

Islamic Economics: Problems and Prospects

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Introduction:

This note is meant as a springboard for discussion, and not as polished and referenced article. I take a radical point of view in this note. I believe that the current evolutionary approach to the creation and development of the new discipline of Islamic Economics will not prove fruitful in the long run. Briefly, I do not believe it is possible to create a viable mix of neoclassical economic theory with Islam. I then propose alternative I radical approaches which offer better prospects for establishing a viable Islamic alternative to conventional economic theory.

Are Islamic Financial Institutions a Success Story for Islamic Economics?

The creation, progress, and continued growth of numerous Islamic Financial Institutions is clearly the most important way in which the nascent discipline of Islamic Economics has influenced the real world. Nonetheless, the author shares with numerous other researchers and practitioners the impression that these institutions represent the impact of modernity on Islam, rather than conversely. That is, Islamic principles have been (and are in process of) being modified to accommodate modern institutions. The hope of pioneers in the area like Maulana Mawdoodi and his followers, was to reshape the world, and in particular the theory and practice of economics, in accordance with Islamic views. To the extent that Islamic Financial Institutions represent the reshaping of Islamic Laws in accordance with the demands of modernity, these represent the failure rather than the success of Islamic Economics. These views are controversial, and many Islamic Economists would be vehemently opposed to them. In the current note, I propose to bypass this controversy by putting Islamic Financial institution out of the scope the discussion. I propose to discuss below only the developments in Islamic Economic Theory. .

Some Failures of Islamic Economics:

Among contributors to the literature, it is widely agreed upon that Islamic Economics, with its concern for justice, equity, poverty, and its multidimensional conception of human development (not confined to income & material wealth) represents a paradigm shift and a radical alternative to conventional neoclassical views. The existing literature in Islamic economics does not reflect this radical perspective. We find two types of works of relevance to this issue. Numerous papers introduce Islamic concepts entirely within a neoclassical framework, or else make minor adjustments to it, and therefore cannot form a basis for a paradigm shift. Another set of papers discusses the radical concepts offered by Islam in a general philosophical way, without offering any means of operationalizing these concepts. This is where I believe our biggest failure lies. Even though Islam offers us critical insights in the domain, we have failed to make these insights operational:

- . Islam urges the feeding of the poor, and condemns those who do not do this, Muslim economists have brought up the issue of poverty in their writings well before mainstream economics were paying attention to it. However we have participated only marginally in the huge literature which has since developed - literature on basic needs, measurement of poverty, etc. Even issues central to Islamic economics, such as the effects of Zakat on poverty, have been addressed in a general theoretical and" argumentative way, with little attention to empirical effects, and operational method of efficient utilization of Zakat funds for poverty alleviation.
- . According to the Quran, wealth should not become concentrated in a few hands - rather it should circulate freely. Although Marxists and other economists have documented the increasing concentration of wealth and its harmful effects, Muslims have been conspicuous by their absence in this literature.
- . Islamic teachings place a lot of emphasis on spending in the path of Allah. Muslims have not made any systematic study of charity behavior of Muslims, nor have they made any comparative studies of Muslim and non-Muslim societies with regard to charity contributions.
- . Muslim economics put forth the concept of *Homo Is/amicus* and suggested that actual human behavior is guided by motives other than pure self interest. However no empirical evidence on this issue was offered. Behavioral and Experimental economists demonstrated that in many situations, human beings" will accept personal loss for achieving broader goals such as justice, equity etc., contrary to neoclassical teachings.
- . From the beginning, Islam has been substantially more concerned with spiritual and moral development of human beings, and not so much with material development. While these ideals were duly espoused in the literature, no operational or empirical aspects were developed. Other researchers developed the Human Development Index, as well as the Capacities approach to development to bring in these multidimensional components of development.

The areas listed above represent failures in the following precise sense. Over the same period of time that we were engaged in the development of Islamic Economics,

others developed, launched and established active research programs, which have had substantial influence, in many of the fields listed above. In each case, the research programs ran counter to established orthodoxy and faced resistance from conventional economists. In each case, Muslim Economists were there first with the ideas, but failed to make them operational, and did not participate in or influence the secular research programs that did translate these ideas into workable concept.

Dissatisfaction with Progress Among Leading Scholars:

When it comes to theory, it seems clear that there has been no real progress in the area. We have no consensus as to what the field is, what its guiding principles are, what the methodology should be, what Islamic Economists are trying to achieve. Numerous people have written on these subjects and expressed their views with varying degrees of eloquence and conviction, but no consensus has emerged. The words of Umer Chapra, a leading luminary in the field, succinctly summarize the ills that plague Islamic Economics:

The practical wisdom of Islamic economics has thus been unable to come to grips with the task of explaining the rise and fall of Muslim economies in the past, the lag between Islamic norms and the actual behavior of economic agents, and the causes of problems faced by Muslim countries. It has been unable to suggest a balanced package of policy proposals in the light of Islamic teachings to enable Muslim countries to perform the difficult task of reducing their imbalances and simultaneously actualizing the Islamic vision. Moreover, its theoretical core has also thus far been unable to come out of the straitjacket of conventional economics, which takes into account primarily the economic variables that are measurable and generally avoids a discussion of the complex historical interplay of moral, psychological, economic, social, and political factors. Islamic economics has thus "failed to escape the centripetal pull of Western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace (Nasr, 1991, p. 388). It is thus unable to explain the difference in the performance of various societies with respect to overall human well-being.

Each of the issues raised goes to the heart of the matter, and need to be put on the high priority agenda for future work in Islamic economics:

1. Islamic Economics should grapple with (economic) problems faced by current Muslim countries. It should be able to explain and analyze the economics of their colonial past, and be able to make policy recommendations regarding their immediate future.
2. Islamic Economics should assess the gap between norms of ideal Muslim behavior (as represented by *Homo Islamicus*) and existing reality. It should also present an action plan for removing this gap.
3. Islam offers a unified outlook on life, and Islamic scholars have considered economic problems within such a unified perspective in the past. We cannot take for granted the field boundaries between Politics, Psychology, and Economics which developed in the context of European social experience. Rather, we must develop the discipline in a multidisciplinary fashion suitable to our own historical experience and the Islamic Worldview.
4. Islamic Economics cannot be developed by presenting a critique of neoclassical views and offering suitable modifications. Western social science is firmly rooted

in Western historical experience. Because the historical experience of Muslim societies is radically different, we cannot graft a branch of Islamic Economics onto the tree of Western Knowledge. Rather; our analysis must be rooted in an analysis of our own experience, and developed in the course of struggling to solve our economic problems. In this process we may of course fruitfully borrow relevant tools and tactics from the West, but we cannot found our analyses on Western premises.

This last point is of the greatest importance for the future development of Islamic Economics. The vast majority of current literature on Islamic Economics is in fact structured around a critique of neoclassical theories, and the development of some alternatives which are mostly grounded in neoclassical assumptions and methodology. To escape the "centripetal pull" of neoclassical thought, we must build our camp in a distant location, and work together to achieve "escape velocity." This means radically modifying

the existing methodology for the development Islamic Economics. Proposals in this direction are put forth in the next section.

Focus on Solving Real Economic Problems Faced by Muslim Societies:

As discussed, our biggest failure has been in operationalizing extremely good ideas present in our religious traditions. Our Prophet (s.a.w.) sought protection of Allah s.w.t. from useless knowledge -useless knowledge is precisely that knowledge which is not translated into action (or not operationalized). Teachers and researchers in Islamic Economics should focus very sharply on the question "What existing problems faced by the society we live in will be solved by my "teaching and/or research?" Good theory develops as a tool to grapple with a practical problem being faced by a society or a group. Because theory develops out of indigenous struggle, it is well understood, and easily motivated with reference to indigenous historical experience. In contrast, alien knowledge and technology developed to solve alien problems can be borrowed but is not readily assimilated.

Defining "Problems" & Setting Our Own Agenda:

In implementing the goal described above, it is crucial not to fall into the trap of defining our problems to be those that Western economists and policy makers see as our problems. For Western economists, the issues are "privatization", "Gender Equality & Female Education," "Democratization" and transition to modernity in general. We must set our own agenda. Our problems must be those that the Quran and Sunnah define as problems. For example, consider the "role of government" which continues to be a highly contested area between liberals and conservatives in the West. In Islamic teachings there is substantial consensus on the roles and responsibilities of the government (provision of justice, basic needs, and well defined roles in terms of taxation, provisions of services, defense, market regulation, etc.). There is a well developed theory of market regulation (Hisbah) which has no parallel in Western theory. Unfortunately, contemporary Muslim economists have (with some exceptions) largely bypassed these areas of strength, which provide a good base to build on. Another issue

of critical importance is the economic problems cannot be considered in isolation from political and social issues, as is assumed in the West.

Teamwork and How to Develop It:

An important aspect of the lackluster past performance of Islamic Economics is the failure to develop consensus and teamwork. Nearly all of the leaders in the field have their own unique approach to the subject while sharing a broad general approach based on Islam, they differ substantially on the details of how it should be implemented. A research program, like a building, requires teamwork with large numbers of participants working together on a common vision. In contrast, researchers in Islamic Economics have all been placing bricks in different locations, with no two bricks being placed one on top of the other. To achieve synergy, we need to have consensus. Consensus exists only on the fundamental teachings of Islam, and consequently, we need to make these teachings the foundational basis of our endeavors. Thus we propose the following as the definition of Islamic Economics: "The effort to realize the orders of Allah pertaining to economic affairs in the lives of Muslims." For example, the Quran enjoins the "feeding of the poor" and condemns those who do not advocate this. Therefore research and actions aimed at removing poverty and hunger should form an integral part of Islamic Economics. Similarly, all of the teachings of Islam regarding management of our economic affairs (some of which were discussed earlier), and their implementation in Muslim societies should form the body of Islamic Economics. As spiritual development is at the heart of Islamic teachings, the core of Islamic Economics should be the efforts to strengthen faith, with resultant impacts on reduction/removal of corruption, development of an attitude of service and fellow feeling, all of which would substantially impact on economic prospects.

Reject Theory/Applied Distinction:

Western methodology suggests that theoreticians should not get their hands dirty - some perspective is needed for neutrality and emotion-free evaluation. As Muslims, we must reject this methodological principle. We should require translation of all theories into practical recipes. Our Prophet s.a.w. demonstrated the applied orientation of his

teaching on many occasions. When a questioner asked him about the times of Salaat, he demonstrated the earliest and latest time in practice, instead of giving him a verbal/theoretical answer. I believe it is essential for Us to work from problems to theory instead of the other way around. We should look for a real world problem to solve, and then develop theory as part of a solution to this problem. Muslims economists must get involved in the problems of their communities as well as the larger problems faced by their nation and the Ummah as a whole. Each university should have-detailed knowledge of poverty in the neighborhood, and Muslim students should be actively involved in attempts to solve these problems. Theories about poverty should be assessed in order of their relevance to the solution of the problems. Our students should be able to ask and answer questions about what is the best utilization, for the welfare of the Ummah, of the wealth generated by sales of Muslim oil? Is it really in the best interests of the Ummah to sell oil for paper, and invest proceeds in Western economies, or would we be better off restricting such sales to the amount that we can profitably invest in our own development. What benefits would accrue, economic and otherwise from greater cooperation among the Muslim countries? We should be able to evaluate the costs and benefits of introducing a common Muslim currency (the dinar) as suggested by Mahathir. Another common problem of Muslim countries is the post-colonial bureaucratic structure. In the colonized world, administrative structures were designed mainly for generation and collection of revenue from the people, and its transport to the imperialist powers. They were not meant to serve the people in any real way. Post colonial governments typically continue in this tradition, exploiting the people to serve material interests of the people in power. Muslims are praised in the Quran as those who decide their affairs by "Shoora" or consultation - that is, decision making processes must be responsive to the needs of the people. How can we transition from present oppressive and exploitative structures to Islamic ones? When students are motivated to solve problems, they will get a much better grasp of the strengths and weaknesses of economic theories as instruments which help solve these problems. In the process of developing solutions, they will discover the multi-disciplinary nature of the subject, as they find that developing solutions will require political, social, and moral resources.

Tableegh & Dawaa:

An essential component of the mission of the Prophet s.a.w. was the spiritual transformation of human beings. The culture of Jahilliyah where people killed each other for petty purposes, was transformed to one where people fed each other while they themselves were hungry (as documented in the Quran). Islam continues to have this power to transform lives, and the Quran and Hadeeth are full of methods and incentives to bring about this transformation. In the course of their struggles to solve economic problems, our students must be taught to encourage the richer Muslims to take care of their poorer neighbors, to encourage bureaucrats they come into contact with to be honest, etc. In other words, they must learn the same techniques of dawaah and tableegh that were learnt by the Companions when they went to preach the message of Islam to their own tribes and others. This is the only way to remove the gap that exists between current behavior of Muslims in existing Islamic societies and the ideals we espouse in Islam. Unlike Western economics, which takes character as exogenous, the focus of Islam is on the transformation of character. Therefore we need to make this an integral part of Islamic Economics.

An Illustration:

Because the arguments above have been made at an abstract level, it is worth giving a concrete illustration of the contents. Our main contention is that all our work should be driven by an operational target - a goal which is prescribed by the Quran and Sunnah. For instance, this present paper has three operational targets:

1. To convince Muslim Economists of the futility of building up the discipline of Islamic Economics as an auxiliary, an adjunct, a variation or a critique of neoclassical economics.
2. To generate consensus around an alternative approach - this is because the Hand of Allah is with the Jamaah, and without consensus the effort is doomed to failure.
3. The heart of the alternative approach is that we should start our work by attempting to solve a practical problem being faced by Muslim societies, and attempt to solve it in the light of Quran and Sunnah. (The problems

themselves must be those defined by the Quran and Sunnah as problems. to solve, and not problems dictated by an alien agenda.) This goal itself is prescribed by Islam, and there are many Ahadeeth on the virtues of helping a fellow Muslim or group of Muslims in need. Theories should be borrowed or developed as they are needed towards the solution of these problems.

To illustrate these principles, consider the teaching of utility theory. We must ask: what purpose does this serve? What practical problem being faced by Muslim societies can be solved by the use of this tool? As a first pass, we could answer that this will help us understand the behavior of Muslim consumers (which does not differ much from their secular counterparts). But in fact empirical studies show clearly that consumers do not behave according to the utility maximization model. Thus, utility maximization will not help us understand consumer behavior. In fact, Imam Shatibi's theory of categorization of needs, competently surveyed and developed by Fahim Khan, will give us a much better understanding of both consumer behavior, and also of the relative welfare of consumers.

1 This is one of the reasons for the development of the "as-if" methodology of Friedman, widely accepted by economists, which says that even if our assumptions (like utility maximization by consumers and profit maximization by producers) are false, our theories are still valid if they predict well.

Thus it will provide us with much deeper insight into the problem of poverty which we are trying to solve. The main point here is that this approach - which is the current main approach of Muslim economists - is backwards. We first study tools from Western economics and then try to fit them into a solution of our problems. The proposal here is to reverse this. Let us look, for example, at the problem of poverty (either in a neighborhood, or a city, or a country, or even the Ummah as a whole). We can attempt to solve it using the tools provided by Islam - these are Zakat, Sadaqat, and also the encouragement to good behavior which is part of our duties as the "Khair-ul-Ummah". In the process of applying these tools, we might come up with several problems to which there is no clear solution. For example, how to measure poverty, evaluate effectiveness of our programs, do cost benefit analyses of alternative ways of spending on the poor. Here we may profitably borrow theory and methods from Western analysts, while ensuring that these tools are modified appropriately to suit our specific historical and social circumstances. We should adopt a similar methodological approach to solution of all economic problems we face - in formulating these problems and their solutions, we should be guided principally by the Quran and Sunnah. This is in contrast to the current approach of blind and wholesale adoption of the framework, diagnosis, and prescriptions of Western social science, followed by an attempt to modify it to solve our problems.

Conclusions:

As Muslim economists, we should focus on economic problems being experienced by Muslim countries. On a broader level, we should express our concern with the economic exploitation and oppression of all human beings. The most urgent problem that we face as *economists* is the existence of massive resources, the phenomenal concentration of wealth into a few hands, together with large scale hunger and poverty. We should join hands with efforts to solve these global problems of inequity. We should strive to work for practical solutions, along the lines recommended by Quran and Sunnah. We should work on implementing the orders of Allah in the economic domain in Muslim societies. In the course of solving practical problems we face, we will develop (and if necessary borrow) tools, techniques, and theories that we need. To develop Islamic economics, we need teamwork. This can only be built around the Quran and Sunnah. To establish Islamic

Economics as a viable discipline, we need to show a successful example. We have to show the world what Islam can do in the economic domain, rather than talk about it. This involves showing (for example) how Zakat can play a role in eliminating poverty instead of discussing the theory of this, Muslim economists must get involved in the nitty gritty of it - practical problems faced in identifying the poor, political problems in getting the money to the target population, etc. We must involve our students in this as well. We can borrow Western theories when they are useful to solve the practical economic problems being faced by our societies.

However, my guess is that since our problems are substantially different from those which were faced by West, and also because we have resources at our disposal (due to an Islamic identity) which they did not have, we will frequently have to develop our own theories.