The Application of Islamic Thought to Economic Policy
Making in a Threatened World

Rodney Wilson
Emeritus Professor, Durham University, UK

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ABSTRACT. The twin threats of uncontrollable disease and global warming are causing economists to rethink their research agendas. From an Islamic perspective, these threats pose moral challenges that must be addressed. More focus on how economic policy can best provide a way forward is warranted. While it is correct to stress the differences in approach between Islamic and conventional economics, in present circumstances it is more urgent to work on policy areas. How can recovery from the COVID-19 pandemic be managed, and will inadequate access to vaccines penalize the poor further? If the planet itself becomes degraded, does mankind have a future? An appropriate allocation of Islamic finance can contribute to solutions, but a spirit of international economic cooperation is needed.

KEYWORDS: Islamic economics, Economic policy, Pandemics, Climate change.

JEL CLASSIFICATION: E61, E62, F64, P49, Q54

KAUJIE CLASSIFICATION: H46, W
1. The Scope of Islamic Economics

Much scholarly effort has involved the definition of Islamic economic principles and a critique of the secular approach to economics based on utilitarian assumptions. The distinctive approach by Islamic economists has undoubtedly made an important contribution to the wider literature on the history of economic thought by providing fresh insights (Nagayak, 2012). These have been based on religious guidance on how parties to economic transactions should behave (Reda, 2017).

Much of the guidance concerns moral issues, with Islamic economics being prescriptive, telling economic agents how they should behave to accomplish spiritual goals during their journey through life. There are similarities with the normative areas of economics, notably managerial economics, which provides management guidance, but based on perceived best practice rather than what is and is not acceptable from a religious perspective (Barom, 2018). There is also increasing interest in the rapidly growing field of behavioral economics, but no meaningful engagement by Islamic economists (Furqani, 2017). There has, however, been some work studying the behavior of believers to determine whether it is influenced by Islamic teachings. This involves a social anthropological methodology of micro-observation and potentially its aggregation to a macro level. Most economists dismiss such approaches as being beyond the boundaries of their discipline (Asad, 2009).

These debates are interesting from an historical perspective, but look back rather than foreword. For some, the aspiration is for the creation of an ideal Islamic state respecting religious values and facilitating the piety of its citizens. Some look back to the great empires at the times of the Moguls or Ottomans, but although there is much to learn from these experiences, the economic challenges faced by Muslim majority states today are very different to those in the past. Part of the remit of Islamic economics is to provide a history of ideas, focusing on the writings of great Muslim thinkers of the last fourteen hundred years (el-Ashker & Wilson, 2006). The economic history of Muslim majority states gets less attention. In a university context, the economic history of Muslim majority countries is included in the remit of departments of history or schools of Islamic studies, but seldom within departments of economics where much of the research involves econometrics and the use of advanced statistical techniques rather than the more qualitative approach preferred by most historians.

2. Islam and Economic Policy

Much of the dialogue on Islamic economics has been a critique of classical and neo-classical economics. Methodological assumptions have been convincingly challenged from an Islamic perspective, with a focus on their incompatibility with Sharīʿah. There has not, however, been meaningful engagement with contemporary economic policy making or any guidance on what the priorities might be from an Islamic perspective (Wilson, 2015).

Where Islamic alternatives are discussed, they are often unconvincing and represent an inappropriate use of what is actually envisaged in Islamic teachings. An example is fiscal policy which involves choices on how taxes might be raised and government spending priorities with the revenues raised. The types of question raised are whether progressive income tax is preferable to expenditure taxes, notably value added tax which has been introduced in many Muslim majority countries, including Saudi Arabia and Egypt. Nobody argues this is not compatible with Islamic teaching, as it is not explicitly mentioned. However, what is stressed is zakāh, sometimes portrayed as a form of wealth tax. Is wealth tax redundant given that Islamic teaching provides for zakāh, one of the five pillars of Islam, payment of which is a religious obligation for Muslims? Should zakāh payments qualify the payer for tax exemptions, which in many countries applies to charitable donations (Nadzri et al., 2012)?

There is also the wider discussion about how much government revenue should be accounted for by debt through borrowing or taxation of business corporations and private individuals. Islamic teachings, of course, prohibits the charging of interest on borrowing as this involves ribā which is equated with exploitation. Individual borrowers are often in a weak position in relation to banks and other financial businesses. However, it is questionable if this also applies to government debt. One solution is for governments to raise finance through sovereign sukūk instruments. These are Sharīʿah compliant as the finance is asset backed with the government selling a building or
land and leasing it back. The government subsequently pays rent, not interest, and the contract is accepted as legitimate under Islamic law (Boujlil et al., 2020).

Islamic economists have succeeded in showing how financing can be undertaken, but have not addressed the broader issue of how much public finance is prudent. This is essentially determined by the market as with the issuance of interest paying bonds. Highly indebted countries will have to pay greater sukūk rent deterring them from issuing more debt. In the unlikely situation of governments defaulting on rental payments, or being unable to re-purchase the asset when the sukūk matures, the designation junk status will apply and the market value of the sukūk will fall.

Islamic economists make their views known on public financing when there is clear guidance on what is Sharīʿah compliant. In many areas of economic policy, there is no guidance and there is no need to strive for consensus. Each person will have their own views, some supporting high government spending financed by a greater tax burden, while others prefer to see governments spending less and levying lower taxes. These conflicting objectives often reflect political choices over which there is no agreement amongst Sharīʿah scholars. This is appropriate as Sharīʿah scholars address questions where their opinion is sought. They are reactive rather than proactive; indeed, there would be much criticism if they go beyond their remit and pronounce on matters on which they have no special expertise (Haridan et al., 2018).

3. Global Challenges

The guidance in the Qurʾān is eternal and consistent whereas economic policy changes over time in response to new issues arising. For much of the last century, the choices were about the degree of economic control exercised by governments with socialists and others on the political left favoring extensive control, whereas nationalists and conservatives on the political right argued for more liberal market-centric policies and a reduced role for governments. The ending of the Cold War changed perceptions with many of those on the political left, including former communists, becoming nationalists. Their stance was more radical as they moved to the right with a populist economic and political agenda.

Before this realignment was fully bedded down, new challenges arose in response to exogenous factors that resulted in left-right debates being largely superseded. The new challenges are the COVID-19 pandemic and global warming which could prove disastrous for human kind. While the right-left debate was largely about income and wealth distribution, these new challenges are much more serious, as they threaten the survival of our species on planet earth, and whether mankind, including our own children and grandchildren, have any future. Being global, the challenges are too great for any single government to solve, as success can only come through international collaboration.

4. Pandemics and the Economics of Public Health

Throughout human history, there have been infectious viruses which have caused, or contributed to huge increases in mortality. COVID-19 is the most recent. The last pandemic on a similar scale was the Spanish flu of 1918-1921 which resulted in at least 50 million deaths; more than the First World War. Prior to that pandemic was the Black Death of 1346-1353; a bubonic plague which resulted in more than 75 million deaths. Given this enormous toll, the scale of the COVID-19 has to be viewed in perspective with 2.5 million deaths by the end of the first quarter of 2021, with plausible projections for a total toll of four million. It is evident that scientific advancement solving these new challenges are much more serious, as they threaten the survival of our species on planet earth, and whether mankind, including our own children and grandchildren, have any future. Being global, the challenges are too great for any single government to solve, as success can only come through international collaboration.

Islamic economists should have much to contribute to the study of the economic impact of the pandemic, not least because there are difficult moral consequences. The closing of businesses during periods of lock-down was to limit the number of new COVID-19 infections, but this meant huge sacrifices, not least the loss of earnings for many (Brodeur et al., 2020). Priority in the vaccination program was given to the old who were most at risk from the pandemic, but their contribution to the economy was zero or minimal. In contrast, the young, who made the major contribution to economic activity, were the last to be vaccinated. Was this the most justifiable priority from an Islamic perspective?
COVID-19 resulted in horrendous trade-offs with no good answers. To combat the virus, governments decided to close down the economy, with uncertainties and unwelcome lifestyle changes often causing mental illness. Children lost valuable lessons with the closures of their schools which many regarded as a wasted year. Places of worship were closed, causing great unease and dismay. The list of disruption is very long but cannot be ignored by Islamic economists who can address moral as well as economic issues. Scientific advancement has helped reduce the spread of the disease and lessons have been learnt on how to tackle future viruses. An evaluation on how to mitigate the economic impact from an Islamic perspective would also be very worthwhile.

5. Sustainability of Economic Activity with Global Warming

The threat from global warming cannot be ignored given the increase of severe weather events which cause human misery, disasters, and potentially irreversible consequences for our planet. The impact of rising sea water and more frequent severe storms is particularly pronounced for very populous Muslim countries. Fortunately, Islamic economists are starting to study these issues and there is an increasing literature on environmental sustainability and related topics. Although still in its infancy, there are already foundations on which to build in terms of articles and books (Izzi Dien, 1997; Wilson, 2014).

The leading oil producing countries have majority Muslim populations. Their governments and citizens are well aware of the challenges of economic re-structuring to ensure sustainable non-pollutant energy. The replacement of oil and gas with solar energy and wind power requires enormous investment. Islamic finance has the potential to contribute substantially to this investment. The projects are about creating an environment which is much improved and totally in accord with Islamic values. Islamic banks can build environmental criteria into their financing conditions (Eti et al., 2020). In addition, Islamic funds are expanding and becoming more active in supporting Sharīʿah compliant environmental projects. Environmental ṣukūk are also being more actively promoted with many investors wanting to hold these as an alternative to bonds.

At international level, the landmark agreement was the Paris Accord; the legally binding treaty on climate change signed in 2015 and in force since 2016. The Accord has been ratified by 189 countries including all Muslim majority countries with the notable exceptions of Iran, Iraq, Libya, and Turkey, all of which have signed the Accord but not ratified it. The aim of the Accord is to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels. The UN climate change conference has regular meetings to review progress in meeting its objectives. The next meeting is scheduled to be held in Glasgow in November 2021.

Saudi Arabia and Turkey are members of the G20, the organization established by the world’s largest economies. As members, they can have considerable influence, although Turkey would be better placed once they have ratified the accord. Saudi Arabia as the world’s leading oil exporter is in a particularly strong position. Their advocacy in favor of using Islamic finance to support sustainable development and the reduction of greenhouse gases could serve as an example to others. The Islamic Development Bank already has considerable experience in promoting sustainability which could be of help. Within this framework, academic research in Islamic economics could play an important role.

6. Conclusions

Rather than being introspective, Islamic economists should widen the remit of their research to cover the most internationally challenging policy areas. Asad Zaman in his lead paper in the discussion forum of this issue (2021), stresses the distinctive role that Islamic economics can play by emphasizing upon moral principles. Here it is argued that given Islam’s rightful respect for the Almighty’s creation, the policy issues raised by global pandemics and climate change deserve more attention. Further work on theoretical and methodological issues is worthwhile, but the threats created by the circulation of killer viruses and climate change need more urgent attention.
References


Dr Rodney Wilson was the founder of the Islamic finance programme at Durham University in the United Kingdom where he continues to be an Emeritus Professor. He was a Visiting Professor at the Qatar Faculty of Islamic Studies in 2009, 2010 and 2012 and from 2013 to 2017 served as an Emeritus Professor at the International Centre of Education in Islamic Finance (INCEIF), Kuala Lumpur. Professor Wilson was awarded the Islamic Development Bank prize in Islamic banking in 2014 in recognition of his academic work on the subject.


E-mail: rodney.j.a.wilson@gmail.com
تطبيق الفكر الإسلامي في صياغة السياسات الاقتصادية في عالم يعيش على الحافة

Rodney Wilson
أستاذ فخري، جامعة درهام، المملكة المتحدة

المستخلص. إن التهديدات المزدوجة التي تمر بها المجتمعات البشرية هذه الأيام: المتمثلة في مرض لا يمكن السيطرة عليه -كما يبدو إلى الآن-، والاحتباس الحراري يدفع الاقتصاديين إلى إعادة التفكير في جدول أعمالهم البحثية. من منظور إسلامي، تشكل هذه التهديدات تحديات أخلاقية يجب مواجهتها. هناك ما يبرر المزيد من التركيز على كيفية يمكن أن توفرها السياسة الاقتصادية أفضل طريقة للمضي قدماً. في حين أنه من الصحيح التأكيد على الاختلافات في المنهج بين الاقتصاد الإسلامي والاقتصاد التقليدي، إلا أنه في ظل الظروف الحالية من الأهمية بمكان تناول السياسات الاقتصادية التي من شأنها أن تخفف من أثار هذا الوضع: كيف يمكن إدارة التعافي من جائحة كوفيد-19؟ وهل سيؤدي عدم كفاية الوصول إلى اللقاحات إلى زيادة معاقبة الفقراء؟ إذا تدهورت الأوضاع البيئية في كوكب الأرض قبل تملك البشرية مستقبلاً، إذا لم تكن لديها السياسات والأدوات المناسبة لمواجهة ذلك؟ يعتقد مؤيد هذه الورقة أن التطبيق المناسب للتمويل الإسلامي يمكن أن يساهم في إيجاد الحلول.

لكن هناك حاجة ماسة إلى تعاون اقتصادي حقيقي على المستوى الدولي.

الكلمات الدالة: الاقتصاد الإسلامي، السياسة الاقتصادية، الأوبئة، تغير المناخ.