

Introduction

Contemporary Islamic resurgence, although still in the initial phases of articulation, has begun to influence the theme and language of the ideological dialogue of our times. An old and neglected issue has moved to the centre of the debate: the relevance of God and His guidance to the politico-economic life of mankind.

Western Civilisation is based on the principle of separation of Religion and State. Man is assumed to be self-sufficient. As such, the social, economic, political and technological questions of human civilisation are grappled with without any reference to God and His guidance. God may be worshipped in one's personal life. Nonetheless the affairs of society and the economy are to be conducted according to Man's own discretion and sovereign 'wisdom'. The conquest of nature has become the main target of human effort. The stream of civilisation, however, seems to run its course without reference to the values and principles communicated to mankind by God through His prophets.

The Muslim world is no exception to this state of affairs. The models of economy and society developed during the last two hundred years or so, are steeped in the traditions of western secularism. The last three decades have witnessed the emergence of over forty independent Muslim states yet the politico-economic systems obtaining in these countries continue to be based on western models. This is the contradiction which resurgent Islam has tried to challenge.

Contemporary Islamic resurgence is neither a transient political articulation of militant Islam nor simply an angry outburst against western nations. On the contrary, it heralds the Muslims' positive and creative response to the ideological challenge of western civilisation. For the Muslim world it is an attempt to try to reconstruct society and the economy by drawing primarily upon its own rich but neglected religio-cultural sources.

The ultimate objective of this exercise is to establish a just social order in which the material and the spiritual aspects are welded together, with the result that "progress" and "prayer" do not represent two watertight compartments but two sides of the same coin, with prayer acting as a stepping stone to human progress and progress leading to the glorification of the Creator.

Islam is a complete way of life and the divergence between the values and principles of Islam and the secularism-ridden social reality lie at the root of the tension that permeates the Muslim world today. Resurgent Islam represents a new approach – that is, to strive to reconstruct the

economy and society in accordance with Islamic ideals and values and the needs of contemporary life.

There is a new quest to discover the true meaning and message of Islam by drawing upon the original sources of Islam – the Qur’ān and the *Sunnah* of the Prophet (peace be upon him) – and upon the historical experience of the Muslim people. Efforts are being made in almost every area of individual and social life – literary, educational, political, socio-cultural, economic and technological – to assess the relevance of Islam and to find out ways and means of transforming this consciousness into socio-economic reality. The nascent social discipline of Islamic Economics represents one such creative response from the Muslim economists and ‘*Ulamā*’.

I

FROM ECONOMICS TO ISLAMIC ECONOMICS

If crisis in a science is symbolised by its continued inability to meet the challenges that confront it, then few would disagree that economics is in the throes of a deep crisis. The phoenix-like rise of macro-economics from the charred debris of the crash of the 1930’s had generated a new confidence and a new valour among the economists. The solution of almost every problem seemed within sight. All looked green in the valley of economics.

This confidence was proved false and short-lived. Not only did the old problems remain unsolved, new ones emerged with threatening overtones. Mass poverty; frustrated take-offs in development; increasing disparities at regional, national, and international levels; co-existence of hunger and affluence; irrational use of non-renewable resources; incongruity between technology and developmental needs; unsuitability of production and consumption processes to environmental needs; exploitation of the poor and the afflicted by the rich and powerful; inflation and stagflation; structural deformities in relations between developed and developing countries; all of these and many more problems fail to be tackled within the framework developed by post-Keynsian economics. This is being realised even by those economists who had earlier thought that their sophisticated economic models could provide answers to all the perplexing questions.

Noble Laureate Paul Samuelson of MIT laments the disarray into which economic theory has fallen. He warns “there are no signs that we are converging towards a philosopher’s stone that will cause all the pieces to fall neatly into place”. Professor Otto Eckstein of Harvard says “we are always one inflation too late in specifying the exact form of the price-

forecasting equation". Robert Heilbroner goes a step further when he says "Economists are beginning to realise that they have built a rather elaborate edifice on rather insubstantial narrow foundations."¹

The predicament of economics has been searchingly examined in a recent study, *Economics in the Future: Towards a New Paradigm*.² The near consensus that emerges in this book is that what is needed to salvage economics from the throes of crisis in which it is caught is not just some new interpretation of this or that economic theory or some changes within the current paradigm of economics, but that the *need is to change the paradigm itself* and move towards a new paradigm under which economic problems are not studied in isolation but in the context of an entire social system.

This background constitutes a point of departure for the Muslim economist. Islam is not a religion in the limited sense of the word, interested only in man's salvation in the life to come. Islam is a complete way of life and aims at constructing the entire fabric of human life and culture in the light of values and principles revealed by God for man's guidance. Human life is looked upon as an organic whole and its problems are approached, not in a purely mechanistic way, but in the light of the moral values and social ideals that Islam expounds. The purely positivistic vision of social sciences developed in the West becomes obsolete in this new context.

Man is treated as a human being, possessing a moral personality, and not just a complex of molecules. The world has suffered from the folly of the social sciences following almost unreservedly the model of the natural sciences, with the result that technocratic solutions are being imposed in the name of science, often legitimising the status quo to the neglect of all moral, ideological and political options available for social policy. Muslim economists believe that re-orientation of approach and a reconstruction of the entire framework of economic analysis and policy are needed to harness economics once again to the service of humanity. During the last fifty years over eight hundred books and journal articles have been written by Muslim economists articulating different aspects of the new paradigm they want to develop.³

The Muslim economist starts from the assumption that economics neither is, nor can be, totally value-free. Economic literature, produced in the last two centuries, is rife with vigorous protestations of 'objectivity' and 'scientific positivism', but in the last analysis, there is very little of economics that can really be described as totally value-neutral.⁴ And what is more important, this is hardly desirable.

The social sciences have to have their own stance *viz-à-viz* human objectives and values. To pretend to follow exactly the methodology of the physical sciences in the field of social sciences, without regard to the latter's unique subject matter and the dynamics of the human situation is unrealistic.⁵

Socialist economics does not claim to be ideologically neutral. It is committed to a certain ideology and set of values. It stands or falls with them. Although there is a lot of prattle about positivism and objectivity, there are no pretensions of ideological neutrality, but this assertion is no more than a myth.

Classical economics was based on a hierarchy of values derived from the 18th century philosophies of individualism, naturalism and utilitarianism. Its alleged 'universal principles' of 'utility maximisation' and 'profit maximisation' are assumptions rooted in philosophic and ideological beliefs and not in objective reality.⁶ Its concepts of 'competition', 'price-mechanism' and of the 'invisible hand' are related to the specific purposes it was made to serve in the rise and growth of capitalism.⁷ The entire corpus of classical and neo-classical economics is derived from a set of assumptions and postulates, albeit through meticulous application of rigorous deductive logic supplemented by results of empirical investigations. The myth of objectivity and value-neutrality deserves to be exposed and the philosophic assumptions of modern economics laid bare.

In contradistinction to this, the assumptions and values of Islamic economics are clearly stated from the very beginning and the function of the Muslim economist is to explore and elucidate their relationship to economic life, theoretically as well as empirically. The Muslim economists do not wish to conceal these assumptions and values under the facade of false objectivity. To them, objectivity consists in honest expression of their values and consistent pursuit of these social ideals through logical analysis as well as empirical investigation.

It can hardly be over-emphasised that such an effort must be made with academic rigour and scholarly detachment. Nonetheless, it would be idle to assume that this theorising can take place in a climate of positivistic objectivity and value-neutrality. Most of the economic thinking that masquerades as value-neutral turns out, on closer scrutiny, to be otherwise. The result of this approach, however, is that its value-assumptions remain apparently hidden. They remain implicit and as such, are not susceptible to evaluation in an ordinary way.⁸

This is unfair and improper. We agree with Myrdal that "efforts to run away from valuations are misdirected and foredoomed to be fruitless and damaging" and that "the only way in which we can strive for objectivity in theoretical analysis is to lift up the valuations into the full light, make them conscious and explicit, and permit them to determine the viewpoints, the approaches and the concepts used. In the practical phases of a study the stated value premises should then, together with the data established by theoretical analysis with the utilisation of those same value premises – form the premises for all policy conclusions".⁹ This is what Muslim economists are trying to do.

One of the major contributions of Islam lies in making human life and

effort purposive and value-oriented. The transformation it seeks to bring about in human attitudes and *pari passu* in that of the social sciences is to move them from a stance of pseudo-value-neutrality towards open and manifest value-commitment and value-fulfilment. The first premise which we want to establish is that economics in an Islamic framework operates with its feet firmly rooted in the value-pattern embodied in the Qur'ān and the *Sunnah*. We study human behaviour as it articulates itself in different value-backgrounds and also how to influence it to fulfil the norms to which the society is committed. All the technological relationships between inputs and outputs are to be analysed and investigated in this framework. The attitude, tastes, motives, social customs, etc., which are ordinarily treated and given as 'constant' become 'variables', subject to policy manipulations. The scope of Islamic economics is wider than that of economics. Its approach has to be more global and holistic. The widening of the scope takes place at both levels, horizontal as well as vertical or inter-temporal. This represents a new approach to the study of the economic problems of man.

II

THE 1976 CONFERENCE AND ITS IMPACT

The First International Conference on Islamic Economics was held at Makka from Şafar 21–26, 1396 (February 21–26, 1976) under the auspices of the King Abdul Aziz University, Jeddah. It was attended by two hundred economists and '*Ulamā*' from all parts of the world. The Conference discussed over thirty papers presented in English or Arabic. The Conference elected the following as its officers:

President:	Dr. Muhammad Omar Zubair
Vice-Presidents:	Dr. Hasan Abu Rukba Professor Khurshid Ahmad Professor Sabahuddin Zaim
Rapporteur:	Dr. Monzer Kahf

Papers were presented at sectional meetings each dealing with a specific theme. Major areas covered were as follows:

1. Concept and Methodology of Islamic Economics.
2. Production and Consumption in an Islamic Economy.
3. The Role of the State in an Islamic Economy.
4. Insurance within the Framework of the *Shari'ah*.
5. Interest-free Banking.
6. *Zakāt* and fiscal policy.

7. Economic Development in an Islamic framework.
8. Economic co-operation among Muslim countries.

A general session was held in which two survey articles on Islamic Economics were presented. A symposium was organised on the Teaching of Islamic Economics. Each section held organisational meetings to deliberate upon problems of future study and research in Islamic Economics as well as about possibilities of extending facilities for its teaching at College and University levels.

The Conference provided the Muslim economists with a rare opportunity, the first in recent history, to address themselves to the problems of Islamising economics including an effort to elucidate the basic concepts of Islamic economics and deliberating upon ways and means of implementing them in the contemporary world. It was highly rewarding for the Muslim economists to meet each other and develop personal and professional contacts directed towards promoting research in the nascent social discipline of Islamic economics. It was also a unique experience for the professional economists to co-operate at such close quarters with the '*Ulamā*' and mutually avail themselves of each others' expertise in the promotion of a common cause.

One of the major contributions of the Conference was the proposal to establish an International Centre for Research in Islamic Economics at the King Abdul Aziz University, Jeddah. The Centre has, by the grace of Allah, come into operation. The Centre is responsible for the production of many publications including the present work: *Studies in Islamic Economics*, containing selected papers from the 1976 Conference.

It is also encouraging to note that Islamic economics is now being taught at a number of universities in the Muslim world.¹⁰ The Association of Muslim Social Scientists, U.S.A. has organised a number of conferences in which papers have been presented on different aspects of Islamic economics. The Council of Islamic Ideology, Islamabad, The Islamic Foundation, Leicester, The Pakistan Institute of Development Economics, Islamabad and the Institute of Policy Studies, Islamabad, among others are promoting research on many themes related to Islamic economics. Islamic economics is heading towards a real breakthrough.

III

INTERNATIONAL CENTRE FOR RESEARCH IN ISLAMIC ECONOMICS

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consider the establishment of an International Centre for Research in Islamic Economics. Consequently, in Jumāda Al-Thāni 1397 H. (1977) the Centre was established to co-ordinate and to support research at the highest level of scholarship.

The Centre is expected to direct its efforts to achieve the following objectives as recommended by the Conference:¹¹

- (a) The establishment of a specialised library that would collect scholarly works in the field of Islamic economics in various languages and issue catalogues to research scholars everywhere.
- (b) Conduct and support theoretical and applied research in various fields of Islamic economics, publish text-books in this field for the use of Muslim Universities and organise training courses needed by Muslim economic establishments.
- (c) Provide research facilities and scholarships for visiting Muslim scholars to undertake research in their fields of interest.
- (d) Promote co-operation in the field of Islamic economic research among various universities and institutions.
- (e) Publish research papers and periodicals in Islamic economics.
- (f) Help establish chairs for the teaching of Islamic economics, provide scholarships for research in this field and promote lectures, conferences and regional symposia in this field.

Since its establishment it has been possible to initiate a number of activities to achieve its objectives. An International Seminar on "Monetary and Fiscal Economics of Islam" was held in October 1978 under the auspices of this Centre. The Centre has already published a booklet entitled *Monetary and Fiscal Economics – An outline of some major subjects for research* as well as a bibliography, namely *Contemporary Literature on Islamic Economics*. Another booklet on *Suggested Research Topics on Development and Distribution in an Islamic Framework* will soon be published. A number of other research works are also in course of preparation.

The Centre intends to engage in the following activities:—

- (a) Conducting pure and applied research in various areas of specialisation in Islamic economics.
- (b) The production, distribution and translation of teaching materials in Islamic economics;
- (c) Organising guest lectures and workshop activities;
- (d) The publication of professional journals and bulletins;
- (e) The publication of occasional papers and monograph series;
- (f) Organising and conducting seminars and conferences here and abroad;
- (g) The exchange of scholars;

- (h) The offering of in-service training facilities;
- (i) Awarding fellowships for doctoral and post-doctoral studies to young Muslim economists.

In line with its overall objectives, the Centre has invited research proposals from scholars of the Muslim World interested in conducting research in various areas of Islamic economics. Under this programme, grants are to be awarded to individuals, research agencies and universities to carry out scientific research for eventual publication in the form of monographs, occasional papers and text-books from the Centre. About three dozen research projects approved under this scheme till the writing of these lines are in progress. The Centre has a programme of translation of standard works on Islamic economics involving several languages. As a first step a number of important papers originally written in English have been translated into Arabic. The Centre wishes to establish professional links with other institutions and agencies engaged in theoretical or applied research in Islamic economics and related areas.

The Supreme Advisory Council of the Centre, composed of eminent Muslim scholars in Economics and *Shari'ah* drawn from the Kingdom of Saudi Arabia and other Muslim countries, has already been set up. The Centre has a Director, a number of Research Professors and a small Administrative Staff.

IV

ABOUT THE BOOK

Now a word about the present volume. *Studies in Islamic Economics* contains some of the papers presented at the first International Conference on Islamic Economics. All papers have been revised in the light of discussions that took place at the Conference. In view of the space constraint only half of the papers presented in English are included in this volume but care has been taken to include at least one paper from each section of the Conference. A Companion Volume is being produced in Arabic containing papers presented in the Arabic language. This Arabic volume has been edited by Professor Muhammad Sakr, University of Jordan. It contains the following papers.

METHODOLOGY OF ISLAMIC ECONOMICS

Dr. Mohammad Sakr	Islamic Economics – Basic concepts
Dr. Mohammad Shawqi al-Fanjari	Islamic Economic Doctrines
Sheikh Manna' Qattan	Meaning of Islamic Economics

PUBLIC INTEREST AND THE JUST PRICE

- Dr. Hasan O. Balkhi The Just Price in Islam
 Dr. Mohammad Anas al-Zarqa Social Function and Consumer
 Behaviour: An Islamic Formulation
 of Selected Issues.

ROLE OF STATE IN THE ECONOMY

- Sheikh Muhammad al-Mubarak Economic Role of the State in Islam

ZAKĀT AND TAXES

- Dr. Yousuf al-Qardawi Role of *Zakāt* in the Solution of
 Economic Problems
 Dr. Atif al-Sayyed The Concept of Justice in Taxation
 and *Zakāt* during the Early Islamic
 Period
 Dr. Muhammed Saied Abdus Salam Role of Financial and Accounting
 Theory in the Implementation of
 Zakāt

BANKS WITHOUT INTEREST

- Dr. Ahmad al-Najjar Our Approach to a Distinct Theory
 of Islamic Economics

INSURANCE

- Sheikh Mustafa al-Zarqa Insurance and its Place in Economic
 Life
 Dr. Husain Hamid Hassan The Position of *Shari'ah* on Insurance
 Contracts
 Dr. Jalal al-Sayyad Insurance and Some Doubts Relating
 to it

ECONOMIC CO-OPERATION

- Mr. Hasan Abbas Zaki Economic Co-operation Between
 Muslim Countries

These two volumes taken together contain the essence of contemporary Muslim thinking on major economic issues. The discipline of Islamic economics is still in its larval stage and as such a number of ideas and formulations are tentative. More research and greater sophistication in formulating and presenting one's ideas are needed. The Muslim economists do not suffer from any complacency; they offer their submissions in great humility and with the realisation that they have a vast area to cover. The real contribution of the Conference, and of the present volume, lies in identifying issues and themes for further study and research so as to enable the little sapling of Islamic Economics to grow into a mature tree. Much will depend on the way the Muslim economists accept the challenge that confronts them and produce creative thought and

rigorous reformulation of economics to serve the social objectives of Islam.

I am grateful to brother Azmatullah Khan of the Islamic Foundation, Leicester for assisting me in editing the manuscript, and to Mr. E. Fox for improving the language and proof-reading. My sincere thanks are due to Dr. Muhammad Omar Zubair and Dr. Abdullah Omar Nasif for all the encouragement they have given in producing this volume and for contributing Preface and Foreword to the book and to my brothers and colleagues Professor Dr. Muhammad Sakr, Dr. Anas Zarqa and Dr. Nejatullah Siddiqi for many valuable suggestions. I would also like to thank Dr. Ghazi Madani, Director, International Centre for Research in Islamic Economics for his generous support and co-operation. I would also like to place on record my sincere gratitude to Brothers Khurram Murad and Dr. Manazir Ahsan of the Islamic Foundation for supervising the publication of this volume. I hope and pray that this book may be helpful in elucidating some areas of Islamic Economics and more important in provoking newer thinking and research in areas not properly covered so far.

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20 Rabi' al-Thāni, 1400
8th March, 1980.

Notes

- 1 See: Wilfred Beckerman, "Crisis in Economy or Economics?" *New Statesman*, London, Jan 23, 1976
- 2 *Economics in the Future: Towards a New Paradigm*, edited by Kurt Dopfer; Contributors: Jan Tinbergen, Harvey Leibenstein, Sir Roy Harrod, Gunnar Myrdal, William Kapp and Shigeto Tsuru, London: Macmillan, 1976.
- 3 See: Muhammad Nejatullah Siddiqi, *Contemporary Literature on Islamic Economics*, Research Report No. 1, International Centre for Research in Islamic Economics and the Islamic Foundation, Leicester, 1978.
- 4 See: Walter A. Weiskopf, *Alienation and Economics*, New York: E. P. Dutton & Co., 1971, Gunnar Myrdal, *The Political Element in the Development of Economic Theory*, London: Routledge & Kegan Paul, 1953; idem, *Value in Social Theory*, Routledge & Kegan Paul, 1958; and *Asian Drama*, Pantheon, New York, 1968, Vol. 1, Prologue pp. 5-35.
- 5 The Cambridge economist, Professor Joan Robinson, writes: "Every human being has ideological, moral and political views. To pretend to have none and to be purely objective must necessarily be either self deception or a device to deceive others . . . to eliminate value judgements from the subject matter of social sciences is to eliminate the subject itself, for since it concerns human behaviour, it must be conceived with the value judgements that people matter". Joan Robinson, *Freedom and Necessity*, London: George Allen & Unwin, 1970, p. 122.
- 6 Modern investigations into the real behaviour of the 'economic man', and of utility

- and profit functions confirm this point. See: Von Newman and O. Morgenstein, *Theory of Games and Economic Behaviour*, Princeton, 1947; Simon, H. A. "Theories of Decision-Making in Economics and Behavioural Science", *Surveys in Economic Theory*, Vol. III, London, 1967: Ch. IX: Papandrea, G. A.: "Some Basic Problems in the Theory of the Firm", *A Survey of Contemporary Economics*, Vol. II, Homewood II, 1952. H. A. Simon, *Models of Man*, New York, 1957: See also Katona, G.: "Rational Behaviour and Economic Behaviour", *Psychological Review*, New York, July, 1953, pp. 307-318.
- 7 Economists of the German historical school and some institutionalist economists have dwelt upon this relationship. See: Schumpeter, *A History of Economic Analysis*, New York, Macmillan, 1948. See also Myrdal, G., *The Political Element in the Development of Economic Theory*, op. cit.
 - 8 Gunnar Myrdal writes in *Asian Drama* (op. cit. vol. I, p. 32), "The problem of objectivity in research cannot be solved simply by attempting to eradicate valuations . . . every study of a social problem, however limited in scope, is and must be determined by valuations. A 'disinterested' social science has never existed and never will exist. Research like every other rationally pursued activity, must have a direction. The viewpoint and the direction are determined by one's interest in a matter. Valuations enter into the choice of approach, the selection of problems, the definition of concepts, and the gathering of data, and are by no means confined to the practical or political inferences drawn from theoretical findings. The value premises that actually and of necessity determine approaches in the social sciences can be hidden. In fact, most writings, particularly in economics, remain in large part simply ideological . . . Throughout the history of social studies hiding of valuations has served to conceal the inquirer's wish to avoid facing real issues."
 - 9 Myrdal, G., *Asian Drama*, op. cit., p. 33.
 - 10 These include: Al-Azhar, King Abdul Aziz University, Jeddah and Makka; University of Jordan, Amman; Umm Durman University, Khartoum; University of Karachi, Karachi; University of Punjab, Lahore; Islamic University, Bandung, etc.
 - 11 Taken from the Brochure of the Centre.