

Towards a New Paradigm for Economics

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Muslim economists should rightly believe that they need to develop their own framework for economic analysis of human behavior. This is needed not only to get more realistic insight into the economic behavior of man, but also to understand the divine commandments about the behavior and their role in improving economic conditions for the human existence in this world. Asad Zaman has, therefore, taken a step in the right direction, discussing an alternate microeconomic framework as a prelude to developing a new economic paradigm. But, do we have an alternate framework now, for our economic analysis? I can hardly be sure. Despite very thoughtful and rigorous arguments, Zaman, still could not distance himself much from the Neoclassical framework. His main emphasis, if I understand him correctly, is on adding ethical dimensions to the Neoclassical economic analysis. As he said, “there is no escaping the ethical dimensions”. This argument is strong on its own merit and several economists have rigorously argued that Islamic ethics has to be an integral part of the discipline of Islamic economics. But these arguments do not help us much in presenting Islamic economics as a distinct scientific paradigm. Marriage of ethics and Neoclassical Economics is only a marriage of convenience to get something to be called Islamic Economics but not a new paradigm in Economics.

If we are talking of a scientific paradigm and want to present Islamic economics as a distinct scientific discipline, then we need our own framework for positive analysis of economic behavior of man and use that framework to show the scientific nature of Islamic economics. This framework should be comprehensive enough so that it can allow us not only to analyze all (positive) economic aspects of the human life but also enable us to incorporate Islamic ethics in the analysis to study the impact of these ethics on individual society. Our framework should be able to help us, not only in analyzing economic behavior more scientifically but also help us explaining the economics of the normative concepts like *Israf*, *Tabzir*, *Tayyibat* of goods, poverty, rights of others in individual property rights *etc.*

Asad Zaman's article, in fact, brings us back to square one where we were thirty years ago. This is not an unwelcome step. This was of course needed because during the last thirty years we took a path which did not take us anywhere in identifying Islamic economics as a distinct scientific paradigm. But where to go now or which direction to take, is still an open question. Zaman's paper does not guide us which direction to look for the right path. It rather still presents old (Neoclassical) path as the main road and telling us that there is a way (perhaps by jumping certain ditches and obstacles) that we may be able to reach our destination on the same road.

We can do much better than that. We can discover our own path, the right path which will take us directly to our goal. We define our own analytical framework for economic analysis and use it to discover the Islamic economic paradigm. The fact is that it is not merely Islamic economists who need to look for an alternate framework for making their own economic analysis. A large number of secular economists too are in search of a framework different from Neoclassical economic framework for their own reasons. Most of these reasons are the same for which Islamic economists need a suitable framework other than that of Neoclassical Economics. There is a large number of Heterodox economists who have tried to identify new paths for economic analysis which according to them are more relevant, more realistic and more meaningful and have relevance for Islamic Economics also. There is a lot that Islamic economists can benefit from these Heterodox approaches. My only observation on Zaman's paper is that our first step should be to take as much benefits of existing alternate approaches before we specify our contribution to develop an alternate framework for economic analysis. Hence I summarize some major Heterodox approaches and their relevance for Islamic economists.

Post Autistic Economics (PAE)

"Economics is about people not curves". The Post Autistic Economics, initiated by a group of bright French students of economics is particularly critical of the notion of utility as a measure of individual well being, of pareto optimality with respect to social welfare and even of the modern applications of game theory (as a tool to remove the assumption of certainty from the Neoclassical economic analysis)⁽¹⁾. The PAE came with the challenge that Neoclassical economics enshrined in mathematical models ignores the big problems, like unemployment, development, poverty, environment etc.

The bottom line of PAE was that Neoclassical Economics lost touch with reality and that "It fails to take into account the institutions, history, environmental and geopolitical realities, strategies of actors and groups, the sociological dimensions including gender relations, as well as more epistemological matters". This is where Islamic economist can also meet the Post Autistic Economists to develop a framework of economic analysis that will take care of the limitations of Neoclassical economic analysis and will incorporate realities and linkages in human behavior. If we are able to develop "Our framework of analysis" it will also attract the movements like PAE and hence provide a global audience for Islamic economic analysis too.

(1) In 1993, at a conference at Utrecht University, a group of British, American and Continental heterodox economists formed ICAPE—The International Confederation of Associations for Pluralism in Economics. This organization enjoys significant academic membership in the US and is locked into a major battle with the mainstream AEA – American Economics Association. (Information about the Post-Autistic Economics Movement can be found on its website, www.paecon.net. There is a newsletter, which can be accessed by sending email to [pae_news @btinternet.com](mailto:pae_news@btinternet.com)).

Evolutionary Economics

Evolutionary Economics is an important component of PAE approach. For the development of Islamic economics, evolutionary approach to economics, also provides potentially a suitable framework for Islamic economics analysis. Islamic economics was in practice long before the science of economics was formally recognized in the West. This practice was reflective in the economic institutions built and managed right from the early period of Islam and are well documented. The documentary evidence of the evolution of Islamic economic institutions is still available in archives of countries like Turkey, Egypt, Iraq, and in Europe. Study of these documents can help understand the effects of institutional developments on behavior of economic agents and hence develop a body of knowledge that can be called as "Islamic Economics". A few attempts have been made in this respect in the recent past. These attempts, however, confined themselves to describing the institutions rather than studying their impact on human behavior. Early Islamic scholarship did not pay much attention on the so-called "economic analysis" of the information available in archives, probably because of lack of interest in treating economics as an independent branch of knowledge (the Ibn Khuldun approach). Even contemporary scholars of Islam like to pay little attention to develop their own methods of economic analysis despite the growing economic problems in contemporary Muslim world. More curious, however, is the fact that Western scholarship too chose to ignore the evolution of economic thought in the Muslim world during 500 years of development of knowledge and science when Europe was still in what is referred to as the "dark ages" with respect to state of knowledge. There is the myth of the Great Gap as expressed by Schumpeter (1954), which suggests that economic thoughts did not occur to mankind between the Greeks and the Renaissance. Ghazanfar (2003) tries to fill this great gap with economic thought of Muslims. Lack of literature on economic analysis during this period of Great Gap, however, constrains the modern economists to give a comprehensive outlook of Islamic economic thought during the period.

Whether adopting an evolutionary approach can lead to a new paradigm is something that contemporary Islamic economists may like to explore.

Complexity Economics

This framework of economic analysis assumes that an economic phenomenon is not as simple as can be represented by few equations and graphs in the framework of Neoclassical Economics. Even what seems simple in economics generally arises from behavior that reflects interacting with each other in a very wide range of institutional framework. What emerges in the aggregate may have little to do with what happens at the individual level.

This approach often referred to as Complexity Economics focuses on viewing the economy as an evolving complex system (also sometimes termed the 'Santa Fe approach'). A similar basis is used in Agent-based computational economics (ACE) which uses Holland's complex adaptive systems paradigm, but which concentrates on using computer simulations designed in an object-oriented 'bottom-up' fashion to build a model of the economy.

With both the Santa Fe approach and ACE, the aim is to understand how global economic phenomena arise purely from the local interactions and local knowledge of the agents. This stems from the recognition that there is no central or global control in an economy and that the global regularities which arise are purely due to the local interactions of adaptive autonomous agents. The agents within an economic network may be individuals or institutions.

Complexity Economics assumes the world as a living organism rather than a machine – a world that is ever changing and does not stay in a static form. It is dynamic.

Complexity Economics as an alternative framework does not recognize the complexity of behavior similar to the complexity dealt with in Mathematics and computer science that provided a basis for the framework of Neoclassical economic analysis⁽²⁾. It simplifies complexity to be easy to understand and closer to reality in explaining some social and economic behavior.

For economic analysis of Islamic system of life, the complexity theory offers potentially a framework that may be consistent with the framework of Islamic system of life. Gary Becker's statement that: "It does not matter what you or I do. It is how the whole group behaves" in several ways reflects the framework of Islamic system of life. One's behavior is influenced by the behavior and environment in the neighborhood. For the economy, national or global, the individual Zakah payment may not be as significant in terms of economic impact, as the adherence of the entire group of Muslims to the Islamic injunction of Zakah. The calendar that determines the major events of Islamic life, such as fasting, pilgrimage, religious festivals are looked to the lunar calendar and the events are held according to moon sighting locally⁽³⁾ while the events are observed globally at the same time, in essence.

Unlike mathematical models and analysis which limit the scope of analysis in Neoclassical framework, the complexity economics does not face this limitation. It provides the flexibility to analyze complex economic phenomenon using the simulation techniques. Does Complexity Economics have the potential to lead us to Islamic Economics as a new paradigm? Sami Suwailem says, yes, though he has yet to finalize his paper on this subject. Suwailem in his yet unpublished paper only concluded that the use of the framework of Complexity Economics can lead us to different conclusions on economic behavior and economic institutions than what we get by using the framework of Neoclassical Economics.

New Institutional Economics

New Institutional Economics, a rapidly growing paradigm, provides an alternate framework for economic analysis that combines, economics, law, organization theory, political science, sociology, anthropology and other social disciplines in order to understand the institutions operating in society and their influence on economic

(2) Herbert Simon, a Nobel Prize winner in economics for his conceptualization of bounded rationality in fact used the concept of complexity as defined by computer science to describe economic complexities. But this is not what most economists think of when they think of complex economic dynamics.

(3) Though there is a movement to unify the Islamic calendar and occurrence Islamic events globally, I wonder if that will be in conformity with the framework originally designed for Islamic system of life.

behavior and outcome of the behavior. New Institutional Economics is also concerned with how the institutions can be reformed to bring a desired change in the individual behavior. Its approach is interdisciplinary borrowing from various social sciences while its language basically remains economics.

New Institutional Economics offers, in many respects, a suitable framework for Islamic economic analysis than provided by the framework of Neoclassical Economics. The institutions, in fact, provide rules and legal provisions to regulate human activity and human behavior and limits choices for their decision making. The legal provisions that have received most attention of New Institutional Economics are those relating to property rights and those relating to contracts and contractual obligations. Besides law and legal provisions, equally important are the norms, ethics and morals of a society, not documented as legal injunctions but observed in a society as rules of behavior, affecting the choices available to them. Islamic system of life is made up of rules, regulations, ethics and morals. Most of the current developments in New Institutional Economics may be directly useable by the Islamic economists.

New Institutional Economics provides two distinct features that make it more attractive than Neoclassical Economics with respect to its suitability as a framework for Islamic Economic Analysis. First, it allows for multidisciplinary approach to economic analysis, a feature that recognizes the fact that economics is an integral part of social life and cannot be studied in isolation of how human beings behave in other aspects of their life. Second, New Institutional Economics emphasizes the legal system and laws as determinants of economic behavior and outcome of economic activities, a feature that has been emphasized by Islamic system of life from the very beginning of Islamic society. The current literature of New Institutional Economics is concentrating on the legal system of property rights and contractual obligations. The *Fiqh* literature (which explains the Islamic laws and legal system) had elaborate literature on property rights and contractual obligations. There are volumes of works available discussing these two elements of Islamic law in great detail and hence provide a rich basis to develop an understanding of economic behavior that is shaped up by these laws when implemented in a society. Besides systems of property rights and the laws of contracts, there is an equally elaborate *fiqh* literature on laws of trade (exchange in market). Abbas Mirakhor (2006), discussed in his IDB Prize lecture, the potential usefulness of utilizing NIE framework for our analysis of Islamic economics.

Sustainable Development

The concept of Sustainable Development refers to an economic behavior on the part of all economic agents that aim at meeting their present “**needs**” without compromising the ability of future generations to meet their own “**needs**”. The 2005 UK Sustainable Development Strategy emphasized the objective of enabling all people throughout the world to satisfy their basic **needs** and enjoy a better quality of life, without compromising the quality of life of future generations.

Several United Nations texts, most recently the 2005 World Summit Outcome Document, refer to the “interdependent and mutually reinforcing pillars” of sustainable development as economic development, social development, and environmental protection. The world Summit on Sustainable Development held in Johannesburg,

South Africa, from August 26 to September 4, 2002 recognized that changing consumption pattern is one of the essential requirements for Sustainable Development. An unsustainable situation occurs when a natural capital is not used up indecisively with the objective of conserving resources for future generation.

The following points are worth noting from the point of view of the search for Our Framework of economic analysis and from the point of discovering Islamic Economic paradigm:

1. Pursuing sustainable development is consistent with Islamic objective of life.
2. The approach of sustainable development refers to fulfillment of needs rather than satisfying wants, which was mentioned in one of my papers too⁽⁴⁾ and Asad Zaman also mentioned it.
3. The approach requires a balance in utilizing resources by the present generation keeping in view the needs of future generation (balance being the corner stone of Islamic economic philosophy).
4. Waste of resources is implicitly mentioned as a source of imbalance that hinders sustainable development. Islam explicitly mentions these two sources of imbalance. For example, "O children of Adam! Wear your beautiful apparel at every time and place of prayer: eat and drink: and waste not, For Allah does not love wasters". (7:31) "Corruption has appeared on land and sea because of what the men have earned; that Allah may give them a taste of some of their deeds; in order that they may turn back from evil" (30:41).
5. Changing consumption pattern is one of the essential requirements for Sustainable Development. But conventional economic theory has yet to recognize it.

The Sustainable Development, despite the recognition of its significance at national levels as well as at global level, however, continues to remain a subject outside the mainstream Economics (the Neoclassical Economics). Unless there is a framework of economic analysis that identifies endogenous elements in consumer decision-making process that can help keeping consumer behavior in line with the society's perception of Sustainable Development, the achievement of sustainable development will remain to be a wishful thinking. Islamic system of life can be shown to lead to sustainable development, provided we have a framework to analyze economic aspects of Islamic system of life. Zaman's concern is directly the subject of sustainable development, and I believe that Zaman's discourse will be more relevant if it is in the context of sustainable development. One important missing link in Neoclassical Economics with respect to sustainable development is how to define waste of resources at the level of microeconomic decision making. The theory of sustainable development has yet to specify a framework within which human behavior and public policies could be analyzed and evaluated with respect to the objectives of sustainable development. Islamic economists can join hands with those concerned with sustainable development to have a framework of economic analysis that would benefit both disciplines.

(4) See **M. Fahim Khan** "Fiqh Foundations of the Theory of Islamic Economics: A Survey of Selected Contemporary Writings on Economics Relevant Subjects of Fiqh", in **Habib Ahmed** (2002).

Altruistic Economics

Altruistic Economics is basically concerned with how to incorporate in the economic analysis, the concerns for the well-being of others in the society, a feature that is also a very prominent component of Islamic system life. In the framework of altruistic economics, individual human relationships are modeled, so that everyone can specify how he feels about anyone else. It aims at creating a society in which transactions take place over a network of social relationships, supported by personal trust. It is a study of how to develop and practice an economic system based on cooperation and personal trust. Altruistic economics is under active development, but no working system has yet been produced. Islamic economists have been trying to take this approach but lack of appropriate theory and framework does not allow them to go far in this direction. Joining hands with those working on Altruistic Economics may yield fruitful results towards developing an Islamic economic paradigm.

Conclusion

It is clear from the above discussion that there is great dissatisfaction even among secular economists with respect to the framework that the main stream Economics provides for the analysis of economic behavior. More interestingly, the dissatisfaction is with respect to those areas that are of great concern with respect to Islamic economics as well.

A large part of Heterodox Economics or alternate approaches of secular economists towards analysis of economic behavior are valid for Our Economics too, but the approaches do not go beyond highlighting problems with respect to methodology and philosophy. What is needed is a complete framework for economic analysis of the relevant issues which is still missing despite strong alternative philosophies (including those of Islamic Economics). Why none of the proponents of heterodox economics have succeeded to lay out a complete framework for analysis of economic behavior probably is explained by the proponents of Post Autistic Economics. According to them, Neoclassical Economics have got such strong roots in the teaching of economics that it is not possible to develop and teach alternate or critical thinking on modern economics approach. The economists are forced to follow the lines of Neoclassical Economists in order to survive in the profession. There has to be compelling reasons to pursue alternate thinking to logical conclusions in the context of defining a new scientific discipline. This compulsion can come only through political pressures or political needs of a society. Despite the growing interest in Islamic Economics, the required pressure on economist, has yet to come to mobilize them to develop their own analytical framework and discipline.

Until there is some sort of political, social or community pressure on Islamic economists, academic interest would be the only pressure to mobilize them to develop a new paradigm. The work of Islamic economics has to be made world wide acceptable on grounds of philosophy and rigor in analysis. Muslim economists alone perhaps may not be able to do it. They may need to join hands with the heterodox economists with comparable goals for a new economic paradigm. This academic cooperation may give global recognition to the work relating to Islamic economics philosophy and underlying scientific discipline. I would suggest that Muslim economists must consider joining

Association for Heterodox Economics (AHE) and ensure their presence in the annual meetings of the Association with rigorous papers on Islamic economics. The common goals shared by Heterodox Economists with Islamic economists may lead them to work together in several aspects of Islamic economics paradigm and hence accelerating the process of establishing a new paradigm⁽⁵⁾.

References

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(5) There is an "International Confederation of Associations for Pluralism in Economics" (ICAPE) mentioned earlier. The International Association for Islamic Economics may consider joining this Confederation and actively participating in their activities in order to get Islamic Economics heard and recognized at international level.