

ISLAMIC ECONOMICS:

Current State of Knowledge and Development of the Discipline

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Abstract. Despite the considerable achievements that have been attained during the last three decades, there is a long road ahead for Islamic Economics to establish itself as self-contained discipline that lays the ground for an integrated global economic system.

Despite the development of various economic models, traditional economics has failed to provide permanent and sustainable economic solutions to our economic problems. Still, a vast majority of world population live in poverty and relying on mainstream economic thoughts does not prevent the world from witnessing financial and economic crises every few years. This led to a growing trend of dissatisfaction with existing economic system and many economists nowadays raise the question: Is there an alternate paradigm?

The current economic problems are crossing national boundaries. Recent developments in the world economic scene have brought various questions regarding the allocative and distributive mechanisms in the current global economic system. The growing income inequalities between the rich and the poor nations prompt serious deficiencies in the distribution mechanisms. The world now has 358 billionaires with a combined net worth exceeds the combined net worth of the world's poorest 2½ billion people. The recent history of various crises in financial markets sheds doubts on the effectiveness of the global financial systems. For every \$1 now circulating in the productive world economy of real goods and services, it is estimated that there is \$20 to \$50 circulating in the world of pure finance whereby investment funds are de-linked from the creation of real value. In the international currency markets, some \$800 billion to \$1 trillion changes hands each day, unrelated to productive investment or trade in actual goods and services. There is a growing trend of dissatisfaction with existing economic system.

“Islamic Economics” as a scientific discipline to address the contemporary economic problems came into light in 1975 when an international conference was held in Makkah on the subject. The conference introduced Islamic economics as an alternative paradigm promising a better understanding of economic problems and how to approach them. At the conference, Professor Anas Zarka denied that conventional economics is a value neutral science. He vigorously argued that Islamic economics can be developed as a distinct scientific discipline with its own objectives, value systems and methodology. Professor Khurshid Ahmed elaborated on how value system of Islam leads to a better concept of economic development and pragmatic approach to achieve it. This conference and several follow-up conferences and seminars motivated several Muslim economists and even some non-Muslim economists to explore the theory of Islamic economics and economic system that teachings of Islam entail.

There has been a considerable amount of writings in the last thirty years on the broad economic aspects of the Islamic system. Since Makkah Conference in 1975 when Islamic economics came into light, it has made substantial progress as a scientific discipline and nowadays Islamic economics and finance are taught at several universities, not only in Muslim countries but also in the West and among the most prestigious universities.

Several international conferences were held and economists have taken two directions: A group of economists argue that Islamic economics does not have a distinct theory. Mainstream economic theory is general enough to accommodate variations in values and even in rules of behaviour delineating economic systems. This group of economists, however, also believes that Islamic economics make a difference in the areas of macroeconomics and particularly in banking, finance and public finance. The prohibition of interest and the unique system of *zakah* introduces significant departure from the conventional system and requires a lot of analysis that promises results that is significantly different from those of conventional models. Islamic economics, as this group believes, should better be perceived as a branch of economics. Its analysis can be governed by the same methodology as that of mainstream economics.

On the other hand, another group of economists argue that Islamic economics is distinct paradigm and it can have its own theory but most of the work on theory of Islamic economics stopped at the level of delineating only the methodologies. With the exception of a very scanty work on factors of production, forms of business enterprises and capital structure of business enterprises, no attempt has been made to develop an integrated coherent Theory of Firm that will help understand how Islam views production process and its objectives and its interaction with Islamic ethics of business; factors of production, their markets and their rewards. If Islamic economics has to be offered as a different paradigm, distinct micro foundations of Islamic economics have to be discovered. The concepts related to consumption and consumer behavior highlighted in Quran and sunnah require developing an altogether different paradigm for the analysis of these concepts so that economics of the teachings of Quran and sunnah relating to consumption could be understood appropriately and policy implications can be drawn on how a society can achieve consumption pattern desired by Islam.

A parallel development, however, was simultaneously taking place, independent of the above mentioned development of Islamic economic thought. This was the emergence of Islamic banks in different parts of the world. The development was taking place with very little interaction with the economists who were delineating Islamic economic theory and Islamic economic system. Islamic banks took their own course which caused frustration to those economists. Market forces provided the impetus to Islamic banking which moved a long way in a short period to make its impact on the global financial markets. Development of Islamic economics as a science did not get any such impetus and was finally shadowed completely by the developments in Islamic banking and finance.

The progress of Islamic banking in the last thirty years is unprecedented. It convinced the world that it is capable of generating viable financial system compatible with the modern needs of people and economy and is dynamic enough to cope with the

needs of rapidly changing world. Not only conventional banks were forced to embrace this reality and ushered into the area of Islamic banking but also the international financial organizations embraced the concept and are in the process of developing their own Islamic instruments and their own *shari'ah* boards to advise them on Islamic quality of different financial instruments.

A large part of those economists who have or had the ambition to develop a scientific theory of Islamic economics and development of an Islamic economic system are not very appreciative of directions in which Islamic banking system has developed itself. They do not see a direct relationship in this development and the claim that Islamic economics promises a paradigm to give a better economic future to mankind. The fundamental pillars of Islamic economics like emphasis on economic justice, endogenizing Islamic ethics into objective function and market behaviour, significance of risk sharing in developing productive organizations etc. are hardly visible in the development of Islamic banking.

It is in this background that the Islamic Research and Training Institute and the Arab Planning Institute thought to organize a roundtable discussion with the following specific objectives:

- 1) Stock taking of what we have got in Islamic Economics as a scientific discipline.
- 2) What can be done to accelerate the development of the discipline on scientific grounds ?

The following important points were made, some of them contradict each others:

- Islamic economics has been too much focused on *fiqh* where such an approach suffers from limitations. There is a need to complement the *fiqh* approach by “*maqasid al shari'ah*” approach in order to deliver a meaningful agenda for economic development. Two major factors constrain the development of a distinct Islamic economics theory. The first relates to an understanding of the contemporary reality which is very different compared with the first four centuries of Islamic history when the codification of *shari'ah* law was almost complete. The second hurdle relates to a faulty approach to the *shari'ah* sources. Islamic economics needs to focus more on what concerns people more, not what appears to be more important in theory.

- The worldviews of Islamic and conventional economics are entirely different. Islamic economics gives importance to moral values, socioeconomic justice and puts great emphasis on social changes through a reform of the individual and society. The realisation of the Islamic worldview depends on the integrated roles of values and institutions, market, family, society, and the state.

- No one denies the uniqueness of the Islamic economic system that lies in the principles of Islam and the moral characteristics of its articulation, but Islamic economics should be seen as a branch of economics to study the units and variables within the Islamic legal and ideological framework. Islamic economics currently suffers from an overstatement of the uniqueness of the objectives of the Islamic economic system and the mix-up of principles and tools of analysis. There is a need to set clear lines between Islamic economics and finance on one hand and Islamic *fiqh* on the other hand. There is also a great need for rigorous research in several critical areas of Islamic economics.

- A serious deficiency in how Islamic economics is currently distinguished from the conventional economics. One can give examples to how researchers differentiate between Islamic economics and mainstream economics based on the conclusion of their research. So, if the conclusion is consistent with *shari'ah* principles then the research is considered as Islamic economics and vice versa. Islamic economics uses the tools of science to reach conclusions we already believe to be true and correct. The Islamic economics premises is not open to any results that contradicts a pre-set of conclusions, therefore Islamic economics is not a scientific discipline where disciplines are defined by their methodology not conclusions.

- Muslims should have their own theory of consumer behaviour since the mainstream theory of consumer behaviour has limited scope and lack the ability to explain some of the contemporary economic problems such as poverty. Distinction is made in Islamic economics between needs and wants whereby adopting a need-based approach would allow to understand several aspects of Islamic consumer behaviour which are expelled from the conventional approach.

- Islamic economics is very much needed. Islamic economics would expand the horizon of economics as a science but one should be careful of stretching the Islamic economics concepts too far. There is difficulty to distinguish between "wants" and "needs". Looking at "wants" but ignoring "needs" may justify any kind of behaviour even if the harmful ones, therefore "wants" should be maximized subject to the "needs". Further, there is a need to define several concepts such as self-interest and maximisation

- Islamic economics is very much part of economics as a broad discipline. He recognizes several unique features that differentiate the Islamic school from the mainstream one, however, both schools share some crucial common values, goals and tools of analysis.

- Do Muslims behave differently from others ? Many economists have taken this direction that a Muslim should behave differently from a non-Muslim and consequently, we have economic theory applicable to Muslims only. The differences between Islamic and conventional economics are institutional. Dr. Others disagree with this view, they argues that *Quran* clearly makes distinction between two behavioural groups: Muslim and non-Muslim. Then within Muslims "*Surat Fater*" talks about Muslims where there are three groups of behaviour. Allah (SWT) created man with almost the same quality but then we differ because we experience different atmosphere, culture, etc. Other scholars add that human beings are the same and thus our economic behavior is not different from the other but some distortion happens when people try to interpret what is right and wrong.

- There is a need for an Islamic theory, not in the sense of forging a unique philosophy of discovering economic theories, but in the sense of having our own theoretical emphasis and our own choice of the problem. As Muslims, we can choose problems which most interest us, and address our own theoretical and practical challenges. Nonetheless, we ought to approach our problems with a generally accepted methodology.

- Islamic economics is a science and not a branch of *fiqh muamalat*. Early contributions in economics by Muslim scholars showed that scientific roots of Islamic economics were established a long time before traditional economics. Islamic economics can benefit from mainstream economic theories whenever their basic assumptions do not contradict with Islamic *shari'ah* and ideology. There is a need for serious research to tackle several economic issues from an Islamic perspective since the

contributions of Islamic economists still rely on the descriptive approach in economic arguments rather than analytical one.

- Islamic economics is inter-disciplinary and Islamic economists have to integrate economics with other human sciences. Utility maximisation is not the proper framework for Islamic economics, instead researchers can use game theory to launch a research programme in Islamic economics. Islamic economists should adopt a multi-disciplinary approach in order to build values into economic analysis.

- There is a need to actually go into the specific economic issues and discuss these from Islamic perspectives. We have to think of issues that need to be discussed to revive Islamic economics; and can be relevant in today's world. Institutional economics is very relevant to Islamic economics and we have, in some ways, neglected this area in Islamic economics. There is a need to focus and try to identify the core of the discipline. why until now we are not able to define the boundaries.

- We are not clear yet about our premises and postulates which we are integrating in our theories and analysis.

- It was suggested to make a comprehensive list of questions and get answers from all participants. This would make valuable document to communicate in the future. To prepare a list of subjects on which very little has been written, and invite papers on these subjects from scholars. To establish an Islamic economics forum through an internet website.

- There is not enough human resources committed to Islamic economics which poses a threat to the future of Islamic economics.

- We are not clear yet about our premises and postulates which we are integrating in our theories and analyses.

On the other hand, despite the extraordinary achievements that Islamic economic has made over the last three decades, the development process of Islamic economics as a scientific discipline has a long way to go in order to offer a complete and comprehensive economic system.

الاقتصاد الإسلامي: الوضع المعرفي وتطوره

د. خالد حسين

المستخلص: على الرغم من المنجزات المعترية التي تم تحقيقها خلال العقود الثلاثة الأخيرة، فإن الطريق أمام تقدم وتطور الاقتصاد الإسلامي كعلم قائم بذاته لا يزال طويلاً للوصول إلى نظام اقتصادي كامل وشامل.