Islamic Economics and Prospects for Theoretical and Empirical Research

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Abstract. This paper examines the nature, scope and methodology of Islamic economics, and draws attention to some possibilities for theoretical and empirical research in this field. Islamic economics is defined as the systematic study of the problem of allocation of resources, production of goods and services and distribution of output, income and wealth in an economy in the light of the Qur’an and the Sunnah. It has relevance for not only Muslims but also others interested in durable solutions to problems of financial crises, inflation, unemployment, poverty and economic inequalities. The discipline is concerned with the description (of ground realities) and prescription (of solutions for economic issues) in the light of the leads in the Qur’an and the Sunnah. The Sharīʿah basis of Islamic economics, with a supportive role for fiqh, holds the key in building Islamic economics. The approach recommended for this purpose is reconstruction of Islamic economics rather than Islamization of economics. On the theoretical side, this paper lays emphasis on basic research for strengthening the theory of Islamic economics to fill the knowledge gap on, among other things, Islamic economic system, Islamic economy, the Sharīʿah-based transactions matrix, nature and role of government in modern times and review of economic policy agenda. On the empirical side, it highlights some matters related to data and empirical work.

Keywords: Islamic economics, conventional economics, mainstream economics, Qurʾān, Sunnah, hadīth, Sharīʿah, fiqh

JEL Classification: A12, B49, B59.

KAUJIE Classification: A0, C0, H1, H2, H3.

1. Introduction

The last decade of the 20th century will go down in history as the decade of change. The pace of events was truly astounding. Changes in Eastern Europe and the former Soviet Union signaled the approaching end of socialism and communism. Some countries like Cuba and North Korea are still holding ground. But, with China and Russia opting for market-based economies, it is only a matter of time before socialism fades into the shade of history. The collapse of socialism has been widely seen as the victory of capitalism and the western philosophy over not only Marxism and socialist thought but
also all other ideologies. These events have also been given a civilizational perspective (Fukuyama, 1992). And, the notion of a clash of civilizations has emerged with Islam and the Muslim world projected as the next challenge for the west (Huntington, 1993, 1996). The western attitude toward Islam has hardened since the events of 9/11.

The 1980s witnessed firm national commitments to Islamize the economic life in Pakistan, Sudan, Iran and Malaysia. Since then, Islam has made inroads in the economic life of several Muslim countries (Kuran, 1995). With modest beginnings in the second half of the 1970s, now Islamic banking and finance has gained a firm footing in both the east and the west. These developments have also attracted the attention of academia. Many universities in Muslim countries and the west now offer courses and degree programs in Islamic economics and Islamic finance. International and national conferences and seminars and doctoral research in both of these fields are constantly increasing, and so too is the research output in the form of journal articles, books, seminar proceedings and dissertations. The recent Arab Spring in the Middle East and North Africa, though short-lived, is an evidence of a strong desire for Islam as the way of life in the respective countries. There is, therefore, need for expediting work on the reconstruction of Islamic knowledge, in general, and Islamic economics, in particular.

All in all, the stakes are at an all-time high for Islamic economists. They have a historic opportunity to present the case for Islamic economics to academia and policymakers. The world is also serious in the search for solutions to problems of growing public debt, financial crises, poverty, inequality, unemployment and inflation. This is the time to demonstrate in rigorous and convincing terms that Islamic economics does offer a new paradigm for blending traditional concerns about economic efficiency and stability with those about distributive justice.

Considerable research effort over the last forty years has gone into the basics of Islamic economics. Literature is available on Islam’s unique position on ownership as well as rights and responsibilities of both the individuals and the state. Islam offering an alternative to capitalism and socialism is a settled matter now. Though practical details are still sketchy, the possibility of an Islamic economic system is above reproach. Interested readers can refer to, among others, S.A. Ali (1992), Sakr (1992), Chapra (1971, 1985), Mawdudi (2011) and Siddiqi (1996) for a flavor of the argument on these matters. There is general agreement on the roles of zakāh and voluntary sector in the economy advocated by Faridi (1983). Consensus on the nature of ribā has been achieved after prolonged debates dating back to the 1950s. Considerable research effort has gone into in the fields of ribā-free financial intermediation and fiscal and monetary management of a ribā-free economy. Some notable examples are the works of Ariff (1982), Ahmad, et al. (1983a, 1983b), Chapra (1985), IIIE (1999), Kahf (1997) and Iqbal and T. Khan (2004). The last two decades have also witnessed exponential growth in theoretical and empirical research in Islamic banking and finance. Economic development and distribution have also been subjects of discussion in the field of Islamic economics. See, for example, the works by Iqbal (1986), M.F. Khan (1988), Mannan and Ahmad (1996), Sadeq (1996, 2006). Modelling economic behavior at the micro level and macroeconomic themes from Islamic perspective has been another area of research with works by, among others, A. Ahmad and Awan (1992), Faridi (1991) and Tahir et. al. (1992). The methodology of Islamic economics has also been the attention of some Islamic economists, for example, Anwar (1990), Ghosh (1997), Haneef and Furqani, (2011), M.A. Khan (1987) and Zaman (2005, 2012, 2013).

Notwithstanding the above, however, Islamic economists are not in a position to defend the claim of having developed the Islamic economic paradigm. The case for Islamic economics as a distinct academic discipline rests on it offering a viable alternative, backed up by rigorous and sound economic logic, to the existing economics paradigm for solving economic problems facing the world in general and Muslim countries in particular. The present state of Islamic economics is not satisfactory. This article aims at some stocktaking of where the things stand now and what the direction of research might be for building Islamic economics.
In this inquiry, the presentation is organized along the following lines. A brief look at the nature and scope of Islamic economics is taken in section 2. The issue of methodology of Islamic economics is addressed in section 3. This is followed by a discussion of prospects for theoretical research in Islamic economics in section 4 and those for empirical research in section 5. The argument closes with some concluding observations in section 6. The goal of this paper is to invite serious dialogue on Islamic economics.

2. Nature and Scope of Islamic Economics

What is Islamic economics? For someone formally trained in mainstream economics, as most of the Islamic economists are, a natural response would be what conventional economics is not. That is: Islamic Economics = Conventional Economics – Secular Values + Islamic Values

This is the message implicit in the work of Zarqa (1980, 3-8) which was the first formal attempt ever to state the case for Islamic economics as an academic discipline. Zarqa’s argument begins with the observation that mainstream economics rests on value judgments underlying the capitalistic paradigm. He states that those value judgments are reflected in the choice of (i) topics pursued, (ii) variables and assumptions, (iii) method of analysis and (iv) ends and means. He contends that the Qur’ān and the Sunnah contain a different set of value judgments that can be the foundations for a distinct discipline, namely Islamic economics. His argument has the following methodological implication. One may start with mainstream economics as it is, cleanse it of questionable elements, bring in Islamic input, and work out Islamic economic models and solutions. This is essentially the Islamization of economics approach, a part of the general Islamization of knowledge agenda formally associated with Al-Attas (1985) and Al-Faruqi (1982). It has greatly influenced research effort in the field of Islamic economics so far.

Notwithstanding the above, however, Islamic economists paid early attention to define Islamic economics formally(1). Hasanuzzaman (1984, 50) proposed:

Islamic economics is the knowledge and application of injunctions and rules of the Shari‘ah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society.

In the view of M.A. Khan (1984, p. 51):

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

For Mannan (1986, p. 18):

Islamic economics is a social science which studies the economic problems of a people imbued with the values of Islam.

According to Siddiqi (1992, p. 69):

Islamic economics is] the Muslim thinkers’ response to the economic challenges of their times. In this endeavor, they were aided by the Qur’ān and the Sunnah as well as by reason and experience.

For Naqvi (1994, p. 13):

Islamic economics is the representative Muslim’s behavior in a typical Muslim society.

In the opinion of Chapra (1996, p. 30):

Islamic economics may be defined as that branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances.

Haneef (1997, p. 50) broadly defines Islamic economics as:

[A]n approach to interpreting and solving man’s economic problems based on the values, norms, laws and institutions found in, and derived from, the sources of knowledge in Islam.

The above definitions come close to saying that Islamic economics is economics from the Islamic perspective. Mannan (1986) and Naqvi (1992), however, limit its relevance to Muslims only. Lately, the argument has taken a new turn. Some leading Islamic economists switched to the denial mode. For example, Kahf (2003) deems Islamic

(1) The first four definitions reported in this study are taken from Chapra (1996, p. 30); however, page references correspond to the original works of the respective authors.
economics to be a part of mainstream economics and talks about Islamic methodology for economics. Siddiqui (2011) suggests that Islamic economics is a strand in heterodox economics. These few references show that Islamic economics is still facing an identity crisis.

Definitional statements are supposed to highlight what a thing is. Or, if it is not already familiar, what it is likely to be. A definition of Islamic economics is expected to help in understanding the general nature of the discipline, its topics of study, techniques of analysis and distinguishing features vis-à-vis other disciplines. The aforementioned views score only partially on these criteria. There is a need to briefly restate what Islamic economics is and why it is an academic discipline distinct from conventional economics.

Islam is founded on three main pillars. These are (i) belief in Almighty Allah, (ii) belief in the life-afterlife, and (iii) belief in the prophethood of Muhammad (pbuh). Allah is the Creator, the Absolute Owner and the Sustainer of the heavens, the earth and all that is therein. He has no associate or partner in anything. He is the most compassionate, the most caring and the source of all good. He is just. He is above any shortcoming or defect whatsoever. He does everything purposefully. All things that exist and every action that takes place in the heavens and the earth are in His knowledge and within the realm of His Authority.

Allah has created human beings, given them a privileged position on the earth, and made this life a test for them (The Qur’ān 5:48, 6:165, 67:2). Notwithstanding the Divine Revelations sent to different communities during the various phases of history, now the Qur’ān and the Sunnah constitute the acceptable code of conduct for the purpose of this test. The Qur’ān is the Spoken Word of Allah. The Sunnah consists of the sayings, actions, deeds and tacit approvals of the prophet Muhammad (pbuh). Everyone will be accountable for his or her actions and deeds in the hereafter, and either rewarded or punished. Some consequential implications of these points are as follows:

i. Allah has permitted private ownership (The Qur’ān 3:186, 4:5, 36:71) in order to enable everyone to acquire the means for survival and well-being during the course of this life.

ii. He has allowed every individual to exercise his/her free will in matters of beliefs and other areas of concern (The Qur’ān 2:256).

iii. When any transaction takes place between two or more individuals, Allah is always the third party by virtue of being the Original and the Absolute Owner of everything in the heavens and the earth. The last point has important implications of practical significance. Whenever an exchange takes place, besides the willingness of the concerned individuals, the will of Allah in that regard also needs to be taken into account. His will is the Shari’a – the code of conduct for man in the affairs of this life acceptable to Allah enunciated in the Qur’ān and the Sunnah.

On the economic plane, some other notable features of the grand design of Allah are as follows:

(a) He has made different people unequal in terms of their personal resource endowments and faculties, and thereby created a natural environment for fruitful interaction among them (The Qur’ān 43:32). Notwithstanding this, however, He desires that wealth does not circulate amongst the rich few (The Qur’ān 59:7). This implies that increase in economic inequalities and expansion in the gap between the haves and the have-nots – beyond what might be natural – contravenes the will of Allah.

(b) The acceptable code of conduct for human beings in the affairs of this life, as mentioned above, translates into rules of the game and transactions matrix for all exchanges at both micro and macro levels. Ultimately, it is going to influence the form of institutions and the general institutional setup of an economy.

(c) Notwithstanding the option of exercising free will, ultimately it is every human being’s responsibility to seek the will and pleasure of Allah.

This abridged statement of the Islamic worldview provides both the rationale for Islamic economics and the basis for defining its nature, scope and methods of analysis. Essential points in this regard are explained below.

The economic problem arises whenever multiple possibilities exist in the use of available resources, on one hand, and the distribution of outcome of the
production process among all concerned, on the other. What a stakeholder personally gets in terms of income or command over means for exchange, also matters in this regard. These considerations provide the raison d’être for not only mainstream economics but also Islamic economics. It is, like its conventional counterpart, an academic response to the economic problem of man.

Islamic economics is also a study of human behavior, actions, interactions and their outcomes in the economic domain of life. The said things may be either Islamic or non-Islamic. ‘Behaviors’ and ‘actions’ will be Islamic if and only if they do not conflict with any parameter laid down in the Qur’ān and the Sunnah, and non-Islamic otherwise. As for the ‘outcomes’, they would be non-Islamic if they do not conform to the will of Allah. An example of this is, as also noted above, the emergence of gross economic inequalities from the working of an economy in conformity with the Sharīʿah. Keeping in view these considerations, Islamic economics can be formally defined as follows:

Islamic economics is a systematic study of human behavior, actions and their outcomes in the economic domain of life, in the light of the Qur’ān and the Sunnah(2).

A much simpler statement would be:

Islamic economics is a systematic study of the economic problem of man and its solution in the light of the Qur’ān and the Sunnah.

However, if one were to define Islamic economics with the ultimate nature of the economic problem facing any society – allocation of resources, production of goods and services and distribution of output, income and wealth – in mind, Islamic economics may be defined in the following way:

Islamic economics is a systematic study of the problem of allocation of resources, production of goods and services and distribution of output, income and wealth in an economy in the light of the Qur’ān and the Sunnah(3).

The above brings to fore the true nature of Islamic economics and its distinguishing features vis-à-vis mainstream economics as well as the fiqh (Islamic jurisprudence).

While Islamic economics has the same raison d’être as conventional economics, the two are different disciplines. The differences stem from their respective (i) terms of reference, (ii) focus of study, (iii) institutional framework and economic behavior, and (iv) approaches to public policy.

In the case of mainstream economics, reason and experience guide academic discourse. For Islamic economics, besides reason and experience, the Sharīʿah also matters and plays a vital role. The next few paragraphs shed further light on this point.

Mainstream economics or neoclassical economics rests on the liberal philosophy of capitalism. In this dispensation, the individual is the kingpin of the society. Individual freedom in the broadest sense of the term ‘freedom’ is the core value. The society is seen as Σ (sigma – algebraic sum) of individuals. When there is a clash between individual freedom and social interest, individuals’ concerns carry the weight, of course, as long as in material terms there is no adverse effect on the others. As against this, Islam views individuals as a part of a bigger entity, the society. The chain runs from individual to family to community and to society. It finds expression in socially responsible individuals. This automatically narrows the gap between individual and public interests.

Mainstream economics places unmistakable emphasis on economic efficiency. This is at the expense of distributional equity. Practically, poverty and income distribution matters are treated as empirical issues that are addressed at the government level through a tax-transfer mechanism.

(2) In this definition choice of the words “the Qur’an and the Sunnah” is purposeful. The alternative description “the Sharīʿah” or “the Sharīʿah principles” carries the risk of personal understandings sometimes overshadowing the intent of Almighty Allah.

(3) Economics by McConnell et al. (2015) is one of the leading textbooks of mainstream economics at the international level. According to it, “Economics is the social science that examines how individuals, institutions, and society make optimal choices under conditions of scarcity” (p. 20). Roots of this perception of mainstream economics can be traced to obsession with a laissez faire economy, i.e. a market-based economy with limited or no economic role for government. This definition equates economics with microeconomics. But economics is also about economic stability, sustainable development, poverty and inequality. These dimensions of mainstream economics are obscured by this definition.
Western governments, as also many others, run huge welfare programs funded by the taxpayers. This perhaps explains why poverty and personal income distribution find little space in the theoretical discourse in conventional economics. Islam, on the other hand, emphasizes economic justice along with economic efficiency. In fact, there is pronounced emphasis on distribution matters in the Qur'ān and the Sunnah. This is evident from the āyāt and ahādīth on charitable spending that far outnumber those on economic matters. Emphasis on equity is also manifest from the elaborate distribution and redistribution mechanism which is part and parcel of the Islamic economic setup and theory of Islamic economics (Tahir, 1989, 1998b).

The Sharīʿah limits the choice set for the believers (The Qur'ān 2:173, 16:115). It requires transparency and free willing-consent in matters of give and take (Qur'ān 4:29), bans gambling or exchanges without any quid pro quo (The Qur'ān 5:90) and prohibits interest (The Qur'ān 2:275, 278-279 and 3:130). It also prescribes the principle of moderation (The Qur'ān 25:66). These and several other factors not noted here, have important implications for economic organization and behavior. For example, Islamic banks are expected to be economic agents rather than pure financial intermediaries like interest-based banks (IIIE, 1999). Islamic economics makes allowance for such considerations while keeping its relevance for the real life.

In mainstream economics, good versus bad considerations guide economic policy. The matter of good and bad is judged mostly on economic grounds. The Sharīʿah dimension of Islamic economics means that right and wrong considerations also influence the discourse. For example, economic uplift of a depressed area through licensing gambling activity is not an option from Islamic economics point of view. Another example is poverty alleviation. As noted above, at present governments take initiative and do the needful with the taxpayers’ money. Public provides the financing but has no direct say in the use of its money. For some unknown reasons, a blind eye is turned to inefficiency of government in poverty alleviation that is often the argument against government intervention in the economy. Main stream economics also overlooks crowding out of private initiative in the existing poverty alleviation process. From Islamic economics point of view, public policy is expected to seek maximum leeway for the individuals to take both the initiative and do the needful for poverty alleviation. In other words, with suitable supporting arrangements the public/taxpayers-government-needy loop is likely to be replaced by direct help from public/taxpayers to the needy. These are just two examples of the distinctive character of Islamic economics. Some more explanations follow in the coming sections.

Islamic economics also differs from fiqh – Islamic jurisprudence. Fiqh is the codified form of the Sharīʿah – the Qur’ān and the Sunnah – by Islamic jurists from the do vs. don’t perspective. Questions of choice from amongst available options and institutional matters have never been an important concern for them. On the other hand, these are the main interests in Islamic economics. Islamic economics is concerned with the study of expected as well as actual behavior. In case the ground realities do not conform to the Islamic norms, Islamic economics is also concerned with ways and means, besides the juridical tools, for bringing them close to the ideal. For example, elimination of ribā from the economy through economic measures rather than administrative fiat.

In passing, it may be mentioned that the Sharīʿah perspective of Islamic economics might create the impression that it is “economics of the Muslims, by the Muslims and for the Muslims”. A correction is warranted here. The Sharīʿah is essentially a way of doing things. Of course, the inspiration for the said ways is drawn originally from the Qur’ān and the Sunnah. However, faith is not a barrier in the adoption of Sharīʿah-based solutions for economic problems. Increasing involvement of several non-Muslim countries in Islamic finance is a witness to this.

3. Methodology of Islamic Economics

“Methodology” in this study is taken to mean general approach and method of analysis. That is, how matters of interest may be looked at, and how they might be addressed. Discussion in this section is limited to core issues. Some additional observations are contained in the next two sections.
Islamic economics is not just an intellectual exercise aimed at solving economic puzzles. It is a discipline with a purpose: bringing the humanity closer to Allah. This plays a defining role in shaping its methodology. Islamic economics has three-point agenda:

1. Delineation of Islamic economic ideals in the various walks of life,
2. Preservation of the said ideals once they have been achieved, and
3. Diagnosis of the existing realities with the aim of making positive contributions toward lasting solutions for economic problems faced by the world, not just Muslim countries.

The delineation of Islamic economic ideals aims at, among other things, explanation of (a) Islamic economic behavior at the micro level by consumers, producers or other economic agents, (b) the working of markets and (c) the working of an Islamic economy as a whole.

Need for the preservation of Islamic economic ideals may stem from the possibility of unacceptable trends emerging in an otherwise Islamic economic setup. For example, inflation and unemployment are economic phenomena that can emerge in any economy. An Islamic economy is unlikely to be an exception. Islamic economists are expected to identify remedial measures with the help of proper models. The existence of an Islamic economy in the international interest-based setting will always pose challenges. The world is a global village. The notion of a closed economy is inconceivable. Even during the time of the Prophet (pbuh), the economy was an open economy. The main difference today is that foreign trade takes place without direct personal dealings between exporters and importers. Banks facilitate international exchange as intermediaries. Banks also act as financiers for importers and exporters. International capital flows and state-level international transactions are other modern phenomena. Interest rate plays a critical role in all these matters. In such an environment, Islamic economy will constantly face an existential threat. Islamic economists also have to come up with innovative arrangements as well as economic policy for preserving the Islamic character of an open Islamic economy. Last but not the least, Islamic economics also has to show the way for economic development without negative implications for the social and moral fabric of the society.

Study of existing realities would require a change in the angle of analysis. The focus in this regard is going to be on (i) what the picture at hand is, (ii) why it is so, and (iii) how an Islamic interjection would help in solving economic problems. The analysis may or may not be for seeking Islamization of an existing setup. Consider the contemporary problems of public debt and increasing economic inequalities. Growing public debt stems from most governments over-stretching themselves by pursuing economic development and welfare agenda through national budgets. Growth in economic inequalities, on the other hand, is chiefly due to transaction norms, albeit rules of the game, in capitalistic economies. Mainstream economics largely takes the economic setup as given, and the said issues remain off its main agenda. Review of the nature and role of government and economy’s transaction matrix, on the other hand, form part of the agenda of Islamic economics.

The approach to analysis and techniques for that purpose will depend on the nature of issues at hand. The following three examples should explicate this point.

First, the subject of study may be, for example, “Islamic” behavior of a typical consumer. The Qur’ān and the Sunnah are the sources for fundamental propositions in this regard. While finalizing any position, however, due allowance also has to be made for existing economic realities. For example, fridge, once a luxury, is a necessity in this age. The ideas can then be modeled, and implications for demand functions, etc., may be derived. As for testable propositions, those can be quite a few for the simple reason that there can be several ‘Islamic’ positions within the perimeter of the Sharīʿah. “Controlled” experiments may determine how a typical consumer might actually make choice.

Second, macroeconomic modelling of an Islamic economy is the subject of analysis. Depending on resource endowments and nature of economic organization, there may be several different kinds of Islamic economies. For example, a resource-based economy, an agriculture-based economy, an industrialized economy or a services-based economy. Furthermore, the economy may be closed or open.
The existence of such possibilities implies that focus of analysis would be “an” rather than “the” Islamic economy. Many Islamic macroeconomic models are, therefore, conceivable. The exact details of analysis will depend on whether it is a closed or an open economy, a barter or monetized economy, and so on.

Third, a researcher may be interested in the relative performance of an Islamic economy as opposed to a non-Islamic economy. This will require parallel specifications of the models for both economies. Caution would be necessary in the interpretation of results. One will have to separate differences due to the institutional setups of both the economies from those attributable to behavioral considerations.

Concerns raised in the third case may be addressed somewhat if a bigger picture is specified for either the Islamic or the non-Islamic economy, and parameters are constrained to find results for the other. Reference can be made to Tahir (1989) for an example of studying Islamization of an economy as an economic policy, a matter of interest for Muslim countries.

Apart from the general considerations noted thus far, three more factors will also matter in the method of analysis of Islamic economics: (1) limits on abstraction and theorizing, (2) application of “as if” approach, and (3) modelling from Islamic economics perspective.

As for limits on abstraction and theorizing, in general, explanatory or predictive power of a model matters in theorizing on an issue. In Islamic economics, the guiding consideration will not be the sheer predictive power of models. A balance is expected to be maintained between propriety of assumptions and the consideration of the end result.

It is noteworthy that sometimes wrong models may yield right conclusions. For example, “5” may be the byproduct of an additive process defined over two numerals with “2” being one of them. Thus, ‘2+3’ will be the truth explaining the outcome “5”. However, an analyst may also come up with ‘10÷2’ as an alternative explanation of the observed phenomenon “5”. If an overwhelming reason does not exist for supporting this ‘10÷2’ explanation, insistence on it will be futile. The message is that considerable research will be needed at each stage of research in building models and theories.

In practice, it may be difficult to maintain a proper balance between the desire for exactness (without emptying models of verifiable propositions) and the concern of manageability of models. The door for argument shall always remain open. Nevertheless, the overwhelming consideration is expected to be achievement of the main goals of analysis. There is nothing wrong with this as long as results are interpreted with all the caveats.

As noted above, modelling is a tedious task. Sometimes it may become necessary to follow a step-by-step approach for an issue at hand. This may be done by invoking appropriate simplifying assumptions at each stage of analysis and accepting the conditional nature of results at every stage. Such a procedure can help to gain insights into the processes at work in a given situation. This is the familiar “as if” methodology popular in academic discourse. Its use in mainstream macroeconomics is common. It has great utility for Islamic economics that is still in the domain of ideas. Of course, Islamic economists will need to interpret the result in the light of the assumptions at hand.

Modelling from Islamic economics perspective can be of two types: explanatory models and optimization models. Models aimed at explaining some phenomenon in the context of a working system, whether existing or imaginary. An example of the first type is modelling the interest-based financial intermediation mechanism in the world while also making allowance for the difference that adoption of the Islamic alternative may make. An example of the latter is modelling determination of levels of output and employment in an Islamic economy.

Need for optimization models will arise in goal-oriented analysis: optimization models. For example, models of choice by consumers, firms or policymakers. This will require some deep thinking by Islamic economists in order to identify appropriate behavioral hypotheses. For example, in the case of policymakers, will the goal be safeguarding social interests or minimizing the risk of going wrong?
Choice of techniques of analysis will depend on the topic of study. It may involve logical reasoning by way of inductions and deductions from the Qurʾān and the Sunnah. Empirical analysis will have a role for refining ideas. The role of mathematics will essentially be that of a language. Ideas that can be appreciated simply need not be treated mathematically. However, mathematics will always be important as a tool for advances into new and unfamiliar areas.

How does the methodology of Islamic economics differ from that of conventional economics? Conventional economists are concerned about descriptivism, positivism, instrumentalism and methodological pluralism. In the case of Islamic economics, the thinking rests primarily on leads traceable in the Qurʾān and the Sunnah and intellectual integrity. Seeking clues from the Qurʾān and the Sunnah is important for building models and theories as well as evaluation of their results and predictions. It provides a well-defined anchor for logic and reduces risks of errors of omission and commission due to human fallibility.

Intellectual integrity means doing justice to the study of the subject at hand and resisting temptations for making intellectual compromises in the pursuit of truth. This is slightly different from objectivity, a usual acronym for intellectual integrity. For example, a common practice in econometrics is to specify algebraic relations in terms of levels of the variables or their logarithms, and add an error term to convert the algebraic equation into a regression equation. Pragmatism often plays a critical role in deciding the variables to be included or excluded. No compromise on objectivity is deemed to take place except, of course, in clear cases of data mining. This general approach in applied economics mimics the process of thinking backward. Statistically established relations, based on plain economic reasoning, are deemed to validate the process leading to the results. This pushes the actual processes at work into the background. Intellectual integrity means due diligence in lieu of the processes expected to be at work while building various relations in empirical analysis.

Link to the Qurʾān and the Sunnah and emphasis on intellectual integrity are expected to influence the nature and scope of descriptivism, positivism, instrumentalism and methodological pluralism in Islamic economics. In passing, it may be pointed out that fundamental economic issues facing mankind, whether Muslims or non-Muslims, are the same: hunger, need for exchange, financial intermediation, and so on. Whenever freedom for contract is allowed, market mechanism automatically comes in the picture. This is simply because exchanges may take place among a large number of people exercising their freedom of choice only through the institution of market. There is nothing Islamic or un-Islamic about it. The matter is the same for money, the medium for exchange. Differences start, however, when the question of modalities for doing the needful arises. It is useful here to refer to the case of resource-short economic agents meeting their goals with the help of resource-surplus units. Mainstream economics leaves the matter of institutional arrangement entirely at the discretion of the society. The conventional response in the said instance is interest-based borrowing and lending. Divine guidance carries the primary weight in Islamic economics. The qualms of the Sharīʿah about interest require Islamic economists to look for alternative arrangements. The fundamental methodological difference between the two disciplines lies here. Differences in details rest on logical reasoning, insights gained from experience and improvements in the argument at successive iterations of logic.

The fiqh, codified form of the Sharīʿah, has a well-developed methodology in the form of uṣūl al-

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(4) Descriptivism, positivism, instrumentalism and methodological pluralism are defined in Eatwell et al. (1987), as follows:

"Descriptivism is the method where theories are not considered explanation but only better or worse analytical descriptions of observable phenomenon" (p. 455).

"Positivism was the view that theories are scientific whenever their assumptions are logically capable of being verified either introspectively or empirically" (p. 456).

"Instrumentalism [is] . . . that theories are only instruments used either to make predictions for the purpose of assisting economic policymakers or to make practical measurements of the essential parameters of the real world" (p.455). In other words, what carries weight is predictive power of a theory; validity of the underlying assumptions (positivism) has secondary importance.

Methodological pluralism approaches methodology of conventional economics from the angle of “why mainstream economics is what it is without making judgments or criticisms” (p. 456).
fiqh (principles of Islamic jurisprudence). According to this methodology, the Qur’an and the Sunnah are fundamental sources of the Sharīʿah. In addition, for extending the writ of the Qur’an and the Sunnah to cases not directly mentioned in the Qur’an or the Sunnah, the instruments are: ījmāʿ (juridical consensus), qiyās (analogical reasoning), maslahah (public interest), istiḥsān (juristic preference), istiṣḥāb (presumption of continuity), ʿurf (custom), juridical opinions of the companions of the Prophet (pbuh), admissible evidence from the Divine Revelations before the Qur’an, sadd al-dharʾah (blocking ways to undesirable things), fath al-dhāriʾah (opening ways for desirable things) and, last but not the least, maqāṣid al-Sharīʿah (general goals of the Sharīʿah) (Kamali, 2003; Nyazee, 2000). The opinions of leading fuqahāʾ in the second century after the Hijrah and thereafter – on the basis of the said instruments – also form the basis of the fiqhi discourse.

The fiqh, as also noted earlier, focuses on dos and don’ts of matters, and thereby the permissibility side of any given case. Actual behavior and institutional matters do not belong to its domain. For example, the various forms of partnership and their conditions have been a subject of fiqh from its beginning. Little effort has, however, gone into the development of Islamic model of a joint stock company. Interest in instruments for Islamic banking and finance is barely four-decades old. Even in this case, the approach is building Islamic alternatives through modifications of the existing structures with the aid of the fiqhi views existing on the various matters.

As against the fiqh, the domain of Islamic economics is economic behavior and institutional matters. On the behavioral side, Islamic economics is about choice from amongst permissible options and developing economic measures for staving off the impermissible. While some input for analytical purposes may be drawn from the fiqh, not much should be expected. On the policy side, however, Islamic economics may benefit from the methodology of maqāṣid al-Sharīʿah, albeit intent of the Sharīʿah, in order to develop criteria for Islamicity of the outcomes of economic processes.

It is pertinent to mention that the Qurʾān and the Sunnah still have a lot to offer for understanding economic behavior, developing transaction norms and institutions. There is thus a space for Islamic economics directly benefiting from the Qurʾān and the ḥadīth, i.e. without going through the fiqh route.

4. Theoretical Research in Islamic Economics

Knowledge is generally a product of circumstances. It represents scholars’ response to issues of the day. In the early days of Islam, the chief concern was possibilities in economic interaction among the people and general framework in which they fitted. Fiqh provided the answers. Simple production relations, simple forms of exchange and little demand on government beyond security and justice, meant little scope for modern academic discourse. By the fourteenth century, however, Ibn Khaldun (1332-1406 AD) began writing in the style somewhat close to that of modern economics (Boulakia, 1971). His method was inferential based on keen observations. It led to the detection of systematic patterns in practical life in terms of cause and effect relations. Today different research agenda is needed for expediting reconstruction of Islamic economics. Theoretical research comes at the top of the priority list in this regard.

Theoretical research in Islamic economics can be for developing Islamic economic theory as well as providing intellectual support for Islamization efforts in Muslim countries. Both these ends are compatible. Building of Islamic economics can gain from efforts in lieu of the Islamization agenda, and vice versa. Ultimately availability of a complete and practicable blueprint of an Islamic economy can turn the scale in favor of Islamic economics.

Islamic economics has had its ups and downs since 1976. Kuran (1995) challenged Islamic economics on grounds of not having any rigorous theory. Of course, the emergence of Islamic finance also detracted research effort away from Islamic economics. The response of Islamic economists has so far been confined mainly to methodological matters. Little has changed on the academic front since the mid-1990s. In these circumstances, basic research needs top priority.

Reconstruction of Islamic economics may begin with inquiry into Islamic economic system. As noted earlier, Islamic economists so far have confined themselves to philosophical foundations and general characteristics of Islamic economic system. The issues needing attention are practical
details of Islamic economic system (if it were to exist today), its working and its performance on efficiency and equity criteria. Inquiry is also needed into the causes of the Islamic economic system not leading Muslims to the pinnacle of economic glory in the past. Another element missing in the discourse on Islamic economic system is what one might term as Islamic economy in present times. This will enable development of a benchmark for evaluating existing economies on Islamic economic criteria. Consensus on this matter will also help in the development of Islamic economics in general and Islamization of economies of Muslim countries in particular.

Market is the centerpiece of an economy from the Islamic point of view. What would be the transactions norms? How would markets work? What are the types of market structures that might emerge? What type of economic institutions might there be in the market framework? These issues of transactions matrix and institutional matters require study in the light of the Qur’ān and the Sunnah. Besides market protocols, behavioral relations may distinguish Islamic economics from mainstream economics. There is scope for research effort to clarify basic working hypotheses of Islamic microeconomics. For example, mere replacement of “falāḥ” for “utility” is not enough. Islamic economists have to ask whether such a substitution serves its purpose. Cosmetic changes without leading to verifiable propositions may be fine for moralists, but not for Islamic economists. Similarly, condemnation of conventional profit-maximization hypothesis for a firm without a convincing alternative working hypothesis does not advance the cause of Islamic economics. Bendjilali and Taher (1990) make some headway in this regard. Their approach to assign weight to not only profits but also the level of output in the objective function of a firm is a fruitful line for further research.

Macroeconomic theorizing from Islamic perspective needs some guiding principles or criteria. Possibility of more than one Islamic economic architectures will always be there. Absence of criteria on when an economy might be termed “Islamic” may fuel cross-purpose argument. Due to room for difference of opinion on “Islamic” economy, the desired purpose may be served by spelling out what would not be an Islamic economy in the light of the Qur’ān and Sunnah. This would create flexibility for modelling and promote the chances of fruitful research.

Objectives of the state received considerable attention of Islamic economists in the past (Chapra, 1980; Hasanuzzaman, 1981; Siddiqi, 1996). In this connection, poverty eradication, full employment, stability of the value of money, economic development and the like are emphasized as economic functions of an Islamic state. Most of these conclusions are inspired by views about the economy in the early days of Islam. State and government are taken to be synonymous. A fresh look at this matter is called for, especially in this age. Government needs to be differentiated from the state in academic discourse. The significance of taxation, minimal in the early Islamic state, needs proper attention with due allowance for the principle of free willing consent of the stakeholders (The Qur’ān 4: 29) in this regard. There is also need for wholesale review of what government is, what it might do or may be called upon to do and how it might discharge its functions. Clarity in these matters shall also help in redefining goals of economic policy from the Shari‘ah point of view.

Basic research of the type explained above would involve a fresh appraisal of the Qur’ān and hadith sources, the fiqh and economic history of the times of the Prophet and the Rightly-Guided Caliphs in today’s economics language. The need for this effort is enormous. Its results will most likely expedite theorizing in Islamic economics. In the absence of the recommended effort, research in Islamic economics will rest on general awareness about Islam. This is evident from works on Islamic consumer behavior by Kahf (1980) and macro consumption function by M.F. Khan (1983, 1992), papers on Islamic macroeconomics models by Anwar (1987), A. Ahmad (1987), Metwally (1981) and M.S. Khan (1986), studies on monetary economics of an Islamic economy by al-Jarhi (1980, 1983) and M.S. Khan and Mirakhor (1987), and models of distribution by A. Ahmad (1984) and Al-Jarhi (1985). Such attempts may be defended for
invoking *maqāsid* al-Sharīʿah. However, as in the past, breakthroughs in the development of Islamic economics will remain elusive.

Islamization of economics in order to develop Islamic economics carries some risks. The argument may be off-tracked, and true distinction between Islamic economics and conventional economics lost. A correct approach would be to try to reconstruct Islamic economics by looking at the actual perspective in which one’s argument fits, and to develop models consistent with Sharīʿah. Emphasis should be on permissible contractual arrangements, whenever necessary. For example, a mere replacement of the rate of interest by a notionally “variable” rate of return or a profit-sharing ratio in conventional macro-economic models, as done in most of the existing Islamic economics literature, will not be sufficient. Correct Islamic macroeconomic models with a monetary side have to address both profits and their sharing. A simple appearance of the profit-sharing ratio will not do the trick without an explicit recognition of the level of profits. Similarly, *zakāh* is essentially a redistribution tool, and it should be modeled as such. In this spirit, Islamic economics can define their goals of analysis (or target variables) and accomplish a lot by a little bit of “imagineering”.

The general principles noted in this paper for building of Islamic economic models also apply to methods of analysis. It may not always be feasible to transplant methods of conventional economic analysis in Islamic economics. For example, M.S. Khan’s (1986) use of the conventional relation for present value of a consol, with a fixed rate of return, is problematic. The problem here is that this relation assumes a constant rate of return in perpetuity. This is a radical assumption which is more likely to be untrue, rather than true, in an Islamic milieu. Similarly is the case with Naqvi’s (1981) use of the term “equilibrium” to explain the Islamic concept of *mīzān* or balance. The word equilibrium has a set meaning in economics. It represents a state in which there is no inherent tendency for change in the variables which constitute a model. This is no way near the Islamic concept of *mīzān*. The terms and techniques of conventional economics need to be used with caution and with care.

### 5. Empirical Research in Islamic Economics

Prospects for empirical research in Islamic economics are good. The possibilities are numerous. They include, among other things, compilation of data, statistical analysis of the data, regression analysis, parametric and nonparametric tests of hypotheses, time-series econometrics and simulation. Some relevant points in these respects, in no particular order, are as follows.

Lack of suitable data impedes the progress of Islamic economics in many a way. Islamic economists are unable to support their arguments with empirical evidence. Validation of theoretical propositions is also difficult. Development of reliable data sets is, therefore, an urgent matter.

The data situation is relatively better in the case of macroeconomic and financial statistics. Muslim countries follow international standards reporting their national income and expenditure accounts, labor force data, human development indicators, financial statistics and foreign trade statistics. Some amendments and enhancements in the said data sets can increase their usefulness for Islamic economic analysis. For example, output of Sharīʿah-proscribed goods and services, such as liquor and prostitution, are non-permissible items. The Sharīʿah status of income associated with either of them is the same. Separate recording and reporting of such things, however, will be useful for assessment of an economy’s position on the Sharīʿah scale and Islamization efforts. Likewise, in the existing labor force statistics, employment is an acronym for salaried jobs. The option of self-employment is vague in these statistics. On the other hand, micro and small enterprises driven by entrepreneurship now play an increasingly important role in many countries. Highlighting the role of entrepreneurship with good databases on micro enterprises, therefore, will be a step forward. This will also help in developing the case for financing on basis of risk sharing in macroeconomic models.

Importance of distributional equity, as also elaborate provisions for this purpose in the Sharīʿah, call for special effort for development of data on the distribution of income, wealth and poverty. Several Muslim countries conduct income and expenditure
surveys on regular basis. Therefore, some consistent data for analyzing poverty and income inequality are already available. There is, however, need for developing comprehensive data sets on collection and disbursement of zakāh. This requires paying attention to, among other things, items on which zakāh may be applicable in the modern age, zakāh-yielding capacity of different regions and economic sectors, timings of the likely zakāh flows, geographical distributions of zakāh-payers and zakāh-beneficiaries and their demographic and economic profiles. Obligatory charitable expenses, such as rights of parents and near relatives, and voluntary charity have a prominent place in the Islamic milieu. Separate efforts in lieu of charitable expenditures and the distributive role of the Islamic institution of waqf (charitable foundations) are, therefore, required. Such works will also help the governments of Muslim countries to review their budgetary commitments for welfare purposes. The said data will also support research effort on altruistic behavior.

On the financial side, most of the Muslim countries have good databases on interest-based banking and financial markets. Availability of statistics on Islamic banking, securities and stock markets is keeping pace with the developments in these fields. Lukewarm reception for Islamic banking and Islamic finance, however, points to the room for data on needs and concerns of savers and investors in order to facilitate the development of proper financial instruments for deposit mobilization and financing. Successful elimination of ribā from an economy will greatly depend on detailed data on the debtors, the creditors, purpose for the generation of debt and maturity periods of the debt. Of course, such information for both private and public debt will be necessary. In passing, it is pertinent to note that such data are already a need for every economy in this age.

Data collection may be based on the study of historical records and other accounts of the Muslim societies during the past fourteen centuries. Explorations in the economic history of the Muslims holds a lot of promise for building Islamic economics. The research may be empirical or purely inferential. An example of the latter is the study of Z. Ahmad (1989) about the fiscal system during the time of the Prophet and the first four Rightly-Guided Caliphs. He came up with several interesting points about heads of public expenditures, sources of revenue, budgeting and fiscal management with useful implications for the current age. The vast hadith literature can also be a subject of thematic study for drawing conclusions for Islamic economic organization – transaction norms, markets, pricing and other matters of economic significance. Purely empirical research is also long overdue on economy and economic practices during the rules of the Omayyads (41-131 AH/661-750 AD), the Abbasids (131-656 AH/750-1258 AD), the Ottomans (/698-1341 AH/1299-1923 AD) and other Muslim states in various parts of the Muslim world during the last fourteen centuries. Such studies would help in understanding the economics of the respective Muslim societies, and provide useful clues for making Islamic economy a reality in this age.

Empirical research in Islamic economics may serve three purposes: (i) validation of theoretical propositions, (ii) evaluation of relative performance of an Islamic economy on the criteria of efficiency, equity and/or stability, and (iii) probing non-Islamic ground realities from the Islamic angle in order to highlight relevance of Islamic economics for the world at large. Validation may be in respect of theoretical propositions or working hypotheses that are inputs in building models. One such example is the structure of preferences of producers from the Islamic point of view for building models of firms imbued with Islamic values. Another example of this type of research is testing the conditions for making profit-and-loss sharing the preferred mode of financing for both Islamic banks and their clients. Islamic model of consumer behavior would be an example of a descriptive model.

As for the evaluation, substantial empirical work is already underway in the field of Islamic banking and finance. Efficiency of Islamic banks and customers’ perception of Islamic banking are among the popular research topics. See, for example, Hassan (2005), Hussein and Omran (2006), Rashid, et al. (2009) and Yudistira (2005). It is possible to do data-based comparative studies to understand the difference that Islamicity makes in economic behavior of firms and consumers.
As for the probing, Islamic economists may empirically study negative implications of the modern-day dichotomy between financial and real sectors in an economy in order to build support for Islamic financial architecture. They can also study economic costs of the existing poverty alleviation programs based on state-sponsored tax-transfer in order to build a case for alternative private-initiative based poverty alleviation arrangements.

Islamic economists may face, for quite some time, unique challenges in the validation of their theoretical propositions. Take, for example, the case of Islamic behavior of consumers or producers. Several possibilities exist in both cases. But empirical work requires data directly relevant for the said purpose. Distinguishing between Islamic behavior and Muslims’ behavior is another issue. As a stopgap measure, targeted surveys may be carried out on determinants of behavior of Muslim and non-Muslim respondents on the same issue. Comparative analysis Muslims and non-Muslims economic agents may help in sorting out behavioral propositions for Islamic economics. As an interim measure, some behavioral propositions may be based on replies of Muslims and other respondents to questions on the same issue. The data of Muslim respondents in the surveys may also be arranged according to knowledge and practice of Islam in order to get some idea about the truly Islamic behavior.

It is noteworthy that Islamic economists may do econometric analysis along traditional lines, but with caution. Darrat’s (1988) work was an early example of such an exercise. His study is more on the conventional lines. And, results are also not very different. That is, demand for money is relatively interest-inelastic. The problem with such exercises is that the econometric model used in tests ignores the fact that the monetary data used in the test is itself a byproduct of an interest-based mechanism: M1 equals currency plus demand deposits where demand deposits also include interest-based loans advanced by the banks.

In passing, some attention may be paid to scope for policy-oriented empirical research by Islamic economists. For example, one important Islamic policy goal is likely to be discouraging *isrāf* (extravagance). This is an empirical concept. There is a need for a proper definition of *isrāf*, identification of factors that encourage it, and ways to check it. Corruption is another area which leads to deviant behavior. Studies of both issues can be carried out for Muslim as well as other countries. While one might provide explanations for the phenomenon of corruption, useful hints can be drawn for how to preserve the Islamic character of an Islamic economy if it becomes a reality.

When data become a constraint in testing a proposition, the option of simulation may be considered. Simulation can be useful in a number of ways. Islamic economists may simulate the behavior of Islamic micro units as well as hypothetical Islamic economies in order to explicate the practical side of Islamic economics.

6. **Postscript**

This paper sought to answer questions related to the nature of Islamic economics, its methodology and prospects for theoretical and empirical research in this discipline. An important message of this paper is that Islamic economics is not to be confused as a branch of mainstream economics. Its purpose is to present before the humanity solutions to various economic issues by integrating insights obtained from the revelation with human intellect. As such, Islamic economics is an alternative approach to economic issues and a discipline in its own right. In order to avoid any confusion, it is necessary to qualify the economics in vogue as mainstream economics or conventional economics that in fact it is.

What is the future of Islamic economics? Bright. Its time has come. With proper articulation of Islamic economic ideals, it is expected to make its mark on real life in the near future, certainly not many decades. Islamic economists can learn a few lessons from the experience of Marxian economics. The socialist challenge to conventional economics failed for the simple reason that it only talked in terms of its ideals. Marxian economics rested heavily on its goals. Except for some utopian prose, it provided no distinct and workable behavioral hypotheses about micro units or a viable institutional framework. The result has been the fall of socialism on its own weight. As against this, richness of the Islamic ideology in diagnosing...
human behavior and in offering viable institutional arrangements supports the case for Islamic economics. The onus on Islamic economists is to work out practical as well as practicable details to prove that it is not about some utopia. In this age of reason, their cause may be helped by openness of the academia to fresh ideas for solutions to recurring financial crises and increasing gaps between have-nots.

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الاقتصاد الإسلامي وآفاق البحوث النظرية والتطبيقية

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المستخلص: تبحث هذه الورقة طبيعة ومنهجية نطاق الاقتصاد الإسلامي للتفه التأثير إلى بعض الإمكانات لبحوث النظرية والتجريبية في هذا المجال. يُدعَف الاقتصاد الإسلامي بأنه دراسة منهجية مشكلة تخصيص الموارد، وإنتاج السلع والخدمات وتوزيع الناتج والدخل والثروة في الاقتصاد في ضوء القرآن والسنة. ولذا التخصص أهمية ليس للمسلمين فحسب، بل أيضا لكل من يسعى لإيجاد حلول مستدامة لمشكلة الروك المالية والتضخم والبطالة والفقر وععد المساواة الاقتصادية. وهذا التخصص يتم ب "وصف الحقائق على أرض الواقع" و "عالج القضايا الاقتصادية" في ضوء الإرشادات الموجودة في القرآن والسنة. تأسيس الاقتصاد الإسلامي على ضوء الشرعية الإسلامية، مع دور داعم للفقه، هو المفتاح لبناء الاقتصاد الإسلامي. النهج الموسمي ليناسب العرض هو إعادة بناء الاقتصاد الإسلامي (على ضوء الشرعية الإسلامية) بدلاً من "أسلمة" الاقتصاد التقليدي. في الجانب النظرى، توصى الورقة بالتركيز على البحوث الأساسية لتعزيز نظرية الاقتصاد الإسلامي لله فجوات المعرفية حول قضايا متعددة مثل النظام الاقتصادي الإسلامي، والاقتصاد الإسلامي، والمعاملات المالية الموقعة مع الشرعية. وطبيعة دور الحكومة في العصر الحديث، ومراجعة الخطط السياسية الاقتصادية. وفي الجانب التطبيقي، تسلط الورقة ضوء على بعض المسائل المتعلقة بالبيانات والعمل التطبيق.

الكلمات المفتاحية: الاقتصاد الإسلامي، الاقتصاد التقليدي، الاقتصاد السائد، القرآن، السنة، الحديث، الشريعة، الفقه.