A Suggested Methodology for the Political Economy of Islam

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ABSTRACT. In this paper an attempt is made to clarify some of the issues pertaining to the methodology of Islamic economics. It is argued that for any analysis in the context of Islamic economics, the behavioral norms suggested by the teachings of Islam should not be taken as the actual behavior of individuals in a Muslim society. Rather, it should be one of the goals of economic policies to provide a social environment which would help the inhabitants of a Muslim society to behave in an Islamically desirable way. In this regard, the importance of distribution of income and wealth is highlighted. Another focal point of this paper is that Islamic economists should be more heedful in their criticism to neoclassical economics. It is noted that a familiarity with the critical literature on neoclassic economics emanating from within the western world may provide important insights that could be helpful in finding our own solutions. Finally, to study those aspects of economics which are primarily positive in nature, the case for methodological pluralism is advocated.

1. Introduction

In the last few years several basic issues have been raised regarding the methodology of Islamic economics. In Ghazali and Omar (1989) some of the prominent Islamic economists have presented their views on different aspects of this subject. Although, a few of them have also raised questions against some aspects of contemporary literature in Islamic economics, the primary theme of this volume of literature is a critique of different postulates of neoclassical economics and the need for

1. I am grateful to Dr. Abdul Naseer of the State Bank of Pakistan and Dr. S.A. Shahab of University of Brunei Darussalam who gave valuable comments on an earlier draft of the paper. I would also like to thank an anonymous referee of this Journal who pointed out a number of errors of expression in the paper and suggested corrections. Any remaining errors are solely my own.

2. For example, Kahf, M., (1989, a).
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Jomo (1992) edited a collection of articles which are generally critical of the methodology currently adopted by the Islamic economists. In his critical review of Munawar Iqbal (1988), Professor Ali Khan has exposed the following deficiencies in the writings of some of the Islamic economists: (a) use of inappropriate or incorrect language (b) a lack of familiarization with the relevant literature in conventional (western) economics and (c) an unclear picture of their position vis-à-vis the paradigms of neoclassical economics. During our numerous conversations with scholars of different fields of knowledge, economists and non-economists, Muslims and non-Muslims, even the term "Islamic Economics" has come under intense criticism.

In my opinion, in reviewing any issue pertaining to the methodology of Islamic economics, it would be quite conducive if, among other things, one can also firmly keep in the background the current debates on methodological issues among the mainstream economists which has centered around postulates of neoclassical economics, the dominant approach of our time. Islamic economists have challenged many of the assumptions of neoclassical economics. But there are many schools of Western economic thought which are also critical of certain aspects of neoclassical thinking. Post-Keynesians, institutionalists, neo-Austrians, neo-Ricardians, to name a few, have challenged different paradigms of this school. There are issues on which these critics of the neoclassical doctrine share a common line of argument but on many other matters they present competing theories. These dissenting arguments and theories may not have any direct significance to the questions posed by Islamic economists, but they can provide many insights which can be helpful in our task of presenting a detailed sketch of an Islamic economic system.

This paper, on one hand, evaluates some of the criticism put forward by Islamic economists on the prevalent methodologies of traditional (Western) economics; on the other hand, it attempts to address some questions raised by the critics of the methodology of Islamic economics. It is hoped that this process would help to move us a modest step forward towards resolving some of the issues in defining the discourse and methodology of Islamic economics.

The organization of this paper is as follows: We start with a discussion of the major themes of methodological discussion in contemporary mainstream economics. We also identify the methodological issues which are currently debated by the critics and proponents of Islamic economics. The remaining sections of the paper take up those methodological issues in detail which are currently debated in the context of Islamic economics. Section III deals with the issue of behavioral norms in the context of an Islamic economy which has been a subject of intense dissension among both the

adherents and critics of the Islamic economic literature. In Section IV we present a discussion on the concept of knowledge and the way it should be used in economics. We also elaborate the idea that the methodology of physical sciences is inappropriate for economics. The deliberations and reflections of sections III and IV provide us with an elucidating basis for the next section where we present some basic ideas on the nature of political economy of Islam. Section VI deals with the problem of jurisprudential reforms for implementation of economic reforms in Muslim countries. In section VII we argue for methodological pluralism for investigating those problems in the field of Islamic economics which are positive in nature. Finally, section VIII summarizes the main themes of this paper.

2. Major Themes of Methodological Debate in Contemporary Economics

Methodological debate in mainstream economics could be divided into four broad areas. First, there is a debate about the appropriate method to be used to understand and/or evaluate economic theories. Controversy over Popperian or Lakatosian versions of falsificationism, Kuhn’s historical account of periods of normal science separated by scientific revolutions and, post modernism or constructivism which emphasize the importance of rhetoric and discourse in economics, come under this category. The people involved in this debate are generally labeled as economic methodologists. The second area of methodological discussion is concerned with the relative merits of different methods of investigation in economics such as deductive, inductive, experimental, etc. The third category is related to basic assumptions made by different schools of thought about behavioural norms of individual economic agents such as rationality, utility and profit maximization, self-interest vs. altruism, subjectivity or objectivity of knowledge, etc. The fourth area deals with the scope of economics; whether it is or it should be positive or normative, is it a pure science or social science or an art. Can it be separated from other disciplines such as psychology, sociology, politics and anthropology. It is also related to the issue of how the economy works. Differences in opinion related to the last two categories provide the primary basis for different schools of thought in economics.

As far as methodological issues are concerned, Islamic economists have generally focused on the last two areas. The neglect of the first two categories is understandable. Most of the Islamic economic literature is based on Islamic principles derived from fiqh sources. Any controversies on these principles are related to the corresponding controversies in the fiqh literature and could not be resolved with any other methodological rule. Indeed, Popperian philosophy of science will regard most of Islamic economic propositions as unscientific. Similarly, proponents of Islamic economics who categorically regard economics as a normative subject cannot accept falsificationism as a method to advance knowledge. Islamic economists, however, do not stand alone on this point. Many economists in the western economic traditions belonging to different schools of thought have convincingly argued that economics has
always been normative. For example, Warren Samuels has asserted that economics is normative because the economy is normative: the economy is made by man and what is the product of man is normative\(^4\). It is a result of the aggregation of individual choices through process of social or collective choice such as the market and politics. According to McCloskey "Modernism promises knowledge free from doubt, free from metaphysics, morals and personal conviction. What it is able to deliver renames as scientific methodology, the scientist's and especially the economic scientist's metaphysics, morals and personal convictions. It cannot deliver what it promises"\(^5\).

Popperian falsificationism, in any case, is not supported by many economic methodologists\(^6\). There is almost a consensus among economists that merely one piece of empirical evidence against an economic theory does not refute the theory. The only version of Popperian falsificationism which finds some support among some economists is rational criticism. Similarly, economic methodologists have questioned Kuhn's idea of a single and dominant paradigm in a scientific discipline in a particular time period. According to his analysis, all research work in a particular discipline are efforts to solve some of the unsolved puzzles of the dominant paradigm until a revolution brings a new paradigm. Economists have pointed out the lively existence of different paradigms in the same time period such as Marxian, neoclassical, Keynesian and institutional economics.

One who received relatively sympathetic consideration in economics is Lakatos whose methodology of scientific research programme comes closer to what characterizes the world of economics. According to Lakatos, instead of one dominant paradigm at one time, there are competing research programmes in a scientific discipline. Each programme has a hard core which consists of assumptions which are not questionable and a protective belt consisting of a set of less important assumption which could be changed to explain any anomalies and deficiency in the theory. Lakatos then defines a progressive research program as one which not only explains away any anomalies but also predicts novel facts. A degenerating programme, on the other hand, is one which does no more than explain away anomalies. Lakatos advocates the abandoning of degenerating programmes for the progress of a particular science\(^7\). Economic methodologists have pointed out that research programs may go through progressive and degenerating phases and a degenerated programme can make a comeback. It would be an interesting analysis to see if research in the area of Islamic economics is a single research programme or could be classified into different overlapping and competing programmes. But any attempt to categorize them into degenerating or progressive programmes at this juncture would be a futile exercise.

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As far as the second general area of methodological debate is concerned, the practice of Muslim economists suggests that they have generally accepted the principle of plurality of methods in economics. Many analytical contributions in contemporary Islamic economics have been deductive in method. The general paucity of empirical studies in Islamic economics is due to the fact that this is a new area of economics and existing data available in contemporary Muslim countries come from a different conceptual framework. Moreover, very few aspects of Islamic economic programs have so far been implemented by any Muslim country which could generate meaningful data for empirical research. A case for methodological pluralism in some areas of economics is further discussed in section VII below.

Methodological discussion in the Islamic economic literature is generally confined to categories three and four above. A critical analysis of the issues raised by both the proponents and critics of Islamic economic literature may help to determine future directions of research in Islamic economics. To this we now turn.

3. Homo Economicus vs Homo Islamicus

It appears that both among the adherents and the critics of Islamic economics, there is some confusion on the issue of behavior of economic agents in an Islamic economy. Some Islamic economists believe that the behavior of Muslim economic agents would be significantly different from what is assumed by the neoclassical economists. The methodology of Islamic economics, its paradigms and the resulting policy implications would, therefore, also be different.

On the other hand, one of the leading critics of the Islamic economics claims that: “The suggested behavioral norms are riddled with ambiguity and also unlikely to enjoy widespread adherence in a large society. In practice, many of them would have to be treated as state-enforced laws. There is no way of ensuring, moreover, that state officials would behave in an Islamically correct behavior.”

Let us begin with the five basic assumptions of neoclassical economics pertaining to the behavior of economic agents which are criticized by Muslim economists:

(i) Man is selfish by nature and he behaves rationally.
(ii) Material progress is a supreme goal.
(iii) Every person has an inherent tendency to maximize his material welfare.

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8. Plurality of methods in economics or methodological pluralism is advocated by many main stream economists, for example see Dow (1985) and Harcourt and Hamouda (1988). This notion of methodological pluralism should be distinguished from one advocated by Caldwell who argues for critical pluralism, an agenda for methodologists not for economists. See Backhouse (1994, pp.4-5).


11. For example see Khan, M. Akram (1989) p.50-52; and Zarqa, Anas (1989) pp. 30-32 who particulary examines the treatment of interpersonal utility by the neoclassical school.
(iv) He also has the knowledge and ability for deciding what is good for him.
(v) An individual’s utility is independent of that of others.

In the rest of this section we contemplate on all these issues except (iv) which we will take up in the next section.

3.1 Selfishness and Self-Interest

Some Muslim economists have argued that the assumption of man being selfish by nature is incorrect and assert that in all civilized societies men have been motivated by altruistic motives\(^\text{12}\). First of all, it is important to distinguish between selfishness and self-interest. For example, when a person produces a product which he thinks has a demand in the economy (e.g., a pair of shoes), he does it in his self-interest, to make a profit and earn a living. This act can not be regarded as selfish as it satisfies the needs of someone else and it does not necessarily put the buyer of this product in a disadvantageous position. Although, there can be a situation in which a seller, taking advantage of the immediate need of a potential buyer, may extract a huge profit which could be considered as selfish, unethical and immoral (that some economists in the neoclassical tradition, in their blind pursuit of scienticism, may object to the use of these words is another matter). Perhaps the father of the Western classical economics had no confusion about the meaning of self-interest, when he wrote:

> “The Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show that it is for their own advantage to do for him what he requires of them.... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” (Adam Smith in \textit{Wealth of Nations} as quoted by Stigler, 1987, p. 3).

Once a person receives a profit or wage as a remuneration of his efforts, no restrictions are put on him to spend in an altruistic manner. Thus the assumption of self-interest does not imply that an individual is necessarily selfish and lacks instinct of sympathy and altruism. Irving Kristol points out that Adam Smith never conceived of the economic man of capitalism as a whole man, but only a man-in-the-marketplace. He never celebrated self-interest, per se, as a human motive. He merely pointed to its utility in a population that wished to improve its condition which was to him a normal and universal human desire. For Adam Smith, sympathy was as natural a human instinct as self-interest, and on the whole more powerful\(^\text{13}\). Smith never disavowed his larger view of human nature presented in \textit{The Theory of Moral Sentiments}, which was published well before \textit{The Wealth of Nations}.

\(^{12}\) For example see Khan, M. Akram (1989), p. 51
It is important to recognize that Adam Smith’s treatment of human nature was developed from a conscious rejection of Hobbes (1588-1679) who had portrayed the essence of human nature as an egoism which manifested itself as unrestrained and destructive pursuit of self-interest. For Hobbes, it was necessary to impose upon individuals an intensive structure of socio-political control, and the sanctions that go with them, in order to bring social cohesion to the society. Against this philosophy, eighteenth century England had two alternative perceptions: in the first case, self-interest was claimed to be adequately contained by the countervailing effect of other directed sentiments such as benevolence. In the other alternative, the balance of sentiments was to be struck by means of some automatic process of social interaction. It claimed that perfectly free agents pursuing their individual self-interest in a society comprising only institutions which had developed largely without conscious human interventions including aspects of the law and the market exchange mechanism, could be relied upon to deliver an optimal social and moral outcome. Smith was influenced by all these ideas.

Oakley claims that Smith had come to realize that outside the immediate family group, self-interest was dominant influence for human action. However, as societies did not explode into Hobbesian ego driven chaos, it was equally evident that some sympathetic sentiment must be keeping people from destroying each other in the struggle to maximize returns to their ego. Together with Kristol’s observation above, it is appropriate to claim that Smith not only realized the existence of self-interest as the driving force in economic affairs of human life, but considered it to be a thing which could be used both for the benefits of individuals and as a catalyst to increase the wealth of a nation. Smith related wealth of a nation to its capital stock and claimed that increase in the capital stock could push wages above the subsistence; self-interest thus promoting harmony of interest and benefiting all sections of the society. As far as the economy was concerned, Smith had less faith either in benevolence or in government intervention to restrain the excesses of self-interest and its transformation into selfishness. He relied more on competition among economic agents to produce harmony of interest in the society. His unqualified opposition to the mercantilist doctrine was based on the notion that it hindered free markets and used governments for monopoly power.

Smith, however, failed to see that free style capitalism may lead to exploitation of some sections of the society through economic power which eventually leads to political power --- not a terrible mistake committed in the eighteenth century. But his tacit acceptance of existing structure of land ownership and land rent (even after regarding it as an unearned income), and the institution of interest, are absolute mistakes if we look at his ideas in the framework of political economy of Islam.

In the context of Islamic economics, one has to admit the fact that human beings, in general, would behave as economic men in the market place without precluding the possibility that some economic agents may choose to behave in a somewhat humane way even in the market place. For example, the only neuro surgeon in a town may decide, on his own, not to charge the monopoly price of his services. But to assume that every economic agent would behave or could be made to behave in an altruistic way in the market place would be hardly tenable. Our criticism of the neoclassical school on this particular issue should be confined to the use of the word selfish and by posting a reminder as to what their spiritual father actually meant by the phenomenon of self-love.

Irving Kristol has lamented out how economics after Smith, in its pursuit of becoming something like physical science, did not remain humanistic. For example, the common sense understanding that a marginal increase in the income of the rich represents less satisfaction than a comparable marginal increase to the income of the poor, has no scientific basis in modern economic theory and one has to import a philosophical-egalitarian bias into economics to legitimize them\(^\text{18}\). It is perplexing to note that, the neo-Austrians, who claim to be the true heirs of 18th century Anglo-Scottish liberal enlightenment to which Smith belonged, and vehemently criticize the "scienticism" which began to envelope economic theory after Adam Smith, have themselves a tendency to reduce the human being to economic man\(^\text{19}\).

3.2 Rationality

The assumption of rationality, in the context of neoclassical economics, generally implies that an individual or group of people do not miss an opportunity to fulfil their self-interest and that they always try to maximize utility (by maximizing pleasure and minimizing pain or maximizing benefit and minimizing cost). Again, this assumption would be close to reality with two qualifications. First, in general, we confine our man to a man in the marketplace. Second, following the neo-Austrians, we treat pleasure and benefit as subjective phenomenon defined as whatever an individual (or a group of individuals) is interested in, and not something objectively given by the economic science. For example, an entrepreneur may like to pay his employees more than the existing wages in the industry or more bonuses than those he had originally promised. The neoclassical assumption would rule out the possibility of such act as irrational. But this act is perfectly rational if the entrepreneur is relying on the continued or extra ordinary hard work by the employees in future or to discourage them to look for another employer (efficiency wage theory). To keep a harmonious atmosphere at the work place could be another plausible reason. Not only that, it would be perfectly rational if the employer does it because he gets enormous pleasure by sharing some of his benefits (profits) with his employees and/or expects a reward in the hereafter. The

\(^{18}\) ibid., p. 215

\(^{19}\) ibid., p. 213
last case shows that a man could be non materialistic even in the market place and yet he would be behaving in his self-interest!

It is thus obvious that the meaning of rationality as espoused by the neoclassical school has to be broadened in the context of Islamic economics. But there is no evident case for rejecting their concept of rationality in absolute terms. Our criticism should be restricted to the constriction of their perception.

### 3.3 Material Welfare

As long as the assumption of material welfare is concerned, it is difficult to understand how it could not be regarded as one of the important and desirable goals of our life. How could a Muslim perform all his duties towards his Creator and his fellow human beings as asked by his Creator, without striving for material well-being for himself, his family and relatives and the community at large. This is not to reject the idea that for a true Muslim this desirable goal should be "subservient to the falah in 'Akhira should there be a conflict"\(^{20}\). But, one should realize the fact that we all have our shortcomings and what we are supposed to do should not be taken as what we actually do as the starting point for any economic or social analysis. The role of Islamic economics (as we will emphasize in section IV) which is certainly normative in character, is to develop an economic system with corresponding rules and regulations which would facilitate its agents to act in a desirable way\(^{21}\). This is in contrast to formulate a system which, as a starting point, assumes the behavior of individuals given as dictated by the teaching of Islam.

Khan himself agrees that

"Material prosperity is desirable so far as it helps one to perform his duties towards God, society, family and one's own self. It should be a means to achieve falah in the 'Akhira."\(^{22}\)

But, once we admit that wealth could be an important means to achieve falah in the Akhira, his assertion that "(A)dopting material progress as a supreme objective of life is thus alien to the Islamic framework"\(^{23}\) while perfectly true, becomes somewhat extraneous for economic analysis even in the context of Islamic economics. For Islamic economics the important point is that the struggle for material progress is permitted. What should further come under its premises is to empower the government to

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21. Many Western economists have emphasized the fact economics has never been non normative and even those who believe otherwise rather unconsciously, in actuality always work under some sort of normative premises. A good discussion of this issue can be found in “Current Views in Economic Positivism”, in Greenway et al. (1991).
22. Khan, M. Akram (1989), p. 51. He also quotes a Hadith in which Prophet (S.A.W.) said, “(Lawful) wealth for a virtuous man is an excellent thing”.
23. ibid., p. 51.
formulate proper rules and policies which would ensure fair means for this struggle and the minimization of unjustified disparities in income and wealth. However, as it is neither desirable nor possible for an economic system to quash all inequalities in income or wealth if it wishes to remain natural and efficient, a significant level of disparity in income and wealth would remain in a reformed Muslim society and people would continue to strive to push themselves into higher income strata. In a market economy, the composition of demand for consumption would be such that it may warrant production of goods and services which can come under the category of luxury, at least with reference to relatively low income groups of people. How much an individual strives for a higher level of income under the given rules of the game and then how does he spend on goods and services legally available in the market, should have to be left on his judgement. It should be the domain of Muslim educationists, sociologists, politicians and preachers to further mould the behavior of individuals to make them increasingly caring and mindful of the needs of relatively low income groups of people.

3.4 Inter-Personal Utility

Akram’s assertion the traditional economics fails to cogitate and appropriately assimilate the question of interdependent utility, is not only correct but poses a challenge to Islamic economists. One reason why the traditional economists have failed to address this issue into their models is its intractability. The onus is, therefore, on us to accept the challenge.

4. Knowledge, Subjectivism and Economics as a Science

Akram Khan refutes the notion that Man has knowledge and the ability to decide what is good for him. He writes

“Islam considers man incapable of knowing what is best for him. Only God has perfect knowledge. The human knowledge is imperfect and man needs guidance for making various decisions in life. God in his ultimate mercy has revealed guidance for man through prophets and books. Man needs this guidance.”

As Muslims, we all believe that God has true knowledge of everything, not only what we can see and experience, but also about things which we cannot observe. Out of His mercy He has given us a part of His knowledge for our guidance. But, He has chosen to keep us in dark on many aspects of our life and this world. At the same time He gave us aptitude and intellect. On many social and economic issues He has provided us direct guidance. On others, we are supposed to use our reasoning and judgements. In the first case we must accept the Knowledge provided by Him. But in the later case where we have to use our own intelligence, the nature of Knowledge we possess or discover would be different. We may claim to know something as we Know it although what we do know may be untrue.

24. ibid, p. 51.
According to Fritz Machlup, "(F)or my purpose, knowledge is what people think they know. Whether or not I agree with them is irrelevant for my study."\textsuperscript{25} He emphasizes that knowledge must be studied as a system of belief and stressed that the known and the knowing are to be understood as matters of human action. That ultimately is why knowledge has a social character. What he (Machlup) did not stress is that human action is necessarily rational -- purposive in any fundamental or deterministic sense; nor did he embrace the notions of apriorism or apodictic certainty\textsuperscript{26}. Machlup, who was an economist of Austrian orientation, did not separate human knowledge from that which is revealed by God -- a mistake if we see it in the context of Islamic economics. But as we can deduce from the above, he was against rejecting any source of knowledge for any social analysis as long as some people believe in it.

It is true that in contemporary Western economic thought there is no room for divine revelation to influence the structure or operation of economic institutions. Individuals (or group of individuals) may believe in divine revelation and act accordingly, but the separation of religion and state does not allow any member of the society to\textit{ demand} such institutions on religious ground even if he belongs to the majority community. Furthermore, in case of a conflict between the act of an individual (or group of individuals) and the existing law of the land, the later would prevail. For example, the Muslim communities in Western countries are not allowed to establish interest free commercial banks because the law of the land requires all banks to guarantee the depositors of their principal (and interest, in case of savings and time deposits). However, it does allow the majority, assuming that the society is run through democratic institutions, to make any laws and institutions on their own merit and without necessarily a reference to divine revelation\textsuperscript{27}. In this sense, the neoclassical assumption cannot prohibit an individual or the majority of the society to use the knowledge available through divine sources, an important point to bear in mind in the context of Islamic economics.

The flaw of the neoclassical economics, which emanates from its attempt to equate the methodology of economics to that of physics and other natural sciences, is its assertion that there is a unique or rational way a man would behave which is

\textsuperscript{25} As quoted by Sumuels (1992), p. 58.
\textsuperscript{26} ibid, p. 60.
\textsuperscript{27} This issue is at the core of the current controversy in Pakistan (officially an Islamic state) about the supremacy of Shariat court over the parliament. Those who support the supremacy of the parliament argue that because the majority of the members of the parliament are always Muslims, they can always make what ever laws they think are Islamic. They further claim that by giving the final authority to the Shariat Courts, the views of a particular school of thought may be imposed on the majority. On the other hand, those favoring the supremacy of the Shariat Courts, argue that the present political system does not guarantee the elections of such members of parliament who would posses the necessary credentials to carry out and sustain Islamic reforms. They further claim that once a country is declared an Islamic state and Quran and Sunnah have been made the supreme sources of law through its constitution, the final authority of interpretation and the implementation of Islamic laws should be given to the Shariat courts which consist of individuals having necessary qualifications. After all, they argue, even in Western societies, the interpretation of constitution is the domain of the supreme courts.
objectively and naturally given to him by the economy. But as Warren Samuels has pointed out:

“For economists and for other social scientists a key question concerns whether or to what extent, and with what qualifications, if any, epistemological criteria deemed appropriate for the study of physical reality are relevant and/or desirable for the study of man and society. This is because (1) human beings are presumably, or at least possibly, possessed of free will, at least to some extent, (2) the economy is an artifact, not (like the solar system or the galaxy) given to man, and, inter alia, (3) human beings can act upon or with social science knowledge and thereby change the object of study, that is, knowledge of the object of the study can affect that very object through influencing human action and choice.”

Similarly, Frank Knight emphasizes that human society is, not unlike human games, for example, soccer or poker; each is a matter of human construction and not of some prior independent reality. Thus, it is possible for each society to formulate its own social and economic system commensurate with its objectives and ideology based on its own sources of knowledge.

From our perspective, the position of neo-Austrians (compared to the neoclassical doctrine) is more interesting in this respect who, distracting from the neoclassical view on rationalism, define it as something which is located within the individual himself, not within something called "the economy." According to them, man acts purposefully, learns from such action, and that any existential disparity between intent and result flows from an error of knowledge. Furthermore, these purposeful actions flow from "self-interest," defined as whatever it is the individual is interested in. However, due to their libertarian orientation, belief in individualism and, their tendency to reduce human being to homo economicus, the neo-Austrians fail to appreciate that the individual's self-interest and resulting purposeful action can be influenced by instituting different social values based on different sources of knowledge, and alternative rules of the game for the economy. It is worth emphasizing that it is at this point where the role of Islamic economics (or any other social doctrine) becomes clear.

29. ibid, p. 20. (my Italic)
30. Although the neo-Austrians are generally thought to belong to neoclassical tradition, they regard themselves as a distinct school of thought. The distinguishing elements of their thought could be found in Barry, N.P., “Austrian Economics: A Dissent from Orthodoxy”, in Greenaway, et al (1991).
31. That error of knowledge may be the result of the inability to know (a) the knowable, due to high information cost and (b) the unknowable (e.g., uncertainty).
5. The Nature of Political Economy of Islam

5.1 Primary Objective

Monzer Kahf has correctly stated that "Any economic system should be founded on an ideology which provides the economic system with its basis and objectives on one hand and its axioms and principles on other". He further adds that, "The validity of an economic system can be tested by its internal consistency, its compatibility with the systems organizing the other aspects of life, and its provision for improvement and growth." 

Kahf’s proposition raises the following questions. What is the basic goal and objective of an Islamic economic system? On what ideology is this goal and objective based? What are its axioms and principles? Why the dominant economic doctrine of the contemporary world or economics is unsuitable for a Muslim society? Why Islamic economics?

According to our opinion, there are two interrelated basic objectives of different systems organizing economic, social and other aspects of life in a Muslim society. First, to implement the commandments of the Creator. Second, to help its people in leading their individual and collective life according to the teachings of Islam. The underlying ideology is that man has been put to test during his earthly life. He has been endowed with instincts for both good and the bad deeds, which is true for both Muslims and non-Muslims. The only difference when a man happens to be a Muslim is that he knows and believes what is a correct and desired behavior for him. However, just because he is a Muslim and he knows what is a preferred Islamic behavior, is no guarantee that he will actually behave accordingly. Timur Kuran, one of the leading critics of contemporary Islamic economics literature, has correctly pointed out the flaw in the argument of some Islamic economists who claim that the Islamic norms provide a practical solution of the modern economic problems. This is not to refute that if all people in an Islamic country change their norms and behavior according to the teaching of Islam, most economic problems of the society would be solved. The point is rather that we cannot and should not base and develop a system which takes this prescribed behavior as given. It would simply be a wrong assumption. But, on the other hand, the critics of Islamic economics should also recognize the fact that a person can behave differently under different organizational set up and rules of the game.

Similarly, it would be incorrect to assume that in a Muslim society people will behave in a desired way only through moral persuasion and education. That it would help is also undeniable, and to a certain extent so will coercion. But the major part of

33. Khaf, Monzer (1989 a), p. 43
34. ibid.
the efforts should be centered around devising appropriate rules of the economic game and a structure of material and other social incentives which may help and influence people to act in a desirable way.

Another important point which is overlooked by Timur Kuran and others, and not given proper emphasis by the advocates of Islamic economics, is to recognize the differences in attitude, behavior and level of morality among individuals. That there are people in every society (Muslims or non-Muslims) with varying proportions, who possess high level of morality and/or God consciousness, is unrefutable. Nor it is impossible to devise a mechanism to locate these people and encourage them to come forward and make their contributions towards establishing an economic system based on precepts of Islam. For example, the establishment of interest-free banks would require, especially at the initial stage, competent industrialists and businessmen who are honest and prudent. According to the conventional economics, if it is conceivable that in a given circumstances an individual can lie and cheat to his benefit, then it is only proper to assume that all individuals will behave in the same manner. The implicit assumption being that a man is a man just as a stone is a stone, which would always and everywhere follow the natural law. We are not rejecting the fact that many individuals in contemporary Muslim society are untrustworthy, a point often raised by the critics of Islamic economics. At the same time, however, one should also realize the existence of a sizable number of people present in a Muslim (or any other) society who will not do any wrong doing because of their consciousness and/or fear of God. An economic system based on such realization will eventually favor and encourage those individuals who are honest and trustworthy.

Once we agree to the notion of differences in behavioral norms among the members of a society, and the possibility of people acting differently under a different organizational set up, it makes all the sense to claim that the goal of an Islamic economic system (as we have described above) is viable.

5.2 What is an Islamic Economic System?

Once we have defined the primary objective of an Islamic economic system, the next step is to characterize the principal elements of that system. Islamic economists should realize that the Creator has chosen not to give a blue print of the economic system even for the period during which the Quran was revealed. Muslim intellectuals and economists of each country and for each era of history, therefore, face the challenge to construct (and reconstruct) a suitable economic system which derives its ideology and general principles from teachings of Islam and solves the economic (and other related) problems of the epoch. Muslim economists who try to find the blue print of an Islamic economic system for our time in the writings of great Fuqaha of the past, set too easy, indeed inappropriate, a task for themselves. Similarly, economists who find the contemporary Western system quite acceptable for Muslim societies, fail to envision the quintessence of an Islamic economic system. This, however, does not
mean that we should reject all discourses and epistemologies in the Western economic traditions. Instead, all of these, if carefully studied and appropriately used, could be helpful in clarifying our problems and finding solutions.

5.3 Economics or Political Economy?

In a recent article, A.W. Coats points out that around the turn of the century there was a concomitant narrowing of the scope of our subject symbolized by the terminological shift from "political economy" to "economics". This move enabled economists to delegate to other social science specialists such troublesome issues as the distribution of income and wealth, the power structure and social justice.36 Furthermore, the change was facilitated by the practice of distinguishing sharply between the science i.e. theory or analysis (sometimes referred to as economics proper) and the art of political economy i.e. the discussion of current economic problems and policies.37 The dichotomy is based on the notion that a professional economist, like a professional engineer, is an objective scientific expert who cannot afford to consider the demand of political economy and ethics. Economics has thus become a science distinguished from art and positive distinguished from normative.

As Samuels has cautioned, one should not belittle positivism's attempt at objective, confirmable and replicable definitions of reality through its emphasis on the observable or the abstract related thereto and on properties and operations rather than ultimates, absolutes and essences. At the same time, however, it must be emphasized that positivism has been shown to have such epistemological and discursive limits as to be severely diminished in the confidence which it can accord to inquiry.38 As soon as we admit that man is not merely an economic man, the economic system in which he lives ceased to remain entirely insulated from other aspects of his life. The remedy is to (re)enlarge the scope of economics. It is not only improper and unnecessary but difficult to set aside the issues of distribution of income or wealth or power structures which facilitate or expedite a particular pattern of income distribution, social justice and other social and ethical problems from economics.

For the last hundred years, the institutionalist school has struggled to keep the scope of economics broadened. It has accentuated the fact that in capitalism, allocation of resources is not achieved primarily through the market but the power structure which operates through the market by affecting the demand and supply. For instance, they stress the existence of powerful groups of labor unions, farmers and corporations. They share the view of Post Keynesians that struggle among them over the distribution of income generates both inflation and stagflation.39 Both schools have emphasized the need for government intervention but not always for the same reason. Keynes

37. ibid.
recognized the ability of the market to allocate resources in the right directions but stressed the need for an active government to maintain full employment by controlling or expanding the volume (or aggregate demand) of economic activities. Institutionals, on the other hand, emphasize the need to control the market for a desirable direction of resource allocation. Most of the reforms in favour of the working class in the United States have been credited to the efforts made by the founding members of this school. However, neither the post Keynesians nor the proponents of institutionalist school have been so far able to present an alternate and viable scheme of economic organization to tackle the triangular macroeconomic problems of inflation, unemployment and income distribution simultaneously without sacrificing efficiency.

In communism, the problem of distribution of income becomes the cardinal issue of economics. In order to eliminate the exploitation of workers, the process of production is carried out under a different power structure; the state takes over the roles of entrepreneur and capitalists. However, the lack of personal and/or material interest among the bureaucrats who run the enterprises results in serious inefficiencies. The events of last ten years in the communist world have decisively demonstrated the inadequacy of socialist or communist systems to solve the problems of a modern economy. They did succeed in reducing income inequalities, getting price stability and eradicating the problem of unemployment. But the cost of this achievement, in terms of the loss in efficiency, was so enormous that the system eventually collapsed.

In the context of a Muslim society, the issue of distribution of income and wealth has particular importance. Both the Qur'an and the Sunnah of Prophet, peace be upon him, give numerous instructions and principles that Muslims are supposed to follow in their individual and collective affairs. The following verse of the Qur'an is a clear instruction to both the governments and the people of Muslim societies:

“Whatever [spoils taken] from the people of those villages God has turned over to his Apostle [all of it] belongs to God and the Apostle, and the near of kin [of deceased believers], and the orphans, and the needy, and the wayfarer, so that it may not be [a benefit] going round and round among such of you as may [already] be rich. Hence, accept [willingly] whatever the Apostle gives you [thereof], and refrain from [demanding] anything that he withholds from you; and remain conscious of God: for, verily, God is severe in retribution.” (59:7; my Italic)

Siddiqui (1992 b) has emphasized that this Ayah provides one of the basic principles of Islamic economics i.e., the government of a Muslim country has an obligation to prevent the concentration of wealth in few hands even if the income or wealth could have been acquired through proper means. This provides a clear justification for the government to use tax and transfer policies to impede concentration of wealth after the production process is completed.

40. (59:7), as translated by Muhammad Asad in the Message Of The Qur'an.
It is quite understandable that in any society, whether their inhabitants are Muslims or not, many people would be tempted to become richer even if it is only achievable at the expense of others or by exploiting others. On the other hand, people belonging to relatively lower income groups would be jealous and envious of the rich. Such feelings are a matter of human instinct. Muslims are asked by their Creator to control these instincts:

"O You who have attained to faith! Do not devour one another's possessions wrongfully _ not even by way of trade based on mutual agreement _ and do not destroy one another; for, behold, God is indeed a dispenser of grace unto you! And as for him who does this with malicious intent and a will to do wrong _ him shall We, in time, cause to endure [suffering through] fire: for this is indeed easy for God.” (my Italic) (4: 29-30)

and

"Hence, do not covet the bounties which God has bestowed more abundantly on some of you than others. Men shall have a benefit from what they earn, and women shall have a benefit from what they earn. Ask, therefore, God [to give you] out of His bounty: behold God has indeed full knowledge of everything.” (4:32)

We should admit that while many Muslims would adhere to these commandments of their Creator, others would tend to neglect the teaching. It is, therefore, inappropriate to assume that because Muslims are asked by their Creator to behave in the above manner, they will actually do so. Nor should one claim that an Islamic system, through its educational and economic policies, would be able to obliterate the causes of these natural instincts completely. But a properly designed economic system with appropriate rules and regulation, which addresses the issue of income distribution, could provide a social environment that will help its people to restrain and inhibit these passions.

As we have mentioned above, one way to thwart the concentration of wealth is to formulate appropriate tax and transfer policies. However, if this is the only formula, there is a danger that it may either impede economic activities and lead to inefficiency (if over-utilized) or fail to achieve the objective satisfactorily (if under-utilized). It then becomes clear that the greatest task of the political economy of Islam is to devise a production mechanism which is not only efficient and addresses the issues of unemployment and inflation, but intrinsically and endogenously tackles the problem of distribution, not leaving it as a residual issue.

One can argue that the neoclassical school does not throw away the question of distribution, it only attempts to separate this problem from that of efficiency i.e., the

41. Asad Muhammad, The Message of the Qur'an. It is important to note that in the translation of this Ayah, Asad has adopted the meaning of "illa" as not even instead of its usual meaning except. Please see his explanatory note # 38 of Chapter IV. However, for our current purpose, any of these meanings is appropriate although the one adopted by Asad is more forceful.

43. ibid, p. 109.
market is allowed to determine a major part of the production process and the resulting distribution of income pattern, but any serious injustice is corrected through taxation and transfer policies. However, an advantage of tackling both problems in a single and exclusive set up is that it may foster a production process which leads to a more desirable income distribution pattern intrinsically and abbreviate the extent of reliance on tax and transfer policies. Furthermore, as we have emphasized above, there is a limit to which these transfer policies can be used. This is why, under the neoclassical framework, the resolution of distributional question has manifested in accommodating the sentiments of the relatively low income groups of people against the rich instead of containing the concerns of the rich by allocating them just enough so that they remain active in the production process. There is a vast difference between these two approaches: in the former case a minimum possible part of income is allocated to low income groups of people to keep them from agitating whereas in the later approach the strategy is to allocate, through the production process, a minimum possible portion of income to the rich so that they remain in production. An important point worth noting in this context is that the neoclassical solution is a source of increasing, or at least maintaining, the gap between the rich and the poor which has been a continuous cause of resentment and indignation in many societies of the world.

In the methodology of the political economy of Islam, therefore, a central issue would be to devise a production process which, primarily through the market forces but under a different organizational set up with different rules of the game and the resulting power structure, allocates the minimum possible part of income (to the relatively rich class) to secure efficiency. This is in contrast to the neoclassical solution of redistributing a minimal part of the income (after efficient production) to avoid serious injustice and discontent. Siddiqui and Zaman (1989 a & b) and Siddiqui (1992 & 1994a) have attempted to show that replacement of interest-based transactions by those based on equity or profit and loss-sharing arrangement, can (at least to some extent) move the economy towards a desirable income distribution path without any loss of efficiency. Siddiqui (1996) raises issues related to different factors of production and their returns under political economy of Islam. He points out that, in general, Muslim economists have not questioned the treatment of land, labour and their returns in neoclassical framework. However, if the distribution of income is accepted as the central focus of an Islamic economic system, the neoclassical theory of wage and its approach towards land rent must be thoroughly scrutinized. Similarly, the role of the entrepreneur in the economy and its share in income should be an important area of investigation. This is a long and difficult research agenda for students of political economy of Islam.

In his recent writings, Muhammad Umer Chapra has stressed the importance of an additional filter mechanism to assist the price system for a more desirable and

43. Siddiqui and Fardmanesh (1994b) also show that the equity-based system is financially more stable.
equitable use of resources in the economy so that every member of the society could be assured of the basic needs of life. According to him

“Allocation of resources is to be brought about by a double layer of filters. The first filter attacks the problem of unlimited wants at the very source —- the inner consciousness of individuals — by changing the individual's preference scale in keeping with the demands of both efficiency and equity. Islam makes it incumbent upon all Muslims to pass their potential claims on resources through the filter of Islamic values so that many of them are eliminated at the source before they are exposed to the second filter of market prices.”44 (my italics)

Chapra also argues for categorizing all goods and services into three groups: needs, luxuries and intermediates15. For the last category which consists of those goods which cannot be clearly classified as basic needs or luxury, Chapra suggests the imposition of high rate of taxes or tariffs to discourage their demand. Chapra admits that in the contemporary Muslim societies conspicuous consumption has become a part of social frame of mind, and until individuals in Muslim societies stop consumption of luxury goods on a voluntary basis, it is imperative for the government to impose a ban on production or import of such goods.

Although, one can be only sympathetic with Chapra's concern for need fulfillment for all, his suggestions to achieve this goal may create some problems. For example, categorization of all goods and services into three groups would not be a trivial issue. Even if it can be made possible, when people have the means to spend as they desire, they would either try to get around the ban or find other avenues of expenditure.

As we elaborated earlier, the solution lies in improving the distribution of income in the economy so that everyone gets an income which is enough to satisfy his basic needs. The sad demise of the socialist economies is a clear proof that the task of improving distribution of income pattern and at the same time remain efficient, is not an easy one. However, for Islamic economics to provide an alternative to capitalism and socialism, we have to accept that challenge.

6. Jurisprudential Reforms

In a recent article, reviewing the literature on the issue of property rights in Islam and its relevance to current political debate in the Islamic Republic of Iran, Sohrab Behdad has raised a very important issue46. According to him, even if Muslim economists along with the concerned political authorities in a country, on the basis of their understanding of the teaching of Islam, agree to the need and desirability of land

44. Chapra, M. Umer (1991), p. 34.
reforms, it would be impossible to implement them unless the dominant school of Islamic jurisprudence in the country sanctions the validity of such reforms. Two points are important to note here. First of all, it should be stressed that this issue is neither confined to land reform nor to Iran where Shi’ism is the dominant school. To a certain extent, it could be conceded that religious hierarchy in Sunny sect is feeble, if not absent. For example, in the Sunny sect, whether a person holds formal religious credentials or not, or whether he belongs to a particular school of thought or not, he can still justify his position provided that his arguments are based on appropriate Islamic sources.

However, in the context of Pakistan and other Muslim countries where Sunni’ism is the dominant sect, there are two problems with most religious schools. First, the system of their religious education does not address the contemporary economic and social problems adequately. It also lacks a clear understanding of contemporary economic institutions. The second problem, which partly stems from the first one, is their unqualified allegiance and adhesion to the opinion and rulings of the leading Fuqaha of their respective schools. At times, in their obsession to follow a particular school of thought, they even overlook the very principles of fiqh and fail to give the direct teachings of The Qur'an its rightful place. A recent example is the debate on Bai Muajjal (deferred payments) and riba by some renowned religious scholars in two monthly journals published by two important religious groups in Pakistan. It is so perplexing to see how some of them base their crucial and decisive argument on one or two passages of AlMabsoot and AlHidaya (two famous books of Hanafi fiqh) which have only an indirect implication for the subject of Bai Muajjal. Moreover, all of them, including those who do come up with more interesting arguments and directly refer to the Qur'an and Sunnah, fail to mention the problem of inflation even once in the whole debate.

The long term solution to this problem lies in reconstructing the present system of education in Muslim countries which separates the religious and non religious education. In the short run, however, it is the responsibility of Muslim economists in general and those who have greater capability to investigate into Islamic sources of knowledge in particular (with their proficiency in Arabic language and/or Fiqh), to persuade and convince the religious authorities to reconsider their position wherever and whenever it may be necessary.


48. Critics of interest free banking always raise, among other things, the issue of inflation. Any discussion related to the subject of Islamic modes of finance cannot avoid this problem. For a detailed discussion on the subject, please see Siddiqui (1994 a).
7. Methodological Pluralism for Positive Aspects of Political Economy of Islam

There are aspects of economics which are universal in nature and do not hinge on a particular economic organization in any significant manner. Examples are analysis of how an increase in money supply affects general level of prices in the absence of price control or how the introduction of a social security system changes the savings and consumption behavior of individuals. In conventional economics, a number of methods are used to inquire into such phenomenon: inductive, deductive, empirical and econometric, common sense or imagination, instrumentalism, experimentalism, etc. There are adamant supporters and critics of each of these approaches. Apparently, each of them has a desire to acquire confident knowledge, if not the truth. But many of them have gone a bit too far in their quest to acquire such knowledge. For example, Friedman (1951) had originally argued that unrealism of assumptions in an economic model was not a matter of concern because what they neglected was not of much importance. But his followers have gone much beyond this to assert that a theory is better the more unrealistic its assumptions are. Alan Musgrave points out that Friedman’s thesis of the unimportance of assumption was relevant and applicable to only those circumstances where disregarded factors were unimportant. Indeed the correct way to go is neither to insist on perfectly realistic assumptions as we will never be able to model any economic phenomenon with all the complications of the real world, nor to completely disregard the real world.

The above example can be extended to all other discourses in economics. A deductive analysis can provide significant insight into a particular economic phenomenon but it would hardly ever epitomize the reality. On the other hand, observation of data can be utilized to form hypothesis which could have a potential to acquire the status of a theory, but it cannot be a direct and ready source of theory and prediction in future (which may be done in physics where the problem of parameter shift is not so serious). Similarly, instrumentalism can be applied in some cases which means accepting a theory just because it works. This is done in medicine where, for instance, aspirin is used because it does work, although its complete effects are yet to be determined. In the mean time, research is continued to obtain all possible details of its effects. The same course could be followed by economists. To sum up, we quote Samuels:

“There are varying subject-matters to which these sets of credentials may be applied; different sets of credentials may be applied to the same subject matter; no one is obligated to accept the ultimate foundations of any or all of these sets of credentials. One can work with any or all sets of credentials with varying degrees of suspension of ultimate belief.”

It is extremely important to realize that the task of formulating the principles of political economy of Islam, indeed a formidable one, is still in its infancy. It is pertinent for us to be more receptive to the notion that knowledge progresses through criticism\(^52\). Furthermore, unlike the stance of contemporary schools of thought which does not accept a criticism unless it comes from within the school of thought, or from within an epistemological perspective, we should be open to any serious criticism wherever it may come from.

8. Conclusion

The proponents of a political economy of Islam face an arduous and formidable task to restructure the systems of economy in their respective countries. Without making any attempt to deride the voluminous literature of Islamic economics, I have tried to highlight the points where some of us may have chosen an incorrect discourse and suggest an alternative path to proceed. I hope I have shown the inappropriateness of the assertion that the behavioral norms prescribed by Islam in itself provide the solution of economic problems of our time. In contrast, it is emphasized that the role of economic system is to provide an environment which would help the people in behaving in a desirable way. An important assignment for the students of political economy of Islam is to devise an efficient production mechanism which not only solves the problems of unemployment and inflation but intrinsically and endogenously addresses the issue of distribution of income.

It is pertinent for us to keep a close look at different currents of thoughts in the contemporary literature of traditional (Western) economics without being too ready to accept or reject them. Similarly, the rulings of great Fuqaha of Islam who did a tremendous job for their era, cannot be binding on us unless it is directly based on the Quranic injunctions or it still solves the problems of our time. Finally, we should be generous in accepting criticism, whether it comes from within or without. It sharpens our ideas by compelling us to do more thinking and more work. Finally, for those areas of political economy of Islam which are primarily positive in nature, we suggest that methodological pluralism is the best course of investigation and road to confident knowledge.

\(^{52}\) Needless to mention that this does not apply to knowledge which is bestowed on us by our Creator.
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منهجية مقترحة للاقتصاد السياسي في الإسلام

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المستخلص: في هذه الورقة بذلت محاولة لتوضيح بعض القضايا التي تتعلق بمنهج الاقتصاد الإسلامي، حيث أظهرت أن أي تحليل في سياق الاقتصاد الإسلامي يجب أن لا يأخذ قواعد السوق والذين يقرها التعاليم الإسلامية على أساس أنها السوق الحقيقي للآثداء في المجتمع الإسلامي، بل يجب أن تكون أحد أهداف السياسات الإسلامية إرسال البيئة الاجتماعية التي تساعد آثداء المجتمع الإسلامي على أن يستمروا سكولاً إسلامياً قوياً. وفي هذا السياق، تم إلغاء الضوء على أهمية توزيع الدخل والضريبة، وكذلك فإن الاقتصاديين المسلمين قد يتوجه عليهم أن يكونوا أكثر حذرًا عند تقدير الاقتصاد الحديث. وقد يكون من المناسب الإطلاع على الأدوات العملية النافعة والمسحية في علم الاقتصاد الحديث حيث قد نساعدنا في أخذ حلول حساسة بنا، وحثًا فإن دراسة المظاهر الاقتصادية التي تتعلق إيجابياً في طبيعتها قد تستدعي إتباع التعددية في المنهج.