

Islamic Economics:
Current State of Knowledge and Development of the Discipline

BY
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Comments

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My comments on the paper may be divided into three parts:

- (a) First part dealing with author's justification for an Islamic Alternate Paradigm.
- (b) Second part dealing with emerges of Islamic economics in 1975 and
- (c) Third part dealing with '**important points**' to be considered for further growth of the discipline.

Strength of the paper

In the first part the paper, the author has successfully summarized the reasons for having a need for an Alternative Islamic Economic Paradigm just one page. It is argued that the growing income inequalities between the rich and poor nations leading to concentration of wealth into the hands of 358 billionaires exceeding the combined net worth of the world's poorest 2.5 billion people and the recent history of various crises in global financial system indicate the urgency for an alternate paradigm. Besides, delinking investment funds from the creation of real value is well argued by the author.

Serious weakness of the paper

Having said this, author's exposition of current state of knowledge and development of the discipline is far from satisfactory and in fact disappointing for the following reasons:

(1) The paper is full of sweeping generalizations without any documentation; it lacks depth and perspectives: the paper also contains serious distortions of facts as well. There is no references at all.

(2) It is a quite distortion of historical fact that 'Islamic Economics' as a scientific discipline came to light in 1995, as claimed by the author. It is true that King Abdul Aziz University had the unique honor and privilege of organizing the first International Conference on Islamic Economics in February 1976 at Makkah. This conference provided Muslim economists and Shari'ah experts ('Ulama') with the opportunity jointly to participate in discussions on major issues and themes in economics⁽¹⁾. But this historical conference on Islamic Economics in 1995 was not happened all *on a sudden*.

The fact is that in sharp contrast to earlier decades, a group of volunteer professional economists around the Muslim world started pioneering theoretical works on Islamic Economics, Banking and Finance during the '60s. To us, a volunteer is a person who without being coerced in any way, makes a free choice to participate in particular activity through his action, volunteer make a commitment to connect to the community in an effort to create a better social outcome, to make a difference. This was actually what happened in '60s when a group of volunteer Islamic economists challenge the Neo-classical orthodox paradigm in the wake of great transformation of Muslim societies resulting from gaining independence from their colonial past. This group of volunteers putting themselves forward, at some personal cost, moving outside the comfort zone of familiarity to engage with new frames of reference and undertaking agreed tasks. They are motivated by a complex mixture of factors, quite specific to their individual situations and perceptions of themselves. Quite likely there is an element of altruism, but self-interest is also an important motivating influence. By this I don't mean a narrowly defined material self-interest, but a broader recognition that personal growth, experience and learning represent valid self-interest, an avenue to participate in a sense of global community that crosses borders and cultures. "Altruism and self-interest need not be opposites, but can be complementary. As individuals identify their interests, and those of coming generations to be inextricably tied to the fate of the global community, at that point self-interest and altruism are even converging⁽²⁾.

This was how a group of professional economists of the Indian Subcontinent and Middle Eastern Countries, Egypt and other parts of world have been contributing serious pioneering analytical works on Islamic Economics Banking and Finance involving application and interpretation of the principles of shariah since early 60's. Indeed, the serious beginning of Mannan's work on Islamic Economics began in 1961, when a presentation on "*Interest-free Banking in Islam*" was made at a seminar organized by Sirajganj Degree College under University of Rajshahi of the then East Pakistan (Now Bangladesh)⁽³⁾ ⁽⁴⁾ Eventually, Mannan's Academic Award winning first textbook entitled, "*Islamic Economics: Theory and Practice*" appeared from Lahore, the then Pakistan in 1970. This book reprinted over 20 times since then, translated in dozen of foreign language including Arabic, English, Bengali, Turkish, Bahasa Malaysia and Bahasa Indonesia. Both Arabic and Turkish version of this book appeared in 1973. This is the most referred book in Islamic Economics till today. Besides Siddiqi's Survey of Muslim Economic Thinking based on literature produced upto 1975, captured the substance of Muslim Economic thought in relation major issues in Economics. This - survey was also presented at the said International Conference on Islamic Economics in 1976. In the same conference, Zaim reported serious development of the disciplines in Turkey.

(1) See 'foreword' by Dr. Abdullah Omar Nasif, President, King Abdul Aziz University, Jaddah, in Studies in Islamic Economics (1980) edited by Khurshid Ahmed, Published International Centre for Research in Islamic Economics & Islamic Function, London. 1980.

(2) See Peter Britton International Volunteerism and Global Survival in "Islamic Millennium Forum (IMFO) Vol. 11 number 2, Jan-March 2002 by Asian Muslim Network (AMN)- Indonesia.

(3) See author's interview with 'Arab News' Jeddah, Saudi Arabia, April 12, 1986, Shaban 3, 1406

(4) Ahmed Abdel-Fattah El-Ashker "The Islamic Business Enterprise", Croom Helm Ltd, Provident House, Burrell Row, Beckenham, Kent, BR3 1AT, UK, 1987, Page- 33.

At the operational level, the establishment of Mid ghamar Saving Bank in a rural area of the Nile Delta in Egypt in 1963 by Late Dr. Ahmed Al-Najjar is a part of a serious process which has now reached at a level where many international Banks like World Bank are now conducting Islamic Banking experiments. The Mit Ghamr experiment which suffered a setback, however, owing to changes in the political atmosphere in Egypt was revived in 1971, under Sadat's regime, with state funding under a new name, the '*Nasser Social Bank*'. Thus *what was started as a work of a group of volunteer professional economists in '60s' soon emerged as serious efforts forwards growth of professionalism in mid-70's*.

(3) The author's contention that there are two groups of economists are having two conflicting position with regard to the status of Islamic Economics as distinct discipline is *without documentations*. To me, the study of Islamic economics as a distinct discipline of knowledge is based on the fundamental *assumptions* that there are Islamic responses to the economic problems confronting the Islamic community of to-day and that the underlying assumptions on which *Neo-classical orthodox* paradigm or *Marxist-radical paradigm* are based are either inappropriate or inadequate or incapable of explaining the Islamic concern in economic matters and Muslim world view. It is not a question of showing superiority of one system over other system. The key question is: does a system based either on market or command serve effectively the needs of the particular Islamic community or country, given its resource endowment, its history, cultural and societal values? Our answer is not in the affirmative, although these systems may, however, work well within their respective socio-economist context and value systems.

The fact is that in every system of thought, there are some assumptions and ideas in common with other systems of thought. It is through emphasis or de-emphasis or rejection, an identity is established. This is fairly an objective view. For Muslims, there is then a need for a new line of intellectual inquiry, based on creative synthesis, reconstruction of Islamic thought processes and reappraisal of old values in new economic and social realities running through the socio-economic manifestation of Islam as a way of life and a code of conduct." Therefore, "Islamic economics will have its own hypothesis. In course of scientific investigation, we may reject or accept or modify or alter them irrespective of social and economic systems, based on market, command or tradition. In other words, if our scientific inquiry leads us to confirm or support any existing institution and practices of either capitalistic or socialistic system, there is nothing wrong in it in adopting or adapting in an Islamic state. In any case, Islam remains as a lender rather a borrower of ideas, for, Islam is older than either of two existing major systems⁽⁵⁾.

Thus, this trend towards the growth of professionalism lead to establishment of a number of research and academic institutions and Islamic Universities in various parts of Muslim and Non-Muslim world. This has generated considerable serious works in the area of Islamic Economics, Banking, Finance and development both at the theoretical level and operational level in 80's and 90's. Thus the development of the

(5) See M. A. Mannan, *The Making of Islamic Economic Society*, Islamic Dimensions in economic analysis, International Association of Islamic Banks, 47, Oruba Street, Heliopolis, Cairo-1984, Page- 3-4.

concept of “effective need” instead of “effective demand” as a basis of market mechanism in Islam, rejection in the role of Pareto optimality and “given demand hypothesis” in explaining the behaviour of the firm, introduction of notion of “expected desirable income hypothesis” in explaining consumption function and so on deserve mention.

(4) While I agree with the author that the progress of Islamic Banking and Finance in the last 30 years is “unprecedented” indeed. The operational success of Islamic Banking and Finance offers as a viable alternative to conventional Banking in terms of profitability and wide range of innovative products particularly in the corporate sector, not in terms of its contribution towards alleviation of poverty at the grass-root level of Muslim countries.

The author has failed to point out the dilemma of Islamic Banking and Finance in the corporate sector in this direction. Besides a careful study of the “interface” between Islamic and Conventional Banking reveals that Islamic Banking and Finance, without built-in-provisioning for social, ethical and moral ingredients, will most likely to be submerged in the mainstream of the western conventional banking system and consequently in the wave of market economy operating through western materialistic and secular values. This is perhaps what is happening either consciously or unconsciously in the case of operation of Islamic Banking in the corporate sector. The comparative advantage of conventional Banks over Islamic Banks in terms of their systems, management experience and techniques of product innovation is expected to bring competition, resulting in a sharpening of the techniques and procedures of Islamic Banking modes. In the process, profitability is becoming more dominant in Islamic Banks’ operations. Conventional Banks having Islamic windows lack knowledge and know-how of social, ethical and moral foundations of Islamic Finance. It then appears that the Islamic Banks in the corporate sector are running the risk of getting submerged in the wave of market economy with an concentration of ownership and its link with global elite and marginalizing social and ethical elements of Islamic Finance.

But Islamic Bank’s operational success however limited it may be, in the area of Islamic Micro-finance and Voluntary sector Finance represent paradigm shift indeed. For example, operationalization of the three sector model of Social Investment Bank Ltd (SIBL) established twelve years ago in 1995 in Dhaka, linking formal, non-formal and voluntary sector successfully implemented its innovative concept of family empowerment micro-credit, *a paradigm shift in Islamic micro-finance* with a built-in-mechanism for graduation process, where poor borrowers can move beyond poverty line from micro-credit to market via micro enterprise as well as introduction of its *Cash-Waqf Certificate scheme* in 1997, for mobilization of social capital as an innovation, thereby creating new opportunities to transfer liquid asset and make connection with one another on a local, national and global scale. It is well-received by other Islamic banks in Bangladesh, Indonesia and Muslim communities worldwide.

Lastly, the paper simply reproduced the so-called “important points” raised during the round table discussion between Islamic Research and Training Institute and the Arab learning Institute. These “important points” appear to be too general and vague.

The crucial question before us as to how the new emerging global Islamic wealth, estimated to be around US\$ 750 billion in asset under management, concentrated into the hands of a few families and individuals is to be invested and managed efficiently in Muslim countries for alleviation of poverty, not to speak of development of Awaqf properties worth billions of dollars of worldwide in addition to mobilization Cash-waqf fund that can open up new frontiers of human freedom that includes freedom from educational, social and economic deprivations of the Islamic Ummah⁽⁶⁾.

There is an increasing demand for world-class wealth management services that is in accordance with Shariah amongst Muslims to-day, “Economic growth rates in predominantly Muslim or all-Muslim nations are relatively strongly positive, often in the range of five to eight percent annually have helped fuelled such a strong demand. Coupled with this are the high savings rates, the emergence of private family wealth and high net worth individuals in the Muslim countries, which simply means new levels of wealth to be managed. According to the Boston Consulting Group, these individuals and families are sitting on a combined asset pool of a staggering US\$10.2 trillion. Many private bankers stressed that based on the feedbacks and investors, there is a huge demand for Shariah-compliant wealth management products and services”⁽⁷⁾.

The task before us as to how to meet this challenging demand for world-class professional in Islamic Wealth Management in light of disturbing gap between an ideal-shariah situation and the prevailing corruption and decline of moral values of Muslim Societies of to-day.

(6) See Prof. Dr. M. A. Mannan Cash-Waqf Certificate - An innovation in Islamic Financial Instrument: Global Opportunities for Developing Social Capital Market in the 21st Century Voluntary Sector Banking, Presentation at the Third Harvard University Forum on Islamic Finance, Harvard University, Cambridge, MA, USA, October 1, 1999.

(7) See, Labuan IOFC Finance Newsletter, Published by Labuan Offshore Financial Services Authority, Malaysia, Issue 2, November, 2007.