

## Book Review

**Muhammad Akram Khan:**

### **What is Wrong with Islāmic Economics? Analysing The Present State And Future Agenda**

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## **1. Introduction**

The book under review is a critique on Islāmic economics as a discipline evolved over the last 50 years or so. It comprises four parts; i.e. Islāmic Economics (7 chapters), Prohibition of *ribā* (7 chapters), Islāmic Banking and Finance (5 chapters), and *Zakāh* in the Present Age (1 chapter). [This review pertains mainly to the first part that deals with economics as the core subject.]

The author is a learned personality and has contributed significantly to the cause of Islāmic economics throughout his active life span. However, he seems to be much disappointed with the nature of research undertaken and the progress made so far in the area. It seems that he has decided to take a U-turn, to dismiss most of the efforts made by himself and other people suggesting to start the journey afresh. According to the author, many prominent scholars like M. Nejatullah Siddiqi, Rodney Wilson, Volker Nienhaus, S. Abdul Hamid al-Junaid and some others, have seen the first draft of the book, but he does not hint at their reaction. The reader, therefore, may get right or wrong impression that the ideas are supported by the indicated prominent scholars.

We appreciate the efforts of the author in pinpointing the drawbacks of research work on Islāmic economics, which is really a tiresome task and possible only with devotion and dedication to the noble cause. However, people interested in Islāmic economics get somewhat shocked with first glance at the title of the book. They feel a sensation of worry that perhaps there is much ‘wrong in the bottom’. However, the fault is not as much severe as to kick out one’s ‘own child’ with harsh words, discourage the disciples and let the opponents clap hands. Errors and omissions are very common

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phenomena in the initial stages of academic disciplines. A relatively soft title could be proposed like *'Issues in Islāmic Economics: Analysing the Present State and Future Agenda'*.

The author criticizes the present state of Islāmic economics and its methodology before putting forward his suggestions for improvement. A general picture emerges from the preface, as quoted hereunder:

"The enterprise of developing Islāmic versions of mainstream economics was misplaced. It tried to convey the impression that Muslims are different from other human beings. The fact remains that they are not. They are very much like other human beings. In their assertion of Muslims being 'different', they (Islāmic economists) tried to coin assumptions that appeared to be different from those of mainstream economics. For example, they argued that Islāmic economics is couched in altruism, cooperation, sacrifice, justice, fraternity and brotherhood. It was further argued that that since the mainstream economics does not accept these assumptions; there was a need to develop Islāmic economics as a distinct social science. While this was an imprecise understanding of the mainstream economics, the set of assumptions pushed the Muslim economists into the blind alley of an ideal Islāmic society, which didn't exist anywhere. The postulates of Islāmic economics couldn't be tested for want of empirical data. The new social science was still born".

"The most of what goes under the rubric of Islāmic economics is a crude mimicry of conventional economics embellished with the verses of Qur'ān and traditions of the Prophet (pbuh). ....A proper discipline of Islāmic economics should consist of hypotheses, theories and laws that are verifiable or falsifiable. .... It remains, by and large, theology and cannot be termed a social science; as it has not been formulated in a format that can be tested, nor is there any Islāmic society where it can be verified".

The author asserts, however, that his objective is not to argue that all that has been done is rubbish and should be discarded. What he wants is to move forward so that the message of Islām relating to economics attracts the attention of the wider contemporary scholarship.

## **2. A Critique of Research in Islāmic Economics**

With regard to the critique of research in Islāmic economics, first part of the book encompasses the following themes: i) Islāmic economics: state of the art; ii) The 'why' of Islāmic economics; iii) What is Islāmic economics? iv) Methodology of Islāmic economics; v) From Islāmic theology to Islāmic economics; vi) Expanding the frontiers of economics; and vii) An Islāmic economic system or spiritual capitalism.

The author, while giving a brief history of the development of Islāmic economics in the first chapter, contends that 'the turning point came with the establishment of the Centre for Research in Islāmic Economics at King Abdul-Aziz University Jeddah where the first international conference on

Islāmic economics was held in 1976. He expresses concern that the direction of research in Islāmic economics has shifted away from Islāmic economics to Islāmic finance which, although a sub-set of Islāmic economics, now sits in the driver's seat.<sup>2</sup>

The concern is valid but the reasons are also obvious. The authority of establishing and managing institutions stays with the business people rather than with researchers in Islāmic finance. This is the common dilemma with all branches of science. The researchers, who work hard to discover a fact, are pushed aside. The business community comes forward, gets the copyrights and launches the product in the market, for positive or negative purposes.<sup>3</sup>

## 2.1 The Definition of Islāmic Economics

The author refers to the definitions proposed by many scholars and complains that there is not a standard and generally accepted definition of Islāmic economics. In our opinion, the author (or anybody else) need not worry about this matter. There is no consensus on the definition of conventional economics even. Adam Smith (1776) considered it a "science of wealth"; Alfred Marshal (1890) attached to it the objective of "material welfare" of human beings; Lionel Robins (1935) defined it as the "science of scarcity (of means) and choice (among wants)", which projected economics as a 'positive' science but ignored its 'normative' nature relating to social science.

## 2.2 The Audience of Islāmic Economics

The author feels uneasy when he notes: 'At present, most of the literature on Islāmic economics addresses the Muslim audience only. It uses the idioms and jargon, the terms and phrases, and the legal dicta, that can be understood easily by the Muslim audience only. As such, 'this approach has at least two consequences: (a) Muslim economists have successfully locked out the Non-Muslims and Non-Arabic speaking audience from the content of Islāmic economics; and that (b) Muslim economists are feeling comfortable in appearing to be scholarly by the use of 'distinct' vocabulary'...pp 11-12. In support to this vision, he refers to Addas (2008) questioning as to how such a

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<sup>2</sup> Here we would like to clarify a misconception. The author gives a list of Islāmic Economics Institutions meant for Research and education worldwide. He mentions International Institute of Islāmic Economics (IIIE) but with the impression as if it has been renamed as the School of Islāmic Banking and Finance. This impression is wrong. IIIE retains its status as a full-fledged faculty of the IIU, Islamabad since its establishment. It comprises three units, namely the School of Economics, Department of Economics & Finance, and the School of Islāmic Banking & Finance (working since 1980, 1998 and 2004 respectively). Same departments are working separately for female students.

<sup>3</sup> The discovery of nuclear energy and its use for power generation, medication and/or mass destruction is an obvious example.

social science could be made universally acceptable which requires belief in Islām; it simply locks out the majority of the scholarly community' (P. 45).

The apprehension, however, does not seem to be realistic. On the one hand, it was natural to use the vocabulary of primary sources and to address the Muslims in general while writing on Islāmic economics in the initial phase, and on the other hand, some non-Muslim economists have also contributed significantly to Islāmic economics and finance<sup>4</sup>. In fact, non-Muslim scholars are more interested in the study of various aspects of the Islāmic world (for their own sake). The non-Muslim economists and finance experts have been curiously looking at the progress made in Islāmic finance.

### 2.3 The Scope of Islāmic Economics

The author observes that 'There is too much emphasis on the role of the government. However, the Muslim economists have not so far defined an Islāmic economy or developed the necessary and sufficient conditions of such an economy or the degree of 'Islāmicity'... pp 22; and that 'there is no consensus among the researchers on what to be included and excluded from the scope of Islāmic economics. They often talk of a wider canvas and also integration of various dimensions of life and a holistic worldview. He further notes that Muslim economists have shown scant interest in the studies of Muslim economies. Most of the literature is conceptual and theoretical; it is not related to real life conditions of any Muslim country... Pp 14-15; not even theoretical in the strict sense of the term, since there does not exist an Islāmic economy where these concepts can be verified'... (P. 23).

This observation carries weight that research in Islāmic economics has generally ignored the real socio-economic problems of the Muslim world and instead concentrated merely on theoretical and financial modelling. However, now people are moving gradually towards these important areas of research.

### 2.4 The Assumptions of Islāmic Economics

The author refers to the writings of some Islāmic economists who did not feel comfortable with the assumptions of conventional economics, and tried to develop a new discipline. He commented on the following themes in particular:

(i) **Scarcity of Resources:** Discussing views of Yusri Ahmed, M. Fahim Khan and others, the author contends that 'There is no conflict between an economic problem arising out of scarcity and the Qur'ānic verse that speaks of the adequacy/plenty of resources'... (P. 60); and that 'this hair splitting is an academic luxury. No clear-cut line of demarcation can be drawn between wants and needs. .... The concept of scarcity w.r.t. needs

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<sup>4</sup> Several names can be seen in the bibliography provided at the end of the book.

can be a basis for public policy for income support programs and safety nets, but all these policies are available in non-Muslim countries as well' .... P. 62.

### **(ii) Self Interest or Human Selfishness**

The author notes that: 'Muslim economists are (also) not comfortable with the assumption of selfish behavior of human beings (in conventional economics). He remarks, 'it is not realistic to assume that all Muslims or all human beings behave in a spiritual manner'. (P. 61)

There is nothing to disagree with the reservation of Muslim economists about the assumption of selfish behaviour as well as with comments of the author that altruism is the recommended behaviour. The Muslim economists also know this fact, and they want to restructure the conventional consumer theory with this element added. Habib Ahmed (2002) is such an attempt.

### **(iii) Rationality in Decision Making**

The author refers to Fahim Khan (2002) and notes that Muslim economists have tried some unique assumptions. As compared to rationality in conventional economics, they presume the concept of *Rushd* (sound mindedness) to be a valid assumption for human maturity. The author catches the point that "Permission can be denied to a person to use his private property if he does not possess *Rushd*" and remarks that 'this drags Islāmic economics into an area of public policy'...pp 61. In our opinion, both the concepts of 'rationality' and '*Rushd*' carry more or less the same meaning. The decision maker must be sound minded or clever enough (*Rasheed*) to distinguish between right and wrong.

### **(iv) Utility Maximization**

The author again refers to Fahim Khan (2002) and notes that Muslim economists hesitate to adopt the assumption of utility maximization and instead use the alternative concept of *maṣlaḥah* (welfare), although there are no hard and fast rules to demarcate the two. They also cite *gharar*, *maṣlaḥah mursalah* and *isteḥsān* as distinctive features of Islāmic economics. The author remarks that 'these concepts belong to public policy and do not prove the need for a distinct branch of knowledge as Islāmic economics'.

We believe that 'utility maximization' or 'taking decision in self-interest' is natural to everybody. However, Islām advises individuals to consider the '*maṣlaḥah*' or welfare of 'others' as well besides self interest and to foresee the expected net outcome of every decision making. In other words, Islām wants to regulate the natural instinct.

## **2.5 Islāmic Economics versus Islāmic Theology**

The author notes with great concern that whatever is presented in the name of Islāmic economics is nothing but theology, since it doesn't possess the virtues of a social science. He notes that:

“Most of Islāmic economics consists of theology on economic matters. Such teachings should have been presented in the format of a social science postulates and subjected to the same rigorous testing as those of conventional economics. Writer after writer is drumming in same ideas -- without listening to the voice from the other side that is critical to it”. ...There is no way to verify claims for the superiority of the Islāmic economic system. At best, we can say these are the teachings of Islām in the economic domain. Whether it will actually lead to a more beneficial and superior economic system than capitalism would depend on the extent to which society actually practices these teachings. ... The question of studying this system does not arise, as it does not exist anywhere”. (Pp. 7, 33, 52).

Referring to Chapra (2001), he remarks that:

“The whole argument about a moral filter is valid provided we have an ideal Islāmic society. ....The maximum we can say in support of Islāmic economics is that it may play a role in transforming (traditional) society (into an Islāmic one) – a fond hope, perhaps” (P 35). It could be more appropriate that we leave the conventional economics as it is, write the economic teachings of Islām in modern jargon and train people in Islāmic teachings with the aim of transforming their behaviour. In that case, we shall end up with an economic theology of Islām stated in modern terminology and not Islāmic economics’ (P 37).

The author further observes:

“Islāmic economics evolved from statements of Islāmic principles by religious scholars on various economic issues. As a first step, it was perhaps necessary. Unfortunately, Islāmic economics has not been able to evolve further from this initial position. Presently, it has a high level of legal (*Fiqh*) content and too low a level of economic analysis’. According to Addas (2008), “the methodology of Islāmic economics is to observe an objective reality and then assess the extent to which it conforms to or deviates from the principles of Sharī‘ah. This approach, by itself, professes to remain within the domain of theology. Islāmic economics can never develop as a social science with this line of thinking. It will not help in the prediction of future”... pp 64.

It is hard to disagree with the author on the above reservations. However, this was the case in the initial phase and somehow necessary. Muslim economists were bound to refer to Islāmic teachings on economic affairs in their effort to develop a new discipline, which the author admits. Another point is also noteworthy. It is not always necessary to have a society where the assumptions of a theory could be tested. What about the theory of socialism put forward by Marx in the 19<sup>th</sup> century when the system didn’t exist anywhere in the world?



## 2.6 The Rationale for Islāmic Economics as a Distinct Discipline

The author refers to an argument offered in favour of Islāmic economics that there are certain objectives which Islām wants to achieve, but capitalism fails to do so since it doesn't have built-in controls to regulate human behaviour. These objectives include, among others: i) Catering for universal need fulfilment; ii) Achieving an equitable distribution of income; and iii) Granting dignity to human beings and regulating their behaviour by an ethical code.

The author notes that Islāmic assumptions cannot be derived from any empirical evidence, as we do not find any ideal Islāmic society in the world. Doing so would take Muslim economists into the realm of uncertainty. They would get into the business of using an ideal Islāmic society to prove their point. To him, enormous amount of literature on economic development, poverty alleviation and income distribution shows that conventional economics also considers these as valid areas of enquiry. The proponents of capitalism are continually adjusting their position to achieve these objectives. How can we then blame capitalism for not caring for these sublime objectives? (P. 36) He quotes the examples of Cuba, China and several Muslim countries where the conditions of human dignity are still worse than capitalist countries. To him, "capitalist countries, in practice, do not lag far behind our objectives of the Sharī'ah. How then we make a case for Islāmic economics?" The question arises, however, whether the capitalist countries have been focusing these areas of social welfare from the very beginning (as a part of modern capitalism started taking shape with the industrial revolution) or they were compelled to do so in reaction to the Socialist revolutions taking place in the 20<sup>th</sup> century to prevent their propagation?

Referring to the assertion of Muslim economists that 'Islāmic economics has a three pronged approach: self interest, social morality and state regulation' the author argues that "gradually, the conventional economics is also addressing these areas of human behaviour. It is now studying the institutions that make people adhere to some basic moral norms, ensure respect for private property, enforce honesty in dealings, protect standardization of products, regulate truth and fairness in advertisements, the economic power of business firms and consumers interests etc. In what sense, do they (Islāmic economists) think, would Islāmic economics make a difference?" he assert. (P. 37)

However, as pointed out above, new areas like the behavioural, institutional and experimental economics have emerged during the second half of the 20<sup>th</sup> century. Same is the case with Islāmic economics that came to the forefront explicitly after many Muslim countries attained independence. We believe that all these developments have affected the conventional economics positively and brought about a change in the general thinking over

time. It implies that the research in Islāmic economics has contributed to conventional economics and definitely made a difference. This point cannot be ignored and Islāmic economics cannot be multiplied by zero.

Referring to the scholars like Chapra (2001) and Siddiqi (2008), the author notes that ‘the very rationale for developing another academic discipline is the difference of the worldview, which is likely to affect the postulates, hypotheses, theories and laws of conventional economics’ and that ‘Muslim economists should have engaged in examining conventional economics and pointing out the similarities and differences between the two disciplines. It requires a deep understanding of the two worldviews and years of patient thinking to undertake such a venture. Most of the Muslim economists (unfortunately) do not possess this capacity’ (he refers to Haneef 2010) (P. 55)

The rationale for developing Islāmic economics on the proposed grounds is very clear and commendable. However, and as noted by the author himself, it is a time consuming process that needs hard work with patience as well as the capacity to understand the issues and suggest efficient alternatives.

## **2.7 Relationship with Conventional Economics**

The author refers to different approaches and lines of thought about the status of Islāmic economics. First, the approach of rejecting every thing of conventional economics to develop a social science that replaces it (Yusri 2002 and others). For comments on this, he quotes Addas (2008) stating that “the subject under the name of Islāmic economics is presently no more than the result of applying the Islāmic rules and injunctions (*fiqh*) to secular economics. Islāmic economics is not yet a discipline that replaces conventional economics”. Second approach is to develop Islāmic economics on a similar basis to conventional economics by using the tools of the latter. On this point, the author comments that ‘a closer look at the literature will show that most of it is a poor caricature of contemporary economics stated in an Islāmic idiom and sprinkled with verses of the Qur’ān. The third approach is to study Islāmic economics within the mainstream economics. He refers to the scholars (like Siddiqi) who contend that “Islāmic injunctions should be studied within the framework of conventional economics by using the same methodology but incorporating different behavioral variables into it.” The author seems to support this line of thinking and states that:

“Most of the conventional economic analysis can fit quite well into the Islāmic framework. We need not ‘Islāmize’ conventional economics by coating it with Shari‘ah injunctions. However, if we find something incompatible .. with Islāmic teachings, we should examine it on rational grounds. This way, we shall be able to extend the scope of economics by building into it Islāmic assumptions, where necessary”. He further observes,



“Muslim economists now recommend that Islāmic economics should be taught as an adjunct of conventional economics and the focus should be on transforming knowledge of Islāmic teachings related to economics along with the education in conventional economics” ... Pp 7, 49-51.

We fully agree with the author in that Islāmic economics could serve as a branch of modern economics rather than a parallel discipline. It concentrates on the moral values otherwise neglected by the neoclassical economics. In this capacity, the drawbacks of conventional economics should be pinpointed and the theories as well as policies re-examined in the light of Sharī‘ah. The present body of economics has expanded tremendously after the Keynesian revolution and a number of new fields have been annexed to it like the behavioral and experimental economics besides development economics, rural and urban economics, etc. In fact, many degree awarding institutions in Muslim countries (including IIE, IIUT) are offering specific courses in Islāmic economics as part of their degree programs in economics. The Higher Education Commission (HEC) of Pakistan has also prescribed a compulsory course of Islāmic economics in BS (4-years) program since 2008.

## 2.8 Sources of Islāmic Economics and Objectives of Sharī‘ah

Muslim scholars agree that the Qur’ān and Sunnah of the Prophet (pbuh) are the two primary sources of Islāmic law. In addition, there are two secondary sources namely, the general consensus of Muslims (*ijmā‘*) on matters of common interest and the Juristic judgments (*ijtihad*) on certain issues not discussed in the primary sources. However, the author feels uneasy with the deduced judgment and remarks:

“Without questioning the value of this pool of knowledge (*fiqh*), it is obvious that no human thought could be valid for all times and all phases of human development. Profit-Loss sharing has been presented as an Islāmic alternative to *ribā*-based system/ transactions. However, Profit-Loss sharing is a human device and has no ‘Islāmic’ basis in the strict sense of the term’. He refers to Siddiqi (2004) stating that “the foremost reason for the stagnation of Islāmic economics is the confusion caused by treating Islāmic law (*fiqh*) as a divine source of guidance”... pp 64.

One gets puzzled with the reasoning of the author. Different versions of the profit-loss sharing system were being practiced during the life time of the Holy Prophet (pbuh) and he himself worked as ‘*muḍārib*’ in early life. In the presence of valid evidences, the statement that PLS has no ‘Islāmic’ basis looks very strange<sup>5</sup>. Of course, it is not the only mode to carry out business and conduct financial transactions free from interest.

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<sup>5</sup> In fact Islām didn’t dismantle each and every structure, practice and tradition of the Days of Ignorance. It abandoned some practices and let other things intact. In *fiqh* terminology, whatever is not clearly prohibited by Sharī‘ah is valid and permissible.

Regarding the use of juridical maxims in Islāmic economics, he remarks:

‘If Muslim economists insist on having a separate branch of knowledge that uses juridical maxims, they should demonstrate how they are different from rational principles of public policy’... pp 66.

In our opinion, the relevant maxims are derived from the injunctions of Sharī‘ah. Similar is the case of ordinary maxims that have resulted from the prolonged human experience. The modern principles of public policy have evolved from these maxims overtime. For instance, the principles of taxation and public expenditure given by Adam Smith (Wealth of Nations) are very close to the principles derived by Imam Abu Yusuf (*Kitāb al-Kharāj*). As such, the demand from Islāmic economists ‘to demonstrate that juridical maxims are different from rational principles of public policy’ is in itself irrational.

As a digression, the author dwells on the definition and objectives of Sharī‘ah. The following comments are noteworthy:

“Almost all scholars agree that there is no written or codified source which could be identified as the Sharī‘ah. While all of them stress that the Sharī‘ah is the primary source of Islāmic economics, none of them can point out what precisely is its content. It cannot be accepted as reasonable that something on which Islāmic economics depends is not precisely known and agreed upon. Since Sharī‘ah has to be followed by all Muslims, and since accountability in the hereafter is based on compliance with the Sharī‘ah, it is inconceivable that God would leave it ambiguous and fluid”.

The author makes his point by quoting from Muhammad Asad (1947) that “The Sharī‘ah actually consists of a small number of injunctions stated in the Qur’ān and Sunnah of the Prophet...They are termed ordinances (*naṣṣus*), they are divine, immutable and binding. Whatever does not meet this criterion falls out of the domain of Sharī‘ah. It could be human thinking on the Sharī‘ah but not Sharī‘ah *per se*”; He remarks that:

‘Islāmic economists have not maintained this difference and have mixed up the divine and human. Until we clearly demarcate economics and theology, the path of growth of Islāmic economics is blocked’...pp 67.

The above reservations imply that the author denies the validity of secondary sources of Sharī‘ah, namely the collective wisdom and the juristic judgment. In our opinion, deviation from collective wisdom of the ‘*ummah*’ is much difficult unless properly rationalized. However, the judgments passed by the predecessors in their times are never binding if the circumstances have changed. But the doors of *ijtihād* cannot be let open for every individual unless he bears the capability and possesses the requisite breadth and depth of knowledge.

The author finds no scope for Islāmic economics as he remarks:

“A dispassionate look at the original or the extended lists of the objectives of Shari‘ah leaves one wondering about any possible conflict with conventional economics”. Referring to Siddiqi (2004), he says that the objectives could be one of the reasons for stagnation of Islāmic economics. (P. 68)

We don’t understand as to how a resort to the objectives of Shari‘ah by Muslim writers can be a source of stagnation of Islāmic economics. The said objectives were derived by Muslim philosophers from the injunctions of the primary sources centuries earlier. If modern developed and welfare states of the West have attained some objectives similar to Shari‘ah (by coincidence), then what is the fault on part of the proponents of Islāmic economics? Presently, the developing economies (including majority of Muslim countries) are lagging far behind in achieving the Western standards of living. The Islāmic economists refer time and again to the said objectives with the intention that Muslim nations are obliged to follow Shari‘ah; rather than adopting and copying everything from the West blindly. If some principles and policies between conventional and Islāmic economics are similar, it doesn’t imply that there is no need for Islāmic economics. After all, the standpoints and world views of both disciplines are different.

The author suggests that Muslim economists would have to move away from the framework of theology and adopt the framework of social sciences to develop this discipline. (P. 39). Referring to the methodology of conventional economics, he notes:

“It studies human behaviour or constructs its mental image through abstract thinking. The thought is presented as a postulate in a language that is either verifiable or falsifiable. If verified by empirical evidence, the postulate becomes an economic theorem that remains available for further examination. After repeated attempts of testing, if the theorem stands true, it becomes an economic law. ‘However, Muslim economists faced this methodology with a certain degree of suspicion and believed that verification of Islāmic postulates would be something of committing a sacrilege (refers to Addas-2008)’ P 56. ‘Conventional economics considers human rationality and empirical evidence as the sole source of knowledge, while Islāmic economics is based on the primary sources of Qur‘ān and Sunnah. .. Muslim economists can start from conventional economics as a given pool of knowledge and adopt the same methodology but can formulate economic postulates based on understanding, interpretation and implementation of Shari‘ah injunctions. If they can do that, the whole humanity will benefit from Islāmic injunctions” (P. 63).

### **3. Islāmic Economics as a Social Science**

With regard to the question, how to test the theories of Islāmic economics, based on the injunctions of Shari‘ah, the author comments:

“Islāmic economics is different from divine ordinances. The divine is binding but human is not. Both the Islāmic and conventional economics agree on the

role of reason and rationality in human life. The Qur'ān is replete with references to thinking, rational understanding and the pursuit of reason in all matters. The injunctions of Qur'ān and Sunnah have to be reformulated in verifiable postulates if we have to develop Islāmic economics as a social science. When Muslim economists are able to translate Islāmic economic teachings into economic postulates (presentable for empirical verification), they will take the first step towards creating a social science in the name of Islāmic economics"... pp 57; He continues arguing that "human beings have spiritual dimensions, and conventional economics should (also) recognize this reality. Islāmic economics does not reject rationality, maximization of utility and that human beings behave in self interest. However, it extends the meaning of these concepts to include human wellbeing, spiritual uplift and ultimate success in the hereafter. The challenge is to integrate the assumptions into postulates and present them for verification or falsification. Muslim economists should not insist on embedding their postulates in an ideal Islāmic society. They should formulate the Islāmic economics postulates in such a way that they can be tested in this mundane world"<sup>6</sup> (P. 70)

This proposal of the author carries weight. But the existing literature on Islāmic economics is not altogether void of this kind of research. Some attempts on these lines have already been made to prove the superiority of an Islāmic economic system and further research is in the pipe line. This reviewer himself chose this topic for his Ph.D. research and employed the CGE based empirical framework for the purpose<sup>7</sup>. There are many case studies to show the impact of *zakāh* and *'ushr* system on distribution and on the efficiency of Islāmic economic system.

He dwells further on methodology of Islāmic economics by discussing deductive/inductive reasoning and the tools of analysis and by referring specifically to Zaim (1989), Chapra (2007) and Habib Ahmed (2002). The author proposes that 'while adopting the tools of analysis from conventional economics, Muslim economists should not suffer from any prejudice, but this borrowing should not be reckless'. He quotes Habib Ahmed (2002) trying to resolve the serious issues:

"How the fundamental problems of choice and scarcity are addressed analytically in the value-laden framework of Islāmic economics, how resource allocation can be analyzed in the hierarchy of needs and necessities, conveniences and refinements and luxuries, when Islām also advocates a market economy. There are no unique tools of analysis for Islāmic economics.

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<sup>6</sup> For the sake of illustration, the author gives an example of the law of *zakāh*, which can be transformed into empirically verifiable postulates.

<sup>7</sup> 'Consequences and Prospects of Islāmization-An Applied General Equilibrium Approach with reference to Pakistan Economy' IIUI, (1999). Also refer to Yasin and Tahir (2002).

Same is the case in producers' behaviour of profit maximization/cost minimization besides taking into account social considerations".

The author seems to support this approach but with certain reservations:

'Even this approach can be criticized. Economic analysis thus carried out has only one value - it may persuade people to behave in an Islāmic manner. But for this purpose, all this effort to develop analytical tools and a separate discipline is un-necessary. This is basically a task of spreading the message of Islām and can be done in a simpler manner (probably by preaching?)'... pp 69.

The position taken jointly by Habib Ahmed (2002), Chapra (2007) and the worthy author is very much rational. The conventional tools of analysis are more or less value neutral and can be adapted into Islāmic economics analysis, however, with due caution. The problem lies there in various assumptions made in theoretical models about the behaviour of agents<sup>8</sup>.

Of course, one may not agree with the reservations of the author that the analyses thus carried out in Islāmic economics will just persuade people to behave in an Islāmic manner'. Irrespective of the final outcome, whether it persuades people or does not, the difference between Islāmic economics and Islāmic theology will become crystal clear; the purpose which the author himself has been advocating throughout this book.

### **3.1 The Proposed Methodology of Research in Islāmic Economics**

The author points out certain deficiencies in the present literature of Islāmic economics... Pp 17-22. He highlights the work by the Islāmic Economics Research Centre, King Abdul-Aziz University, Jeddah (2008), and seems to support its research agenda; that all subjects covered in it have a common appeal and that research in these areas can lead to a breakthrough in Islāmic economics; ...pp 47.

Chapter 5 & 6 of the book are reserved for a detailed discussion as to how the present state of Islāmic Economics can be transformed into a social science in real sense and how its frontiers can be expanded. At the outset, the author raises the question as to how the divine injunctions can be translated into economic postulates which can be presented for testing and verification. This will bring out Islāmic economics from the realm of theology to a social science... p 72. He stresses the need to verify human interpretations or postulates derived from Qur'ānic statements...pp 73-77.

He quotes several verses dealing with economic behaviour and the consequences thereof, namely, (i) causes of misery, insecurity and destruction; (ii) relief from hunger and insecurity as a bounty of God; and (iii)

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<sup>8</sup> After all we have been in the practice of borrowing the theories, tools of analysis, and technologies from the West in all branches of sciences including economics.

prohibition of *ribā* (interest) and its impact, and then raises some serious questions with regard to each broad area. He puts forward a thought provoking proposal by saying:

“These examples from the Qur’ān refer to such laws of material prosperity and misery, distribution of income and wealth, the effects of charitable spending and so on. The moot point is that these ethical laws are statements of facts, but we do not understand exactly how these laws operate in physical terms. Conventional economics would treat these statements as exogenous and exclude them from analysis. This makes the task easy but doesn’t allow a comprehensive understanding of the economic phenomena related to human behaviour in wider context. One of the contributions of Islāmic economics could be to develop a methodology for making these exogenous factors endogenous to the analysis. The effects of these laws are measurable, only the process is not visible, and we need to discover that process. This will broaden the scope of economics but we need to define the variables in measurable terms”... pp 78.

### 3.2 Construction of Verifiable Postulates

According to the author, the Qur’ān supports the methodology of building such postulates that are empirically verifiable and may help in discovering the linkage of human behaviour with prosperity and misery. However, he seems to be influenced by empiricism so much so that he regards three examples of ‘visual facts’ quoted in the Qur’ān as ‘empirical evidences’. This looks very strange since the difference between the visual fact and empirical evidences is very clear.

- When Prophet Ibrahim encountered with a king who claimed divinity and Ibrahim gave the example of sun rising from the East by the orders of God. It is a universal (visible) fact to which the Prophet invited the attention of king.
- The Qur’ān narrates the case of a person who passed by a village totally ruined, and the doubts emerged implicitly about resurrection. Death was inflicted upon him. His body remained lying there for a hundred years, and was then resurrected. God asked him to consider his own self and also look at his donkey how it comes back to life. Again this was a practical experience that couldn’t be denied, but the author regards it empirical evidence.
- When Prophet Ibrahim wished to have a visual experience of the life after death, and God asked him to keep four birds for a few days, then slaughter them, cut into pieces and mix the flesh, and distribute on different hill peaks and finally call them; and you will see the peaces joining together and transforming into living birds flying towards you. Again this was an extraordinary visual demonstration rather than empirical evidence.

He concludes that all knowledge must be based on valid and indefensible evidence which can be either empirical or based on a divine source. Otherwise, it may be a conjecture and surmise. The author gives the example



of the terms '*ribā*' and '*maḥaq*' (used in the Qur'ān- 2/276) and their possible interpretations. These can give rise to a large number of postulates based on combination and permutation. The author short lists these to only four postulates, which are ready for empirical testing ... pp 79-82:

1. Interest on all types of loans ultimately leads to a reduction in the social wealth of the society;
2. Interest charged on consumption loans ultimately leads to a reduction in the wealth of the lender;
3. Interest on deferred payment in a sales contract leads to a reduction in the wealth of the seller over the long run; and
4. Interest on international loans leads to the increased poverty on the borrowing country.

Although the empirical investigation has now become state of the art in all fields of scientific research, yet it is not so easy in case of social sciences. However, the data is now collected and compiled in all areas and analysis carried out. Empirical investigation may be possible in some cases as proposed by the author, but may not be always realistic.

### 3.3 Discovering Moral Laws relating to the Economic Problem

Starting from the argument that conventional economics treats a large number of factors exogenous, although they do influence economic problem, the author believes that Islāmic economics can expand the frontiers of economics if the moral laws (that influence the creation of wealth, distribution of income, state of material prosperity and deprivation etc) could be made endogenous... pp 85-86. He further augments his point of view by saying:

“Over and above the visible cause-effect relationship of the factors of production (with output and productivity), there are moral laws of blessings (*barakah*) and deprivation (*maḥaq*) which influence the ultimate results. These laws operate in response to certain traits of human character, which influence the state of prosperity and misery. A normative change in human behaviour can transform misery into prosperity and vice versa”.

A detailed list of the Qur'ānic laws of prosperity and misery is provided, which include: (i) The invisible hand (power/authority/decision) of God and (ii) the concept of blessing (*barakah*). He discusses its relevance with the law of prosperity and misery, problems in measurement of *barakah* and then highlights some traits of human character like gratitude (*shukr*), repentance (*taubah*), God-consciousness (*taqwá*), spending for the sake of God (*infāq*) in prosperity; and injustice, exploitation and inequity (*ẓulm*), corruption on earth (*fasād fīl ard*), deliberate actions to deprive the poor in case of misery. He gives flow diagrams to show working of the Qura'nic laws of prosperity, misery and corruption on earth...pp 98-100.

However, he admits the difficulties of this task since:

“The moral laws are neither visible nor measurable. They operate in a complicated manner and the precise mechanism through which they operate is yet not known. Their understanding needs divine guidance. The time required for operation of these laws and emanating of results is very long. It is not possible for human beings to discover moral laws by direct sensory perceptions”.

Despite these limitations, the author proposes that Muslim economists should focus on the discovery of the cause-effect framework of moral laws and proposes the following methodology:

- a) Prepare a list of moral laws as discerned from the Qur’ān and Traditions of the Prophet (pbuh) relating to economics.
- b) Try to understand and interpret the moral laws in a cause-effect framework and present them in the form of verifiable postulates.
- c) Polish the results of postulate testing and invite the economists to examine the results.
- d) Engage the economists of the world in understanding, interpreting the moral laws and undertaking further research into these laws.

The proposal is persuasive, yet difficult to be materialized if not impossible. It needs individual as well as collective efforts over years, may be centuries. Unfolding the mechanism of the operation of moral laws is a challenging task and needs extra-ordinary calibre. For the time being, the preference of Islāmic economists is to have a full-fledged working economic system where the injunctions of Shari‘ah (pertaining to public policy at least) could be implemented in letter and spirit and the results analyzed.

#### **4. The Need for an Islāmic Economic System**

The author refers to the endeavours of Muslim scholars in portraying an Islāmic system distinct from capitalism. He summarises the stated objectives and reiterates that it is difficult to tell what is particularly distinctive in an Islāmic system since most of the features of present day capitalist system are very much similar to those imagined for an Islāmic system. There seems no rationale, according to the author, to insist on a distinct system if ultimately we have to end up with what capitalism has already offered...pp 102-03. He evaluates the assertions (rationales) put forward in favour of a distinct Islāmic economic system and contends that most of its characteristics are found in the present day capitalist economies<sup>9</sup>. He also claims that the present day capitalism has Islāmic roots since the Muslims were the pioneers of creating it from the ashes of medieval economies of Europe. He refers to Heck (2006) indicating that “the key commercial instruments developed by Muslims

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<sup>9</sup> It may be noted carefully that the author is making ground to prove the adequacy of modern capitalism in the presence of which there seems no rationale to strive for an Islāmic economic system.

during the 11<sup>th</sup> to 13<sup>th</sup> centuries and the integrated commercial network helped the Europeans to pull out of the 'Dark Ages'. The roots of present day capitalism lie in Muslim commercial practices. Here he poses a serious blame against Muslim jurists by saying,

"The sources of Islāmic prosperity in those days lay in the skill of Muslim jurists to adapt juridical principles for accommodating interest-bearing commercial transactions, while their Christian counterparts were slow in doing that, although both Muslims and Christians believed in the prohibition of usury"<sup>10</sup> ...pp 110.

The author argues that:

"The Muslim concepts of a free market and profit motivation deeply transformed the European tools of trade and business vocabulary. These concepts were marked improvement over the Christian concepts, which stifled the profit motive, devalued material gains, held poverty and asceticism in high esteem and preached contentment in preference to the material gains of life".

#### 4.1 The Social Agenda of Islām

Before moving towards his final objective, the author discusses the social agenda of Islām. However, he passes a very serious comment that the Prophet (pbuh) didn't propound an economic agenda by saying:

'As head of the Islāmic State, the Prophet (pbuh) didn't announce any economic agenda. We do not find any public policy by the Prophet (pbuh) relating to savings, investment, financing, economic development, employment, technology, environmental protection and so on. He didn't propound any macroeconomic policy for reform and these things were left to the free will of the people. All his economic teachings are focused on social well-being or on establishing an ethical, coherent and just society' ... pp 111.

This observation seems very strange. Is economic system something aloof from social system? Whether social justice is meaningful without economic justice? How social security to the poor and weak segments of the society as suggested by the Holy Prophet (pbuh) is possible without equity in distribution and fulfilment of their basic needs? While using modern terminologies of economics; he wants to say: 'Look! since these matters were not taken care of, so the Prophet had no economic agenda'. So breathtaking an idea!<sup>11</sup> The question arises whether these concepts were in vogue at that time in other 'developed' countries like the Roman and Persian empires? If not, and certainly not, then how one can expect that such elements of public

<sup>10</sup> It was the moral responsibility of the author to investigate as to which Muslim Jurists managed to legalize and accommodate the interest-bearing financial transactions and in which form?

<sup>11</sup> The author himself compiled a valuable book: '*Economic Teachings of Prophet Muhammad (pbuh)*' published by IIIIE and IPS Islamabad (1989).

policy could be attended to by the Prophet (pbuh) in the much 'backward' Arabian tribal society?

## 4.2 The Building Blocks of Spiritual Capitalism

After prolonged deliberations as mentioned above, what comes out finally from the bag is the naïve concept of 'Spiritual Capitalism'. The author reiterates that the Islāmic system propounded by Muslim scholars has all the features of capitalism<sup>12</sup>...pp 112. He refers to Siddiqi (2008-b) stating that "the failure of capitalism is basically a moral failure and that Islām aims at creating a society that upholds moral values for welfare of the humanity", and argues that spiritual capitalism promises to give that opportunity to humanity and indicates foundations and stages of this concept:

'The elements of spiritual consciousness (*taqwá*) include the ever-prevailing sense that God knows each and every thing and that man is accountable to him and that one should take care of the rights of others. Human beings have an inherent tendency to deviate from these norms, so Islām advocates for an active role of the State and also for establishment of permanent and full-time working institutions to promote good behaviour (*ma'rūf*) and to discourage evil making (*munkar*). If these norms could be integrated with capitalism through education and training, it will lead to the final goal of *falah*.

He finally concludes that Islāmic economics should aim at the study of spiritual capitalism and develop a theory for its establishment in modern societies. He suggests that pursuing this goal will set the agenda for Islāmic economics for several decades to come. (P. 119)

The 'poor' Islāmic economists are criticized bitterly by the author for presenting theology in economic jargon. Now, the author himself is doing more or less the same job. It makes no difference if the expected outcome is labelled as Islāmic capitalism or spiritual capitalism when based on the same norms.

As discussed earlier, capitalism as a socio-economic system emerged in its crude shape side by side with the industrial revolution in the West. Under the influence of French revolution and Communist revolution (and possibly due to interaction of the imperial nations with Islāmic culture and civilization), it assumed the modern shape after the World War II. In fact, the European forces were never ready to give any relaxation to human beings they had subjugated during the 18<sup>th</sup> and 19<sup>th</sup> centuries. They plundered the resources of colonies and kept the people backward. After getting

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<sup>12</sup> In our opinion, rather the converse is true - all the concepts of economic and social justice propounded by Islām centuries earlier are also found (to some extent) in the present-day capitalist economies. Also, Islām has never presented any type of spiritual capitalism.

independence during the 20<sup>th</sup> century, these countries (including Muslims) have been striving to provide the basic facilities of life to their people. They are poor, under-developed and heavily indebted. Islāmic economics developed in this perspective with the objective of restructuring the economies of Muslim countries according to the teachings of Islām. Although some progress has been made in this direction but success in achieving its objectives is yet a far flung destination. The masses in these countries have forgotten the lessons of moralities. Who will graft the moral values (emphasized by Islām) into capitalism and where to conduct the experiment if the soil is out of reach? The prevailing situation in Muslim countries is worse than that of 1980s'. They are indulged in wars and dragged into sever problems of terrorism and political instability. The task proposed by the author is not possible without peace and tranquillity. The readers can best judge the feasibility of the proposal put forward by the author.

## 5. A Final Word

The book under reference is the outcome of extensive deliberations and hard work. The author deserves due appreciation in that he has tried his best to pinpoint the deficiencies in the prevailing state of Islāmic economics and to motivate the researchers interested in this area. In particular, the proposal of launching Islāmic economics on the tracks suitable for research work in social sciences deserves serious attention. We will request the worthy author to continue his services for the cause of Islāmic economics as usual and not to lose hope for betterment, as suggested by the great philosopher and Pakistan's national poet Dr. Muhammad Iqbal<sup>13</sup>.

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<sup>13</sup> *millat ke sath rabita ustawar rakh - pewasta reh shajar se, umeed e bahar rakh*

Keep strongest communication with the nation

ملت کے ساتھ رابطہء استوار رکھ

Remain attached to the tree and have spring's expectation!

چیتہ سترہ شجر سے امید بہار رکھ

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