in taking away a very large chunk of the oil wealth from the Middle East, estimated by some Muslim scholars at around a thousand billion US dollars. At the same time these countries are indebted to the Western financial institutions to the tune of an estimated 600+ billion US dollars, giving rise to an extraordinary situation of borrowing one's own money. Whether this is the best use of Islamic fund is a debatable point that falls in the ambit of Islamic economic research.

Again in Muslim countries like Bangladesh millions of middle class retirees, who have been till now keeping their life's savings in reputed conventional banks and living off their interest income, are not given sufficient incentive to transfer their funds to the newly emerging Islamic banks in the country; because these bank's whose credentials are yet to be fully established only offer limited banking products which give the small depositors a return at best comparable to the interest rates offered by non-Islamic banks.

These Islamic banks, by lending money to rich entrepreneurs, predominantly on a *murabaha* (cost plus) basis are foregoing an opportunity of higher return on a *musharaka* basis, and thus contributing to the rich getting richer at the cost of the poor.

Then there is the case of Malaysia where some dominant politicians strongly believe that *riba* really refers to usury and not the ordinary simple interest. The issue truly calls for a through and scholarly research by a team of Muslim economists, historians and jurists.

The above are only a small sample of many unresolved questions in Islamic economics that call for serious analysis by the professionals so that the right solutions emerge which truly reflect the Islamic values of justice, fairplay and harmony. Herein lies the justification for the present article.

## 2. Objectives

This paper aims to review the broad issue of ethical rules pertaining to research in Islamic economics. Toward that goal the specific objectives are

- To propose an analytical framework as a conceptual tool to capture what is fully involved in Islamic economics
- To identify the priorities, or at least develop a method to prioritize research in muslim countries aiming to achieve economic progress within an Islamic framework
- Identifying the right methodology for the selected agenda of research, and
- Finding the right way to utilize the results of research for the benefit of a large body of people striving to lead a good life in accordance with the tenets of Islam.

Finally this review will make some recommendations for research sponsors which could be taken as ethical considerations for sponsors of Islamic economic research.

## 3. Methodology

This article utilizes secondary materials, mostly journals, books and scholarly articles accessed through the internet websites. It also utilizes articles presented at a conference jointly held by the Islamic Development Bank (IDB), Jeddah and the Islamic Economic Research Bureau (IERB), Dhaka in April, 2007.

In writing about ethical rules for research in Islamic economics, one has to start with a clear comprehension of what Islamic Economics is all about. Is it just conventional economics minus interest (*riba*) plus *zakat* and *waqf*, as some scholars, both Muslim and non-Muslim, tend to believe? In a way it is but it is not all that it is. In order to understand the concept more clearly it would perhaps be best to construct an analytical framework that captures all the main elements of an Islamic economy and their broad interactions. Such an analytical framework is diagrammatically presented in Figure- I and briefly explained in section 4 below.

It is to be kept in mind that the above analytical framework has been constructed logically and not empirically. In other words, it is not based on the analysis of a set of real Islamic economies, but is a logical formulation based on guidelines provided by and/or derived from the Qu'ran and Sunnah. This is the ideal state towards which all Islamic economies should strive to evolve.

The conceptual framework of an ideal Islamic economy would constitute a useful tool for identifying the problem of an existing economy of a Muslim state which is trying to be Islamic but is still not quite getting there (In fact most Muslim counties probably fall into this category).

The exercise would consist of a comparison of an existing model against the ideal model, component by component and function by function. It is through this process of

identifying what the problems are that one takes the first step in ethical rules for carrying out Islamic economic research.

#### **4. A conceptual framework for an Islamic economy**

Figure-1 shows diagrammatically and in broad terms the essential components of an economy in a given period of time and how they interact with each other to functionalize the economic system. Rectangular boxes are used to depict physical objects (i.e resources) while elliptical boxes represent things which are not physical, eg. Ethics (ie ethical standards).

The top box represents IDEOLOGY, which contains both theology/faith as well as science and philosophy. This box provides the knowledge as well as moral standards for man to conduct himself through life in the pursuit of his ultimate goal, which in Islam is attainment of peace and harmony through complete submission to Allah. Needless to say, the consumption of material goods and services is not ignored. But these are treated as intermediate steps and not as ends in themselves as is done in some materialistic cultures in parts of the western world.

The elliptical box titled ethics of resource utilization would essentially contain both the science and technology of production as well as the moral codes from the Quran and Sunnah regarding Islamic economics. In Islamic economics it would contain guidelines about caring for the resources provided for mankind as Allah's blessing, about how much of what to consume and how to take care of the resource after the required amount is extracted, how all trades have to be just and fair and how promptly the wages are to be distributed, and so on. There are verses in the Quran which illustrate these points very clearly.

The rectangular box RESOURCES contains all that is in the air, on earth and underneath. For example, sunshine, wind/air, water, soil, rocks, trees, animals, birds, and all other living creatures would constitute resources on and about the surface, while oil, gas, coal, precious stones and minerals would constitute resources beneath the soil. This box also contains man made resources referred to briefly in the diagram as financial and cultural resources.

In the rectangular box, HUMANS, both dimensions of his well being are noted, namely material status in respect of health, education and income (wealth), and his spiritual well being in respect of knowledge, happiness and harmony, and in case of Muslims, Allah's blessings.

Some rectangular boxes represent domains that contain both material as well as non-material elements (or variables). For example the box containing four such boxes – production (P), consumption (C), demand (D) and poverty/opulence (O) lying horizontally at the bottom of P, C and D – represent the market. The horizontal box could be +ve (indicating  $S > D$ ) which implies opulence (surplus), nil (indicating  $S = D$ ) is market clearance and -ve ( $S < D$ ) is poverty.

The lines between the boxes are either unidirectional, indicating one way influence or bi-directional indicating two way interaction as in case of HUMANS and RESOURCES, representing supply of manpower activities. Finally, the whole set of boxes would pass from period  $t$  to period  $t+1$ , changes occurring in most of the boxes, ie in the elements within each box, representing regeneration, aging, diminishing by consumption, increasing by reproduction, etc.

## **5. What ought to be done but is not being done**

The analytical framework provides a useful tool for comparing the existing status of an Islamic economy with an ideal model. The list of factors that are at a suboptimal status may really be large, but taking a broad look at the consolidated picture, it would be easy to identify factors that are key. Listed below are several factors that seemed to be important, particularly in the context of Bangladesh. A perusal of the content of about 200 articles published in the Quarterly Journal of Islamic Economic Research Bureau, Dhaka has been helpful.

a) Quantitative model building of an Islamic economy, comparable to the General Equilibrium model in neoclassical economics.

This should be undertaken for every Muslim economy, preferably under the aegis of the Planning or Finance Ministry. It would involve (see Figure I) the inclusion of the nonmaterial goods and services in the list of consumable items in addition to the material ones that are traditionally considered in the analysis of demand, production and supply.

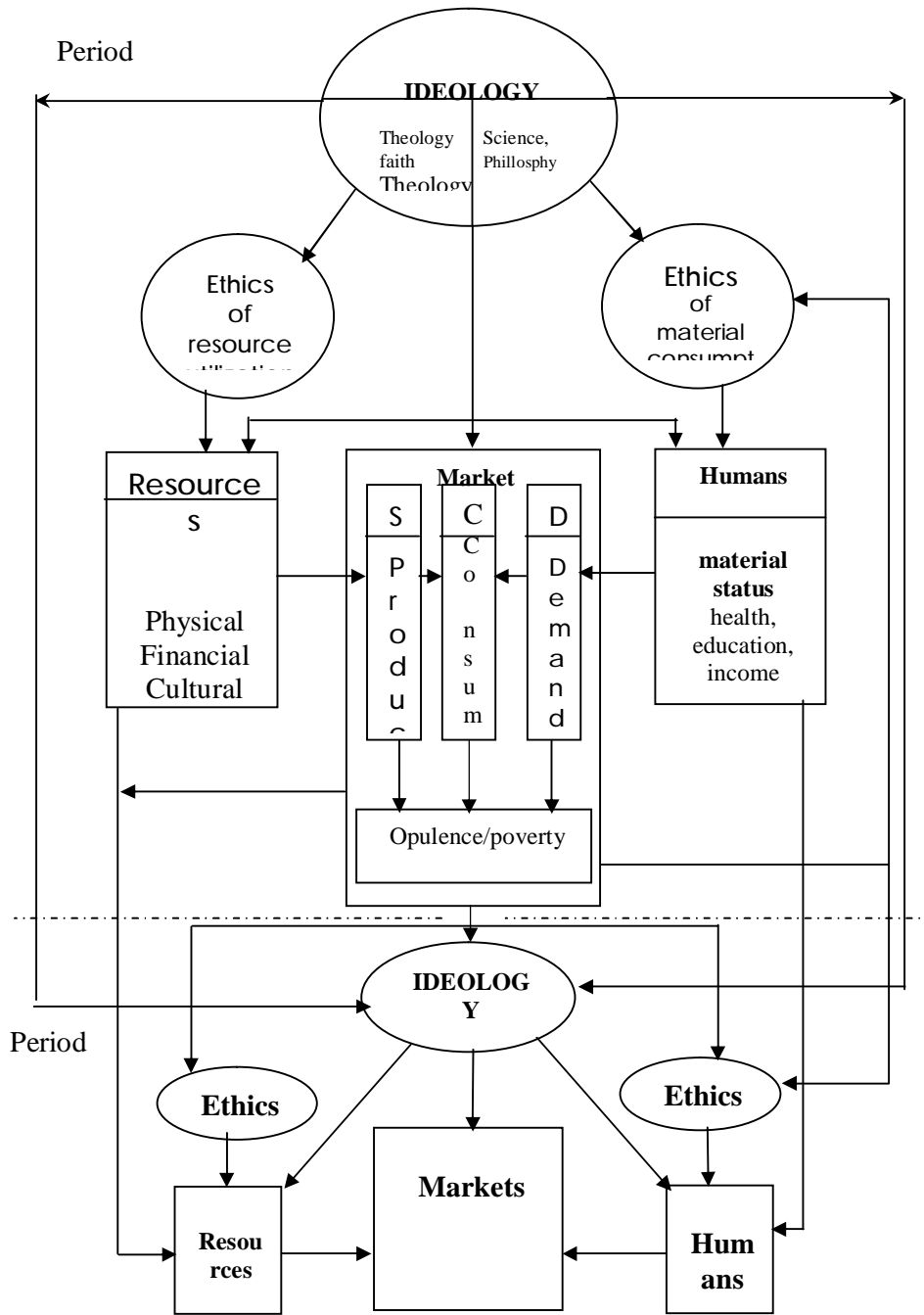
In essence it would be an elaboration and reinforcement of the conceptual model discussed under section 4 above and then estimating the inter relationships designated by the arrows in quantitative terms.

b) Development of appropriate indicators and index numbers: virtually a blank field.

Dissatisfaction with indexes of economic well being has long been felt by many economists of western traditions. In particular the per capita income index (GNP/P) has been rejected by many notable scholars and philosophers since the 1970s. This includes Amartya Sen, Mahbubul Huq and, of late, President Sarcozi of France.

This branch of quantitative Islamic economics would be a natural spin-off from the general equilibrium model building exercise referred to under 2(a) above; but one need not wait for it, since it would be a while before general equilibrium models get going in Islamic economies. On the other hand, indexes referred to above are useful tools which stand on their own and would in fact constitute building blocks for developing general equilibrium models.

**Figure -1: Conceptual Framework for an Islamic Economy**



Note: G = Goods, S = Services, including spiritual fulfillment

c) Comparative analysis of Islamic economies with non-Islamic economies: non-existent, Muslim economists have frequently extolled the supremacy of the Islamic approach in economics over the so-called rationalistic approach followed by Western economists. But such assertions have remained largely hypothetical in the absence of concrete empirical evidence. This is one of the serious shortcomings of Islamic economic research. Fortunately, a good number of Muslim countries have adopted Islamic principles wholly or partially in their economies. Sponsors should invest on projects to study the impact of the two approaches on the basis of comparative analysis between countries, companies and individuals, belonging to the two different categories.

But beyond the compulsion to prove the supremacy of an Islamic economy to a non-Islamic one, it would be of great benefit to political leaders and policy makers to be able to compare the level of performance of an economy at various macro as well as micro levels between different periods of time (i.e. inter-temporal comparisons).

Such comparisons would also be useful for the Muslim *Ummah* to identify weaknesses of countries at different levels of well-being, so that appropriate measures can be adopted to redress the problem and bring all Muslim states to an equitable level of well being in both material as well as non material aspects.

d) Identification of investment opportunities by richer Muslim countries in poor Muslim countries.

According to some crude estimates, Muslim countries in the Middle East have invested in excess of 800 B US dollars in Western countries, while they have borrowed around 600 B US dollars from these countries. It is like borrowing one's own savings. There are many low income Muslim countries which provide a much higher rate of return to investment compared to Western countries. Muslim countries, especially those looking for foreign investment, should carry out research on establishing this fact with empirical data.

e) Action Research on appropriate financial instruments for small investors and pensioners.

It has been observed in Islamic banks in Bangladesh, and it probably is a common phenomenon in similar banks of many other Muslim countries or non-Islamic banks with Islamic windows, that longer term profit sharing loans are denied to small investors and pensioners, and instead they are offered various short term products with dubious shariah compliance and lesser overall earnings. It is important to demonstrate through action research that this practice is detrimental and erroneous.

## **6. How are the gaps to be filled**

A simple answer is by including all of them in future research agenda. The sponsorship has to come from national as well as international sources. The banks now interested in Islamic banking are a potential source. The World Bank, IMF, OECD, OIC are all potential sources which need to be tapped for funds. The Western bilateral agencies DFID, USAID, CIDA, SIDA, NORAD, etc, may also provide funds for cross cultural models and their comparisons.

## **7. How to adopt appropriate research methodologies**

Fortunately this area is well developed in the Western tradition and there are very few difference between Islamic and non-Islamic methodologies apart from the obvious ones of excluding non-Sharia compliant items variables and research tools such as porc, alcohol and *riba*.

To recall briefly, the areas that needs particular attention in case of primary data generation, are

- Appropriate skill and training of researchers
- Well tested questionnaires and voluntary giving of information with protection of privacy assured constitutionally if need be
- Adopting scientific survey designs, including adequate sample size, etc.
- Judicious use of data, not comparing, for example, apples with oranges and not to try and 'in the world in a grain of sand'
- Rigorous testing of findings with an acceptable range of errors

## **8. Dissemination of research results**

Many research reports in Third World countries often do not see the light of the day. The most frequent reason – the results are not to the liking of the sponsors.

This problem needs to be solved through a variety of ways including pre-research contract, lobbying and constitutional provisions. Leaking to donor groups or responsible journalists are sometimes practiced. But the best strategy is perhaps transmission by word of mouth – an age old method.

When sponsor's sensitivity is not a problem widest possible dissemination through multimedia channel can be carried out now-a-days with relative ease. But once again the researcher must be confident beyond reasonable doubt about the veracity of the results and must always disclose weaknesses where they exist.

## 9. Conclusions and Recommendations

In this article it is possible that ethical rules for Islamic economic research have been somewhat liberally defined to include not only rules for those who are responsible for doing the research, but also on the ethics of Islamic economics itself. In my view these are actually inseparable. If an Islamic economist is doing everything the right and ethical way on an unethical issue, say exploitation of the poor, he is clearly transcending the boundary of ethics.

The other point to make is about sponsorship of research. Poorer countries need research too, perhaps more than the richer countries. But research is often seen by policy makers and fund providers in these countries as not strictly necessary, unless funds are from abroad. But such funds are not abundant and/or available at times of need.

Perhaps IDB, OIC, some rich banks in the middle east and other rich countries which collect and distribute *zakat* could build a fund for helping poor countries in the *Ummah*.

Finally we make three specific recommendations to give a booster to Islamic economic research.

### a) Initiation of a Peace Index by OIC

The OIC has the right organizational clout and legitimacy to start this worthwhile Index. Since Islam means peace, the OIC as the custodian of the *Ummah* would be the most appropriate body dedicated to preserving peace and keep monitoring it as a sentinel.

Such an Index could be constructed for each member country of OIC using a common formula, and each country could possibly carry the burden of cost of a Gallup poll type survey. Further details on a proposed Peace Index and how to construct it is available at the Institute of Hazrat Mohammad (SAW) and can be provided on request.

### b) Invitation of a well-being index by IDB

This would be an improvement over the existing indexes; QLI (quality of life index) or a Human Development Index (HDI). It would call for time series data on a number of socio-economic parameters, eg GNP, GDP, literacy, health status, religiosity, contentment etc. Preparation of this Index could be done in cooperation with the UN as well as the special committee (to be) set up by the French President for developing a Happiness Index, comprising Nobel Laureates Amartya Sen and Joseph Stiglitz.

The IDB appears to be the most suitable organization to undertake this task.



**c) Development of an Islamic Economic General Equilibrium Model by King Abdul Aziz University**

This model would be an extension of the general equilibrium model with the accommodation of the non-material elements in the production, consumption and well-being variable sets. The most distinct feature would be a double variable optimization function that would capture both material and non-material well being. The conceptual framework presented under section 4 could provide a prototype to build on. Once the conceptual model is fine tuned and fully representative of the Islamic economy being modeled the exercise would boil down to estimating empirically the interrelationship between individual and/or blocks of variables in different boxes in the Analytical Framework.

This project work requires a team of experts with considerable theoretical/philosophical maturity as well as quantitative analysis skills. An ideal solution could be a collaborative network of several Muslim as well as Western research centres of excellence with close links to institutions with strength in databases of many countries, e.g. the World Bank, OECD, IDB etc. The theoretical guidance could come from King Abdul Aziz University, Al-Azhar University, Islamabad, Kuala Lumpur, on the Islamic side, and Oxford, Harvard, Wharton on the Western side.

The best approach would probably consist of developing a generic model by a Team under the guidance of world class experts. This could be replicated by national teams through continuous on line communication as well as periodic conferences at KAU.

## القواعد البحث الأخلاقية في الاقتصاد الإسلامي

منور حسين

**المستخلص:** إن البحث في الاقتصاد الإسلامي لا يزال في مرحلة الولادة، وذلك لأنه يتركز بشكل أساس حول الصيرفة والمالية الإسلامية وذلك لإيجاد البدائل لتحريم القرآن للربا، مع دراسة السبل في كيفية استخدام الزكاة والوقف في القطاع العام، فلا توجد على سبيل المثال دراسات تحليلية مقارنة فيما يتعلق برضا المستثمر في اختياره للمصارف الإسلامية على غيرها من البنوك التقليدية، كما لا توجد دراسات شبيهة تتناول قضايا اقتصادية متنوعة تكون محل مقارنة بين النظامين.

إن على البحث في الاقتصاد الإسلامي أن يركز على الأهداف الأساسية المادية وغيرها بالنسبة للمجتمع المسلم، وذلك لأن المعايير الأخلاقية تفرض ترتيب الأولويات من حيث تقديم الأهم على المهم فيما يتعلق بتحديد برنامج عمل بحثي. لهذا السبب فإن الفروقات يجب أن تكون واضحة بين النظام الإسلامي وغيره للوقوف على حقيقة وماهية هذا الاقتصاد.

هذه الدراسة تحتاج بأنه لا بد من إتباع المنهج التحليلي الشامل والمعمق في الأبحاث المتعلقة بالاقتصاد الإسلامي، وذلك بالأخذ بعين الاعتبار العوامل المادية وغير المادية مع ضرورة دمجها لبناء نموذج متكامل. هذا الإطار سيتم عرضه في هذه الورقة من خلال رسم مبسط مع بعض الشروحات والتعليقات. لقد أظهر النموذج عدد من الفجوات في أبحاث الاقتصاد الإسلامي، ولتصحيح هذا الوضع فإنه تم اقتراح برنامج مكون من ثلاثة عناصر ليستخدما كل من: منظمة المؤتمر الإسلامي، والبنك الإسلامي للتنمية، وجامعة الملك عبد العزيز.