

Islamic Science of Economics:

TO BE OR NOT TO BE

By

M. Fahim Khan

(Note: Though the paper is still under editorial revisions but can be quoted with reference to I-SIE website. www.i-sie.org)



Islamic Society for Institutional Economics
www.i-sie.org

A Round Table discussion was held in Islamic Research and Training Institute Islamic Development Bank Jeddah in 2004 to review the state of Art in Islamic Economics. The Round Table was attended by the renowned Islamic economists, many of them being IDB prize or Faisal Award holders in Islamic Economics and finance. The discussion started with a key note address by M. Nejatullah Siddiqi¹, a Faisal Prize Laureate and a veteran in the academic field of Islamic economics and finance. He made a candid remark at the start of his address. He said, if we are not where we wanted to be then either our starting point was wrong or we took a wrong path. Though Siddiqi did not mean what I want to talk about in this note but the remark, on its own, is very relevant for the work done so far on so called Islamic Economics. Very few economists working on discovering Islamic economics realize that if “they want to be *there* then they should not be where they are now”. Last more than thirty years work on Islamic economics has led the Islamic economists to a place where they themselves are not sure where they are and how to reach where they want to be.

The search of Islamic economics, has been mostly confined within the framework of Neoclassical economics --- a framework that is being increasingly recognised, by conventional economists themselves to be inadequate to explain the economic behavior of modern man. This note argues that Islamic economists would have covered a large part of their distance to their destination of defining Islamic economics as a distinct economic discipline if they had opted for the framework currently known as New Institutional Economics. This note is based on the views

¹ The complete address can be seen in the proceedings of the Round Table when it is published by Islamic Research and Training Institute of Islamic Development Bank, Jeddah.

expressed by renowned Islamic economists expressed in the Round Table conference mentioned above.

Nejatullah Siddiqi rightly blamed the methodology adopted by Islamic economists for not achieving what was expected to be achieved. “From microeconomics to macroeconomics, management of money to public finances, in each field we worked to derive rules from fiqh. We did the same when confronted with such novel fields as economic development and international economic relations. The rules of conduct and policies devised by wise men of Islam to implement the guidance of Allah in certain specific situations were treated as the guidance from Allah applicable to all situations”.

According to Nejatullah Siddiqi, this approach suffered from several limitations when analyzing such economic affairs of life that have been most influenced by changing conditions of living. The limitations arise because, according to Siddiqi, “a finite body of rules framed over the earlier centuries of Islam to enable Muslims to live as Allah wanted them to live could not be used to derive from them general rules applicable in later times without checking their background, underlying socio economic conditions etc..... When circumstances change, it has to be ascertained whether the original ruling serves the purpose or needs modification”. The lack of vision in this respect, according to Nejatullah Siddiqi, led the Islamic economists to concentrate more on the text than on the Maqasid of Shari’ah (objectives underlying Islamic law). According to Nejatullah Siddiqi, even Islamic philosophers like Shatibi and Ghazali, who are known to be strong advocates of adaptability and flexibility in Islamic law, put the Maqasid (underlying objectives) into the straitjacket of the so-called five necessities of human life on earth, namely, life, religion, reason, property and posterity (progeny).

This fundamental limitation, blamed to be responsible for what went wrong in advancing the discipline of Islamic economics, can be removed, as suggested by Nejatullah Siddiqi, by making fresh Ijtihad. Otherwise, the deficiency in Fiqh to address economic issues particularly at macro level will remain a basic hurdle in the way of developing the discipline of Islamic economics.

What Siddiqi is essentially arguing, though he would not agree with my interpretation) is the role of institutions, specially Islamic law. We can read it between the lines quoted above that human behaviour, in the early period of Islam was affected by Islamic law and that the changing human behaviour with the changing times have to be reconciled with Islamic law taking advantage of the built-in adaptability within the law. Siddiqi is emphasising the important role of the institution of Islamic law and according to him “what went wrong” relates to this dimension.

“Even those of us who showed an awareness of the need to complement the fiqh approach by the maqasid approach in order to deliver a meaningful agenda for economic development in modern circumstances, failed to deliver, generally speaking. Having rightly proclaimed elimination of poverty and reduction of inequality to be objectives of Shari’ah, they felt constrained by fiqh when it came to the means to these goals. Macroeconomics as developed in Islamic framework is largely affected by this crippling deficiency. Worse still, with the passage of time the constraining influence of the detailed rules and regulations of fiqh seems to have all but extinguished the spark of maqasid-inspired thinking”.

“If it is the goals of Shari’ah we want to realize, we still have a long way to go. And more important than that, **the road we are traveling on is not the one to take us there** (emphasis added). We may implement all the rules and regulations relating to the economy in our books and still find ourselves far from being near our goals. The reasons are very simple. Keeping in view the objectives of Shari’ah related to economic life, appropriate means have to

be discovered/invented after a careful understanding of today's environment. They could not have been there in our books because today's environment is so different from the environment in which these books were written".

It is clear that Siddiqi is talking about nothing but the economic influence of an important and distinct institution "Islamic Law" but he is still short of admitting the role of Islamic law and for that matter role of all Islamic institutions, including ethics, norms, moral values, customs, beliefs, and culture arising out of the beliefs on human behaviour in general and economic behaviour in particular. It is hard to visualize, how to develop a new theory of economics simply by rewriting the "understanding of Islamic law" (known as Fiqh).

Nejatullah Siddiqi suggestion on "where to start" in the development of the discipline of Islamic Economics makes it almost a mission impossible. His suggestion to make new Ijtehad is a good suggestion on its own merit but then it would not be enforced and translated into human behaviour before it becomes a basis for the development of Islamic economics. The starting point proposed by Nejatullah Siddiqi has other serious limitations, irrespective of whether or not it is relevant for the development of Islamic science of Economics. Firstly, there is no centralized and recognized institution that could make the type of Ijtehad on the objectives of Shari'ah that Siddiqi has in mind². Furthermore a fresh Ijtehad, even if it is taken up, is going to be very long term project with no certainty about the type of output Nejatullah Siddiqi expects to come out to help the economists to develop Islamic Economics. Secondly, the proposed starting point is not in the hand of economists. It is in the hands of Islamic jurists. Islamic jurists have to be economists too to identify the starting point of the discipline. Or economists have to be Islamic jurists too to identify the starting point. Neither of these possibilities are feasible. As Mabid Jarhi later on pointed out, the two (Islamic jurists and economists) speak two entirely different

² There exists presently a sort of central body called OIC Fiqh Academy that makes Ijtehad on issues on application of sharia faced in the contemporary world. But this Ijtehad is made based on the classical Fiqh literature. This is not the Ijtehad that Siddiqi is proposing.

languages. Islamic jurists speak the language of textual science based on such branches of knowledge as IIm-ul-Kalam and IIm-ul-Rijaal etc.) while the economists are supposed to speak the language of so-called positive science (based on such branches of knowledge as logic and mathematics).

Nejatullah Siddiqi also argued, “In a world in which pockets of absolute poverty still exist, a world in which some countries are poorer today than they were in the past, and where increasing inequality within nations as well as between nations threatens civilization as never before, Islamic economics fails to focus on the one issue which has always been the focus of the Prophetic Message: Justice and Equity”. He emphasized that “Islamic economics needs to come closer to the people in general and the Muslim people in particular. Its focus must be what concerns people most, not what appears to be more important in theory³. This should cause no qualms even to the purists as the former would lead to the latter in due course, if the theory is well conceived. If it is unemployment and, therefore, lack of purchasing power that is troubling someone it makes little sense to subject him or her to a lecture on zakat or interest free banking. Unfortunately that is exactly what we have been doing. No wonder the audience is losing interest”. Without disputing the essence of the statement, the question remains whether all this can be incorporated in the Islamic science of economics without developing a theoretical framework for economic behaviour? Should we do it, borrowing the theoretical framework of conventional economics? If we rely on the framework of the conventional economics to take care of the concerns raised by Siddiqi, then will we be able to get right policy prescriptions by working in the framework which does not aim at achieving what we like to aim at.

³ This applies equally, if not more to (conventional) Economists and economists too are critical of this absence of touch with reality. See, for example, Klein (7).

Nejatullah Siddiqi was not referring to the methodology of neoclassical economics loaded with mathematical, statistical or econometric tools, adopted by most of the economists who ventured into the field of discovering a science that could be called Islamic economics as opposed to the science of modern economics, which is essentially the neo classical economics. Nejatullah Siddiqi, however was, of course, referring to institutions when he said “The acts of caring about others, serving the social interests while protecting one’s own and avoiding any harm to man, animal or the physical environment are not a rarity. They have never been, as evidenced by our folklores, other art forms and history. But they are not the current subjects of research in economics and the tools of research in our discipline do not suit them. Even Islamic economists failed to come up with historical evidence and current empirical data on that kind of behavior, with some notable exceptions. Core Islamic concepts related to microeconomic behavior like israf, tabzeer, I’tidal, samaha, naseeha, rifq and ihsan were rarely the subjects of textual, linguistic, exegetical, historical and empirical research even in the universities with departments of Islamic Economics. This kind of research is, however, a must for delineating the evolutionary and dynamic nature of these concepts, something often lost in the dense fog of dated fiqh rules that are diverse and full of differences. The importance of these moral concepts lies in their closeness to the objectives of Shari’ah as compared to the rules that may have been made for their realization in a particular cultural milieu at a particular time and place. One who puts these concepts aside in favor of any set of rules runs the risk of losing the way to the goal of fairness flavored with generosity. As already pointed out in the earlier part of this presentation, many of us seem to have committed this mistake”. Siddiqi, here is not referring to the methodology of neo classical economics. Instead he is implicitly referring to the approach taken by New Institutional Economics.

“The fact that Islamic economists have so far failed to rewrite the theories of consumer behavior or that of the firm or to reformulate the understanding of market structures owes itself

to insufficient historical and empirical research coupled with the inability to devise analytical tools suited to the study of morally informed behavior and the quest for balance between competing claims”.

This position regarding “self interest”, on the part of Nejatullah Siddiqi, obviously ran counter to the position of conventional economists who treat it as one of the kingpins of science of Economics. According to him, “An economic theory that whittles down self interest at the very outset and saddles it with care for others, introducing public interest (including the future generations) and defines as the goal of the economy not higher and higher GDP but balanced growth with equitable distribution, will be very different from the one we have . It will certainly be distinct, though not entirely different”.

The punch line that Nejatullah Siddiqi gave to reiterate his position in the Round Table was:

“Most of us have been busy competing with conventional economics on its own terms, demonstrating how Islam favors creation of more wealth, etc. We have had enough of that. It is time to demonstrate how modern man can live a peaceful, satisfying life by shifting to the Islamic paradigm that values human relations above material possessions”. And when it comes to human relations, it is nothing but evaluating institutions and their influence on human behaviour. And probably this is what Nejatullah Siddiqi was referring to when he advised “Be faithful to Islamic Paradigm”, for suggesting how to correct what went wrong.

Some participants of the Round Table looked in other directions. They were not impressed by the diagnosis made by Nejatullah Siddiqi. They were more honest in revealing their preference for neoclassical framework to discover Islamic Economics.

Following up on Nejatullah Siddiqi's keynote address, Mabid Jarhi identified a different set of hurdles in the progress of Islamic economics. He compared the problem of Islamic economics with the problems of husband having four wives and the husband encountering the problems with each one. First wife of Islamic Economics, as he puts it, is (conventional) Economics. Without going into the controversy whether it is marriage or cohabitation, Mabid Jarhi pointed out that we as Islamic Economists could not learn how to make Islamic Economics compatible with conventional economics. Why they cannot interface? There are several problems. What Islamic economics offers to economics is summarily rejected by the later. What economics offers to Islamic Economics is often not appreciated. This, as implied by Mabid Jarhi, made Islamic economics to suffer in terms of its progress. According to him, Islamic Economics needs (conventional) Economics very much to progress. This means Islamic economics have to be found using the methodology of neoclassical economics. Despite his love for the framework of neo classical economics, he could not help expressing his doubts that this will be sufficient..

Mabid Jarhi, looks towards what he referred to as second wife which he named as Fiqh. To him this is a forced marriage. Islamic economics has to live with Fiqh. The problem is that the second wife (Fiqh) and the first wife (Conventional Economics) are not in good terms with each other. They speak different languages, the former adopting the language of textual science and the later adopting the language of so called positive science. Making the two wives compatible is problem that is yet to be resolved. Though he did not say it, but it is clear from his

love for first wife, he wants the second wife to reconcile. Fiqh is concerned with only a part of the institutional framework of an Islamic society, the Islamic Law.

The third wife, according to Jarhi, are the politicians and policy makers. What Islamic economists see as Islamic economics is quite different from the vision that politicians and policy makers adopt with respect to Islamic Economics. This lack of compatibility in the views and vision of Islamic economists who are working to develop the discipline with the views and vision of policy makers who apply Islamic economics did not let the discipline of Islamic economics grow. I remember second International Conference on Islamic Economics in Islamabad in 1983. While the Islamic economists participating in the conference were keen to discuss the Economics of Zakah, its growth and equity effects on the economy and the institutional developments required to reap the benefit from this pillar of Islamic economic system, the Economic Planning Minister of the country, who inaugurated the conference, asked the Islamic Economists, if Zakah collection can be made a part of the government revenue to be spent on development projects, the projects that may benefit mostly the poor like hospitals, schools etc. It was disappointing for the Minister when he attended the concluding session of the conference and found out that his proposal was not endorsed by the Islamic economists. Similar differences have been found on the issue of elimination of interest from the financial system of the economy. What Islamic economists suggest does not find any support from the policy makers. The vision and the policies that the policy makers bring hardly convinces Islamic economists to make it part of the discipline of Islamic economics. Mabid Jarhi's position that this factor has been constraining the development of the discipline of Islamic economics can hardly be disputed. But it only means that without reference to institutional framework of society, it is hard to talk of Islamic economics.

The fourth and, in Mabid Jarhi's jargon, the worst wife is "Islamic Economist" (ignoring the gender). Islamic Economists have yet to acquire a coherent vision of Islamic economics and how to present it. They often fail to understand the true contemporary needs of the discipline with respect to its development as a scientific theory at par with the theory of conventional economics. In other words he is emphasizing the significance of neo classical methodology and wants Islamic economists to come to terms with it when theorizing Islamic economics. To sum up, Jarhi wants all three wives to come to terms with the first wife. But if Jarhi is committed to the institution of four wives then he can think in terms of divorcing one of the wives and replacing with another one more acceptable to the other wives. He can think of his Islamic economics divorcing first wife, and replacing it NIE as a new wife. He will find the all four wives easily reconcilable with each other. In economic jargon, if neo classical methodology is set aside and instead the framework of New Institutional Economics is adopted to discover Islamic economics, none of the conflicts mentioned above by Jarhi will arise.

Divorcing methodology of conventional economics will also remove the problem identified by Siddiqi. Framework of NIE will help to define Islamic economics within the classical fiqh and if Ijtihad brings any change in the Fiqh, the underlying economics can be analysed within the same framework.

Islamic economics could easily be distinguished from (conventional) Economics, if we could agree upon identifying central theme of Islamic Economics from that of Economics. Nejatullah Siddiqi, in his key note address tried to do so. He identified justice rather than maximization of profitability as the goal of man's economic behavior. He also challenged the concept of self interest as the motivation underlying man's economic behavior. He identified two other elements alongwith the self interest as a key element in Islamic economics, (a) social good or public interest and (b) spirit of helping others and avoiding harm to any one including

self. Many of the participants, however, disagreed with his position. Neither Siddiqi nor the participants of the round table could realize that Siddiqi is talking of Institutions of Islamic society and neoclassical framework would not be suitable to include these institutions in its methodology to explain economic behaviour.

Anas Zarqa, an IDB prize laureate in Islamic Economics, too continued on the lines of the neoclassical economics. According to him reference to justice will not be meaningful unless it is complemented with efficiency in output as well. He was also very skeptical of emphasizing the role of morals in the development of Islamic economic theory. He emphasized that self interest will remain to be a key element in Islamic economic theory despite that there are deterrents on self interest in the system. For Anas Zarqa, too institutions did not matter in the process of theorizing Islamic economics

Monzer Kahf, another winner of IDB prize in Islamic Economics, also regarded the emphasis on justice as overstatement. According to him all systems claim such objectives and hence cannot be used to distinguish one system over the others. Same position was taken by Munawar Iqbal who challenged the position of Nejatullah Siddiqi on self interest and maximization. According to him, in the world Hereafter, only one's own interest will be important and this would be reflected in man's behavior in this world too. In Islamic economics, we only need to redefine the individual's objective function (keeping both the worlds in view) while keeping the concepts of self interest and maximization in tact. How to do that? The implicit answer was keep trying within the framework of neoclassical economics.

Siddiqi's answer to what went wrong only generated controversies rather than giving a lead "where to go from here if we are not right path"

To Be or Not to Be

About thirty years ago, when many Muslim economists agreed that Islamic economics has to be a distinct paradigm with its own theoretical framework, it was expected that a lot of economists will be attracted to make contribution to this field and the subject would develop rapidly. Lot of research work did follow. But most of the work in this respect, however, could not go beyond the level of discussing only how to apply methodology of neoclassical economics to Islamic rules of economic life. Despite that no significant work could be done in this direction during last 30 years, a group of Economists still believes that this needs to be done and this can be done.

Meanwhile another group of economists emerged (which included some of those who were initially in the above mentioned group) who believe, that we do not need a distinct theory. (Neo Classical) Economic theory is general enough to accommodate variations in values and even in rules of behaviour delineating economic systems. This group believes that Islamic economics can only be perceived as a branch of (neoclassical) economics. Its analysis must be governed by the same methodology as of Economics. Its assumptions underlying theories of microeconomic behaviour and macroeconomic phenomena should be the same as that of Economics.

The position taken by the second group, however, became contradicting when this group following views:

- (1) Fiqh literature on exchange offers a vast area for scientific work on understanding the Islamic concept of markets, market structures, market failures and management of risks

in markets (through such contracts as Salam, Istisna and Juala) and that this is still a virgin area for the Islamic economists to develop their theories.

- (2) Islamic economics can make a difference in the area of macro economics, because the prohibition of interest and the unique system of Zakah introduce significant departments from the conventional system and requires a lot of analysis to get results that may be significantly different from those of conventional models.

It is then curious that this group still remains unconvinced that the explicit teachings of Islam on socio-economic justice, on alleviation of poverty, on social and human development and guaranteeing minimum needs for every one in the society require a very distinct theoretical framework to understand how an economy can be managed if these objectives are to be achieved. A lot has been written on Islamic fiscal and monetary policy, but within the conventional macro-economic models. This group probably could not deny that all this work did not make an economic sense with respect to the objectives that Islam envisages for an economy to achieve.

The first session of the Round Table, following the key address, specifically focussed this question. Do we need to develop a distinct economic theory to understand and implement economic teachings of Islam or we can do this within the existing economic paradigm, as we have agriculture economics, labour economics, health economics, development economics etc?

“Two economists, three opinions” is a known adage. This session saw three economists and two opinions on the issue of “To be or not to be” for Islamic economics. The economists who discussed this question were Umer Chapra, Monzer Kahf and Mohamed Al-Qari, all IDB Prize Laureates in Islamic economics, banking and finance. The two opinions were:

“There has to be Islamic Economics as a distinct scientific discipline”

and

“There cannot be Islamic Economics as a distinct scientific discipline”.

Umer Chapra still stucked to his 30 years (or even older) position that there has to be a distinct discipline to be called Islamic economics and it is necessary to have it. This is the position he expressed also in his book, The Future of Economics: An Islamic Perspective. His claim is based on the belief that Islamic economics is directed towards the realization of a purpose that cannot be understood and realized using the analytical tools developed by conventional economics. According to him, the need for a separate theory becomes further acute because the set of variables needed for the economic analysis in Islamic paradigm are broader and the mechanism and methods for the allocation and distribution laid down in the paradigm are different. He argues that once economics get into a discussion of well being in its comprehensive sense, then the task of economics becomes wider, and more difficult and complex. “Well-being” has to be a value loaded concept to be derived from the value system of Islam. (The reference to the significance of institutions such analysis still goes unnoticed.)

Even if we stick to the position of discussing values within conventional framework without reference to institutions, the question still remains how the “science” of economics can get into a discussion of value based concept of well being? Even conventional economists have differed on this. A recent collection of essays gathered in What do Economists Contribute, also identifies choices (conventional) economists make; which clearly reflects that economists do get into discussion of value based concepts. For example, they make the choices: “which subjects to write on, which premises to follow, which authorities to appeal to, which methods to use, which tones to assume, which audiences to address, which challenges to respond to, which social

purposes to serve, _____ all these choices are made each time an economist acts as an economist⁴. It is claimed that the conventional Economists can do and have been doing all this and still are calling themselves “Economists” (without any prefix) and calling their discussion of values as “Economics” without qualifying it with any prefix. This exactly was the line of argument taken by the other two speakers in the session.

To Monzer Kahf, Ibn Khaldun was the real founder of Economics. Monzer Kahf argues that “If we were to extend Ibn Khaldun to the subject of our debate today, we would find him discussing “economics” without being afraid to loose his identity; he would accept or reject theories and assumptions on their own merits and according to their reflection of the behaviour of women and men, in their individual endeavours (micro) as well as in their association together (macro) on the basis of the “totality” of human beings. Without departmentalization or segmentation; he would also be able to criticize the established or accumulated ‘economics’ on the basis of its deficiency of its basic utilitarian assumption that ignores other intrinsic human motives⁵.

Monzer Kahf suggested that Islamic economics can only be looked at as the study of an economic system within a certain ideological and legal framework and the study of the individual and collective behaviour of the units within the system in the same way as socialist economics, welfare economics, etc. are looked at. Islamic economics, thus, according to Monzer Kahf is merely a branch of Economics that studies the units and variables within the Islamic legal and ideological framework, actual or assumed. But who would judge that the neoclassical

⁴ Klein, Howard with, Basingstoke and Hampshire (5)

⁵ See his paper included in this volume.

framework provides objective analysis of different economic systems which are characterized by different institutional framework.

The line of argument adopted by Monzer Kahf, however, had obvious self contradiction. Socialist economic system is known to be a different system. It is a different philosophy. Capitalists will hardly see any Economics in it. Similarly socialists will see a wrong economics in capitalist system.

If Monzer Kahf believes that only the modern tools of economic analysis make the science of Economics then he is right that socialist economics and capitalist economics are same because we often apply the same tools to analyse two systems. But, of course, tools do not make science. Science is made of logical understanding of specific phenomenon, in specific dimensions with specific objectives. Tools are often borrowed from other sciences. It is the difference in the phenomenon to be studied, and the differences in dimensions and objectives of the phenomenon to be studied that can create different science.

We may use tools of another discipline to make certain analysis and, in the process, we may get some “scientific” results but merely the application of tools of another discipline would not make a discipline lose its own distinction. Tools of analysis of capitalist Economics were used in 1960s by the (Capitalist) Economist, to analyse the Feldman growth model (6) of Russia and Mahalanobis growth model (7) of India. The two growth models referred to two different economic systems. The use of tools led to the conclusion that the same model succeeded in Russia but failed in India. We now know that such analysis was meaningless as far as the objectives of the two systems were concerned.

Economics in Islam is a different phenomenon. The nature of economic activities and dealings is different. The objectives of the activities and dealings are different (which Monzer Kahf admits too)⁶, the institutions to re-enforce the objectives are different. A logical and scientific study should give us a different scientific discipline which will have to be called Islamic Economics because the name Economics now is referred to mean only Capitalist Economics. We may still use the framework, theory and tools of capitalist economics to analyse the economic phenomenon of Islam but only to get misleading results as obtained in the analysis of Feldman – Mahalanobis models.

Monzer Kahf did not seem to disagree with Umer Chapra that “Islamic Economics [dealing with well-being] may not be able to confine itself just to the economic variables but may have to take into account all [different] factors, including moral, psychological, social, political, demographic and historical that determine well-being in comprehensive sense”. If Monzer Kahf does not disagree with this then he does not have an argument that Islamic Economics is Economics unless he defines Economics differently than defined by the (neoclassical) Economists.

In the first international conference on Islamic Economics held in Makkah Mukarramah that raised the flag of Islamic Economics as a scientific discipline, Anas Zarqa contributed a paper⁷ “to shed some light on certain methodological and philosophic aspects of Islamic Economics and to illustrate its unique approach by reflecting upon an Islamic social welfare function”. Addressing the question “Can there be an Islamic Economics?” he wrote, “distinct

⁶ Monzer Kahf in his presentation referred to “[Institutions} are manifested in the organizational setting that enables the human element to implement its developmental ideas and plans. These institutions include the role of law, the right of private ownership and private growth, role of women, the setting of the third sector, the charity that covers the organization of non-exchange transfers including the role of Zakah and Awqaf”. Monzer Kahf also makes reference to Umer Chapra’s concept of filters as “within” institutions as necessary condition for development.

⁷ Zarqa (8), pp. 3.

and meaningful Islamic economics is possible, nay, necessary”. Briefly, his argument was, “that economics is not as innocent of value judgments as we are often led to believe, nor can it ever be. Neither is Islam devoid of positive assertions about economic reality. We can then replace non-Islamic value judgments by Islamic ones, and add to the economists’ stock of positive assertions, then work out the consequences”⁸. According to him, “values are involved in (a) Choice of topic to be pursued, (b) Choice of variables and assumptions, (c) Choice of method, (d) Choice of ends and means. There are thus several areas in economic theory where value judgments have a crucial role to play, and in these areas we can make a distinct contribution as Muslims”. He further wrote, “Muslim jurists have a central role to play in defining in collaboration with other social scientists, including economists – details of a social welfare function relevant to present-day society. Once such a social welfare system is so defined, Muslim economists need no longer wander about aimlessly. They could begin from this function and choose for positive economic studies those problems, variable and inter-relationships most relevant to that welfare. Economists could then present to Muslim jurists alternative economic policies, clearly stating the effects of each policy on variables relevant to Islamic welfare. Then and only then can jurists and economists use the welfare function and its supporting heritage of fiqh to provide society with Islamic solutions to current problems”⁹. Zarqa is of course talking of Institution Economics but in reverse order than what is suggested by the framework of NIE. NIE wants economists to start from law to delineate economic theory. Zarqa wants jurists to start from economics to revise their juristic rulings (to help economists to apply to neoclassical methodology).

⁸ Zarqa (8), pp. 4.

⁹ Zarqa (8), pp. 4-5, 17.

Later on at another occasion, Anas Zarqa wrote, “It is important to recognize that values must enter economic analysis, and they did enter traditional economic analysis not because economists conspire to do so but because it was inevitable. For Muslims, the only source of values is divine guidance through the Qur’an and the Sunnah of Prophet (Pbuh). Consequently, whatever values are needed in the process of Islamic economic analysis they must be drawn from these two sources. Given this method, it is not surprising to expect that when Islamic values replace other values that have affected traditional economic analysis the result may be a new kind of economics which is not necessarily or entirely opposite or different from conventional economics. To put it very simply, perhaps simplistically, if we take out whatever values are there in the process of economic analysis and replace them by Islamic values and work out the analytical consequences, we arrive at a product which can be called Islamic economics”.

It was very surprising to see Anas Zarqa too taking a position on the side of Monzer Kahf in the Round Table discussion. It is equally surprising that in the same conference, Monzer Kahf too had a different view. In his paper¹⁰ contributed to the conference he started by saying, “The “utility” analysis developed by the Austrian marginalist school and by Alfred Marshall has its roots both in “economic rationalism” and in “utilitarianism”. These two sources had great influence in the formation and emergence of the “new capitalism” in the Europe of 17th, 18th and 19th centuries. During the 19th century Marxism too grew up in the same atmosphere, one may indeed say in the very lap of the new capitalism. Because of this, it could never shake off the philosophical basis of that brand of capitalism. That does not mean there are no dissenting voices. Max Weber, a leading sociologist, has very rightly maintained, in his well known book The Protestant Ethics and the Spirit of Capitalism, that “economic rationalism” is not the only

¹⁰ Kahf (9), pp. 19.

form of rationalism that can explain the economic phenomena. Thus, for instance, it may be pointed out that Islamic rationalism is another form of rationalism”.

The principal focus of his paper was on “the impulses that motivate, and the goals that are pursued by the consumer in his choice among the goods and services contained in the attainable set, and on the macroeconomics of this behaviour, given the axiomatic system of Islam”¹¹.

Why renowned Islamic economists like Anas Zarqa and Monzer Kahf had to review their position, is curious. It seems that the rigorous attacks from the strong lobby of conventional Economists within Muslim Economists forced these popularly known “Islamic Economists” to shy away from calling their subject as a distinct scientific discipline and to be contented with considering it only as a branch of Economics. If they had taken the approach of NIE and had started from institutions, they would not need to change their positions because this approach does not require them to go to ideology and assumptions. They would start from a factual position. What are the institutions of Islam and this starting point would have remained unchanged and Islamic economists would not have to switch their positions whether there is Islamic Economics or there is no Islamic economics as a distinct discipline on its own merit.

Elgari went a step further. According to him, “It can be either Islamic” or “Economics”, implying that Islamic economics (as a science) does not exist, neither as a distinct discipline nor as a branch of Economics. In his words, “Islamic economics can never be a scientific discipline”. His argument goes like this¹²:

¹¹ Kahf (9), pp. 20.

¹² El-Gari presentation is included in this volume.

“Science is knowledge brought under general principles by observation, experiment and critical testing. We need it because we don’t know, we don’t understand, and because we want to know and understand. Through scientific probing, we can explain and discover how the forces around us function. Once we know how they function we can predict their behaviour and hence have an opportunity to harness their power to our benefit, control them to protect ourselves from their perils. This will make our life more enjoyable. It will improve our welfare. This is true with physics, chemistry, medicine as well as economics.

“But science is not the only source of knowledge. As believers, we also have the divine source. Knowledge correctly derived from the latter is the absolute truth. While the one derived from science is “relative” at best. Once we say “Islamic” then we are internalizing knowledge derived from the divine sources.

“If we already know the answers, if we have the conclusions, then observation, experiment and critical testing become a waste of time. It is an “over kill”. Now this is the dilemma of Islamic economics, or so the argument goes. It can either be Islamic or Economics”.

He adds “if I write a paper using the tools of economic analysis to show that use of Mudarabah as a mode of finance improves equity in the distribution of income in the society, this will be a celebrated contribution to the literature of Islamic Economics. However, if I use the same tools to show that the same Mudarabah (as a mode of finance) is less equitable than borrowing on the basis of interest, then this would be secular economics.

“If I start a research project with the premise that “use of Riba in the economy will increase the rate of employment” this will never be Islamic Economics because we know it is

wrong so why bother. If my investigation nevertheless reached the conclusion that, on the contrary, use of Riba will increase the rate of unemployment, then this will be Islamic Economics par excellence.

“If I study the size of interest-based-lending in a Muslim country, this would not be considered Islamic Economics. But if at the end I reached a conclusion that such lending has dropped lately because most of banks transactions are now sale based and Mudarabah based, then this suddenly becomes a candidate for the inclusion in the Islamic Economics “hall of fame”.”

According to him, “we as Islamic economists already have our conclusions and we define our discipline on the basis of “Islamically correct” conclusions. I will only accept the “economics” that reaches the same conclusion which I already know to be true because I have the answers from my more reliable source. If the premise appears to be open to any result that is contrary to our pre-set conclusions, we immediately refuse to accept it. Once we are assured of the conclusion, we then accept to engage in “scientific” research. But then the best we can accomplish is to reach a conclusion we already know”.

The fact is that Elgari could not have made a better case against using the methodology of Economics to understand the economics underlying the institutions of Islam. According to it is useless to attempt it. The only course, if want to understand and develop Islamic economics to understand the institutions of Islam how they affect behaviour of economic agents and how it compares with those of other systems in bringing about socio economic change in the society.

But Elgari drew a different conclusion by saying that Islamic Economics can never be a scientific discipline. According to him Islamic economists, first need to agree what do we mean by “science” and scientific discipline. El-Gari gives following example to substantiate this point.

“Both the science of psychiatry and the art of voodoo specialize in healing “ailments of the soul”. Both reach results that are not dissimilar (with all due respect to both categories) with not too different a degree of success. Yet they are dissimilar because their methodology is obviously different”.

He gave another example, “Farmers everywhere developed, over the centuries, methods for predicting winter storms, rainfalls and the arrival of spring, through observing the behaviour of animals, signs of the stars and changes in trees and plants. Meteorology tries to do the same thing: They too predict the weather. Until very recently, they both had the same degree of accuracy yet they were different because their methodology is different”.

Again, both these examples that El-Gari offered to conclude that Islamic Economics cannot be a distinct science, can equally and strongly be used to say the opposite; that objective methodology would make Islamic economics a science and can be different from the science of what is now known as ‘Economics’ as Voodoo is different from psychiatry.

Elgari’s statement that “Islamic economics uses the tools of science to reach conclusions we already believe to be true and correct” only reflects a confusion about what we mean when we present Islamic Economics as a distinct discipline. In the name of Islamic Economics, we can do three things:

- (1) We can explain Economic concepts from the original sources without any reference to any theoretical framework. This is the approach usually adopted in the faculty of Religion, in Muslim universities, and is widely available in the literature on Islam.
- (2) We can analyze the economic concepts mentioned in the original sources utilizing the theoretical and analytical framework of conventional Economics. A large number of contributions have been made in this form to the literature known as Islamic economic literature but very little of this has gone into the text books or teaching material to be used in Economics and Business faculties at university level.
- (3) Developing Islamic economics in two stages. First developing our own understanding about axiomatic assumptions and reasons about economic behavior of man, the institutional framework for economic activities in civilized societies and objectives of economic pursuits in the framework of a defined socio-economic system; second using this understanding to develop our own framework for economic analysis and using framework for understanding the economic behavior and the implications of Islamic teachings on economic matters on human, social and economic development of the society. Not much work has been done in this direction. Naqvi (11) and Chaudhry (3) probably are the only major works that can be mentioned in this category. These works, despite being quite scholastic, have yet to play a catalytic role in developing a distinct discipline.

Elgari basically is referring to the works of type 2 mentioned above which can easily be ruled out as work showing Islamic economics as a distinct discipline. This work can best be described as application of science of Economics to the economic teachings of Islam. What we can rightly call Islamic economics is the type 3 work mentioned above. In the type 3, we can bypass the first step if we agree to consider NIE as the closest framework for our purpose. NIE is

raising the same questions that Islamic economists are raising and NIE is giving a framework how to answer these questions.

Nejatullah Siddiqi, in the course of discussion on what went wrong, had made the remark that if we know we are wrong, we definitely took a wrong path. It does not mean that we can never reach right destination. There is still a possibility that there is a right path which can take us to right place. If we have been doing type 2 work, it does not mean that type 3 work does not exist. It only means that if we want reach our destination, then type 2 work is not the point where we should be.

Elgari was referring to work of type 2 rather than to the work of type 3 when he said: “Do we need economists to show us that Riba based banking is “bad” for every body? ---- yet Islamic economist in what we call “Islamic Economics” have gone ahead and used the most sophisticated tools of analysis (from the capital economics) just to show that Riba is bad for you”.

Elgari was missing the point. This type of Islamic economics may or may not have its own merit, (and I will rather agree with Elgari that there is no net gain from such an effort) but the subject under discussion is science of Islamic economics which would require finding a suitable framework or developing our own scientific framework in which the economic rationality of concepts like prohibition of Riba, Israf, “wrongfully” usurping the property of others etc. could be understood by relating them to the objective of the overall system of life in Islam and arrive at better basis for predicting behavior and policy perspectives obtained as to how to achieve these objectives in the contemporary realities about economic behavior of man within the contemporary institutional framework.

Creating such distinction between the “[capitalist] theory” of Economics and “Islamic theory” of economics would distinguish science of Islamic Economics from science of Economics.

We will be thus serving not only the Muslims but others as well if we can show that “Islamic theory” is closer to realism, broader in scope and coverage and more useful in its conclusion towards human development and human betterment because of the institutional framework it works with.

Duality or Middle Path?

Anas Zarqa took a compromised position¹³. He brushed aside a categorical answer to the question of “To be or not to be”. Instead, he preferred to consider Economics as a broad discipline which already has several schools of thought, (though he did not specifically say but it implied that what we have been referring to as conventional economics or capitalist economics is only one of the schools). What we will develop in the perspective of Islamic teachings and Islamic system of life will be Islamic School of Economics. This is a good compromise. It does not contradict the position taken by Monzer Kahf. It will be Economics. It also does not contradict Umer Chapra and Abdul Rahman Yousri and others who believe that we should have our own discipline to be called Islamic Economics which would be different from conventional discipline of Economics. The question is what Islamic school of economics represent.

Anas Zarqa’s line of argument was as below:

¹³ His brief presentation made in the Round Table is included in this volume.

All “Islamic” social sciences such as Islamic economics and finance, have two sources of knowledge, the Divinely revealed, and the humanly generated.

The possibility of apparent inconsistency between the two sources has long been recognized and addressed by early Muslim thinkers and jurists. Ibn Taymmiyah, as Anas Zarqa claimed, devoted a whole book to this, concluding that resolution of the variance should be achieved by accepting the “certain” (from the humanly generated source) and rejecting the uncertain. If both (i.e. from divinely source of knowledge as well as from the humanly generated source of knowledge) are uncertain, then we should give preference to that which is more nearly certain.

Two important questions arise in taking this position. First question, Anas Zarqa himself raised and answered during the Round Table discussion, related to the validity of incorporating values in scientific analysis. The second question that he did not raise during the Round Table but had it in his mind when he was presenting Islamic Economics as a distinct science in his earlier writings related to the benefit and rationality of using the framework of conventional economics to develop the discipline of Islamic economics.

Let us take the second question first. The question is whether it is possible to benefit from the duality or taking a middle path that Anas Zarqa is referring to. He is in fact, advising us taking a middle path when he is saying that we accept the “certain” from humanly generated knowledge and reject the “uncertain” and, by implication, try to develop the “uncertain” into “certain” part using the Divinely revealed knowledge and hence getting a discipline that would be referred to Islamic school of Economics. To me, this is not what we may refer to as

benefiting from duality. Does he mean that we also use humanly generated knowledge to change the “uncertain” of Divinely revealed knowledge. With all those Fatawas emanating from Azhar University and other scholars that bank interest is not prohibited, do we mean that we have an “uncertain” thing in Divinely revealed knowledge and let us, as Islamic economists make, it “certain” using the scientific knowledge of economics and then call it scientific development of Islamic Economics? I believe Anas Zarqa did not really mean duality. He probably meant taking a middle path. In the following sense:

We have two streams of knowledge, Divinely revealed and humanly generated. We should run (during our life and meeting our worldly needs) in between these two streams. We take all what we have from the Divinely revealed source of knowledge but from humanly generated source of knowledge, we pick only what we need but it is not in conflict with the ‘chemistry’ of Divine stream. The criteria and methodology of selection of what is in the humanly generated stream of knowledge that would be beneficial for us and is not in conflict with the “chemistry” of Divine knowledge will develop a discipline that we will call Islamic school of economics.

Even this course of action, call it duality or middle path, may not lead us to where we want to go in terms of Islamic Economics. We do know one of the two streams (i.e. humanly derived knowledge and which we call Economics) is a very fast moving stream and the other stream (i.e. Divinely revealed knowledge which is mostly expressed in terms of what we call Fiqh literature) is a very slow moving stream, if it is moving at all. Running in between the two with the intention of getting “certain” of both the streams, we may quite likely end up ignoring the second stream, if we tried to concentrate on finding “certain” from the first (fast moving) stream or we may quite likely end up missing a lot of “certain” things from first (the fast

moving) stream if we tried to concentrate on the second (slow moving) stream. This is like running on a razor edge path with very high probability of falling injured in one of the streams. In fact, this middle path walk has been the strategy many of us have been using during the last 30 years and found ourselves in the state described above.

I explained earlier, three things that we can do in the name of Islamic Economics:

- (1) We can explain economic concepts mostly from Fiqh sources, failing to keep pace with the developments in science of economics. In this process we simply fell injured into the Fiqh stream. This material can be seen in the Fiqh of Islamic banking. This part of Islamic Economics is finding it difficult to get validity and acceptability even in Fiqh stream.
- (2) We can pick up concepts from fast moving Science of Economics without finding enough time to look into the Fiqh stream. In this process, we simply fell injured into the stream of economics. This Islamic economics is not finding acceptability even in Economics.
- (3) The third thing that can be done is to develop an altogether a different stream with its own source, direction and chemistry. It may or may find things to be picked up from current streams of Fiqh and economics and it may benefit from several other streams (other sciences). We may or may not give it a name Islamic Economics or Economics. What we do need to realize is that we need altogether a different stream to meet our vision and our needs. Duality may be a possibility but not relevant for consideration as a method discovering our own stream relating to the economic activities and behavior of economic agents.

The other question that Anas Zarqa himself raised, can values be incorporated in scientific analysis? This is, in fact, the same question that Mohamed Elgari also raised during his

presentation and led him to vote against the existence of a distinct discipline that can be called Islamic Economics on the grounds that values cannot be incorporated in the scientific analysis. Anas Zarqa referred to Bergson-Samuelson conclusion¹⁴ that values have to be imported from outside Economics in order to weave them in the positive cause-effect economic statements to make social welfare function which can then be used to evaluate any policy change. Value-free evaluation of any policy over another is impossible. Thus, according to Anas Zarqa, even in Economics, you cannot make positive analysis to prove one policy action (e.g. prohibition of Riba) to be better or worse than the alternative policy (to allow Riba) without incorporating values in Economics. Economics does make such comparison by importing values from outside (e.g. from constitution, law etc.). Hence Islamic economics too can still claim to be a science even if it is value based. The difference will be made by the sources of values and nature of values. In Islamic economics, the values will be derived from Divine revelation¹⁵.

Anas Zarqa referred to the same duality in his paper cited earlier in which he claimed “to shed some light on certain methodological and philosophical aspects and to illustrate its unique approach by reflecting upon an Islamic social welfare function”¹⁶. I, therefore, could not understand why, after 30 years, he had to deviate from his own claim that “distinct and meaningful Islamic Economics is possible, nay necessary”¹⁷. This, he further asserted at that time, “is building an almost new theory. This, as Muslims we must do if we are to

¹⁴ Zarqa did not give specific references in his presentation but following may be relevant:

- (1) P.A. Samuelson, “Bergsonian Welfare Economics” in S. Rosefielde, ed., *Economic Welfare and Economics of Soviet Socialism: Essays in Honour of Abram Bergson*, Cambridge, Mass., Harvard University Press, 1981, pp. 223-266.
- (2) P.A. Samuelson, “Re-affirming the Existence of “Reasonable” Bergson-Samuelson Social Welfare Functions”, *Economica*, London School of Economics and Political Science, (1971), vol. 44 (127), pp. 81-88.

¹⁵ According to Anas Zarqa, notwithstanding an opposing minority view, the majority of jurists conclude that good or bad can not be decided without the guidance from Divine revelation.

¹⁶ _____ Zarqa () pp. 3.

¹⁷ _____ Zarqa () pp.4.

contribute genuine Islamic solutions to human problems and if we are to stop acting as “free loaders in the social sciences of today”.

With his own elaboration during his presentation during the Round Table, it seems very clear that Anas Zarqa did not really mean it when he said that we cannot have Islamic Economics, and instead we can only have Islamic School of Economics. As I mentioned above, if we properly investigate into economics in the Islamic system and investigate economic behavior of man in the light of the perspective that Islamic sources provide us on the man’s approach to earning and making a living in this world within a given set of institutions, we are compelled to find a framework, different from that of conventional economics, to make this investigation scientific. We may need to give it our own name if the name Islamic Economics does not fit it. If we have to think of it as a school, then we may consider it as a school of Shari’a and Fiqh as clearly implied in Siddiqi’s key note address mentioned earlier but definitely not as school of Economics, because of the reason explained above. We already have different schools of Fiqh. We may come up with a school that is talking about Fiqh addressing to the subjects that economists are normally concerned, and the subjects that economists should be concerned but do not like to be concerned with, and the subjects that economists are shy to be concerned with and the subject that economists are ignorant to be concerned with. This school may or not be using the language that conventional economists use, but it will use a scientific language that scientists including economists will not find difficult to understand. This may seem to mean throwing the ball of economics to the court of Fiqh scholars who have been blamed in this Round Table discussion for not making Ijtihad to allow Muslim economists to find solutions to economic problems faced by Muslims in applying Shari’a in their economic activities in the contemporary world. This is in fact throwing the ball of Fiqh to social scientists to develop a discipline similar

to what “conventional” economists have developed, a discipline that would help understand how to promote human welfare and human betterment rather than aiming at academic excellence.

All the above discussion boils to one point. We need “our theory” to understand “our economic problems” in “our framework”.

“Our Theory” Vs Conventional Theory

Until we come up with a new name for what we need as alternative to conventional theory of Economics, I will be calling it as “Our Theory”. Before elaborating in what I mean by “Our Theory”, it would be instinctive to note the following comment made in the collection of papers on What do Economists Contribute referred to earlier:

“Economists should not only provide facts and interpretations, to help every man see where his interests lie, but also by providing moral guidance about what his interest should be”.

Instead of depending on our inclination and attachment to the conventional economics to explain Islamic economics, we should rather depend on the needs of Islamic economics as a science and keep our mind open to choose the methodology to meet the need. The needs of Islamic economics as a science should be to have appropriate tools help Islamic economists to arrive at policy prescriptions and guidelines for human behavior to achieve the objectives of Islamic system of life. I am trying to explain this point in my work on the theory of consumer

behavior. My argument is that we must recognize the difference in Theory of “Islamic Consumer” Behavior and “Islamic Theory” of Consumer Behavior.

This is not merely semantic. I would consider “theory of *Islamic consumer* behavior” as picking up various elements of Islamic teachings on consumption and incorporating them in conventional theory and conventional models to see what are the implications of these teachings on the economy or on the economic conditions of individuals. Several papers have been written in the past, in this respect, for different seminars and conferences. It only means treating Islamic economics as branch of Conventional Economics. But this is not what I mean by “*Islamic theory* of consumer behavior. I believe that there is strong basis to have our own framework to understand the consumer behavior as well as to understand the Islamic teachings relating to consumption and this framework, once developed, can be called Islamic theory of consumer behavior.

I put forward two reasons for having a theory which could be called *Islamic Theory* of Consumer Behavior as opposed to *Conventional Theory* of Consumer Behavior.

- (i) The conventional theory of consumer behavior, despite its robustness and amenability to mathematical manipulations covers a very limited ground as far as understanding the consumer behavior in today’s societies of the world is concerned. It focuses on the mind set of consumer only and ignores the institutional and environmental set up with in which he is making his consumption decisions. The theory may have contributed substantially to understanding some aspects of consumer behavior in some societies of the West but it hardly proves its relevance to understand the decision-making process of consumers in majority of the societies in the contemporary world. For example, why consumers prefer to spend on conspicuous luxury goods while their basic needs are unfulfilled? Or what type of consumer choice it is when he prefers leisure to work, when he knows that work will contribute income, no matter how small, to the poverty stricken family? Or how a

consumer would objectively identify whether or not there is waste of resources in his consumption pattern? Or why items like education of children and family health become low priority items compared to recreation and conspicuous consumption items in majority of the underdeveloped societies. The answers to such questions lies in customs, traditions, social environment, culture and other elements that make up the institutional set up for the consumer to make his decisions. The conventional theory is not only limited in scope with respect to taking care of the influence of such institutional factors on the consumer behavior but it is also limited in its scope to focus on understanding and explaining some of the contemporary economic problems that are directly the result of certain institutional constraints and influences on the consumer behavior. Incidence of poverty has a lot to do with the consumer behavior but this is not a subject of existing theory of consumer behavior. Economic development also has strong roots in the consumer behavior but the existing theory is not geared towards understanding consumer behavior as a reason for development or under-development. The World Summit on Sustainable Development held in Johannesburg, South Africa, from August 26 to September 4, 2002 recognized that changing consumption pattern is one of the essential requirements for Sustainable Development. But the theory of consumer behavior has yet to recognize it. The Sustainable Development will remain a subject outside the mainstream Economics unless there is a theory that identifies endogenous elements in consumer decision-making process that can help keeping consumer behavior in line with the society's perception of Sustainable Development. Sustainable development is eventually a matter of observing certain ethics in economic behavior.

All such issues relate to what is being referred to institutional framework which includes rules and regulations, ethics and moral values, customs and traditions resulting from religion or from cultural history. Theory of consumer behavior that ignores the role of

such institutions in consumer's decision making is bound to leave such pressing economic problems like alleviation of poverty or sustainable development outside the mainstream of Economics.

- (ii) For Muslims and Muslim economies, there are additional arguments why we may need a different theory. Islamic scholars interested in science of Economics have several reasons to be dissatisfied with the current theory and feel they must develop an alternate theory to understand what Islam teaches them about economic behavior and economic institutions. From Islamic sources, based on divine revelations, they get a different understanding of the nature and behavior of human being in their economic activities compared to what conventional Economics provides. The textual sources of Islam, for example, make elaborate references to elements of human behavior relating to consumption. The Islamic economists, when they try to analyze these elements within the framework of the conventional theory of consumer behavior, they feel lost. The theory is very restrictive and not rich enough to allow economic understanding of these elements. Some of the concepts mentioned in the divine text pertaining to consumer behavior are just not recognizable in the conventional theory of consumer behavior. The Islamic economists therefore should rightly believe that they need to develop their own framework for the analysis of consumer behavior that can provide more realistic understanding of the behavior, can help understanding the divine commandments about the behavior and can lead to better economic conclusions for the benefit of the human existence in this world.

It is, however, not merely the “relevance” argument that should force us to have our theory. The fact is that developing our own theory is a sort of obligation. Development of an Islamic theory of consumer behavior to understand Islamic teachings

on consumption is necessitated by Islam's urge to develop human being as individuals, develop harmony in society and make the life on earth easy and comfortable for all generations to come as long as this world exists. Alleviation of poverty in a society, meeting the needs of have-nots and less privileged members of society, restraining from corrupting the earth (land and sea) and environment are among the clear objectives of Islamic system of life and they have been embedded in the norms for the consumer behavior too. For example, we have specific injunctions; to avoid *Israf*, *Tabzeer* and *Itraf* (concepts relating to waste of resources or misallocation of resources), to be moderate in spending ; to keep watch on needs of neighbors and the have-nots; to eat *Tayyibaat* (concept relating to good, clean and hygienic consumption), not to use the divinely prohibited commodities; not to make consumption harmful to health, environment or fellow beings; to spend in the cause of *Allah*; to observe *Taqwa & Iman* (concepts relating to God fearing, being watched by Omnipresent, being accountable for every action) in spending, to seek *Falah* (concept relating to integrated success in both the worlds), to follow *Ihsan* (concept relating to doing things in good style) in all activities (including matters relating to consumer behavior) etc. etc. We need to incorporate Shari'a rules , Islamic ethics and morals, and Islamic culture resulting from the Islamic beliefs in a model that can help us understand nature of such concepts as mentioned above and their relevance for consumer's wellbeing, alleviation of poverty and sustainable development, creation of harmony in society etc. To achieve these objectives is a religious obligation on society and a religious duty of scholars to tell the society how to achieve them.

At the outset, my argument mentioned above led to the debate, should Economics (conventional or Islamic) talk about values in economic analysis? If yes it will no more remain

to be a positive science. Most of the participants in the Round Table agreed that moral values and ethics have to be integrated in the development of Islamic Economic Theory. Even Monzer Kahf who did not believe in Islamic economics as a science distinct from Economics conceded that moral dimensions of economic analysis is the only factor distinguishing Islamic economic thought from conventional economic thought. Anas Zarqa too underlined the significance of moral values for the development of *Islamic theory* of Economics and to understand how individual behavior can contribute to achieve social goals. Abdul Rahman Yusri, another IDB prize laureate, too associated himself to this group saying that conventional economics itself is coming back to ethics then why Islamic economists should be shy of incorporating Islamic values in the Islamic economic analysis without taking it away from the category of positive sciences. Omar Zubair also strongly advocated the role and significance of Islamic moral and ethical values as an integral part of Islamic Economic Theory. But most of those who believed in the uniqueness of Islamic values and significance of their role in understanding man's economic behavior still did not believe that this would make Islamic economics a distinct scientific discipline. This only reflected their obsession with the conventional economics where the methodology to incorporate values in economic analysis does not make much difference in terms of understanding the value based consumer behaviour.

Omar Zubair and Abdul Rahman Yusri probably were the only exception explicitly advocating Islamic economics to be a distinct scientific discipline to have its own theory distinct from the theory of conventional economics.

Incorporating the Islamic values was not what I recommended for the development of *Our Theory* of Economics behavior. I only emphasized discovering the methodology that would

take a more realistic and more consistent approach towards understanding human life and human behavior.

In the first conference on Islamic Economics, Khurshid Ahmed referred to ‘needs’ rather ‘than’ wants as a basis of consumer behavior¹⁸. Monzer Kahf referred to Falaḥ (success as defined in the Islamic World view of human life as a motivating behavior of consumer behavior¹⁹. I believe, the concept of need as opposed to want is more realistic, more rational and more objective, as well as closer to the value-system-of-Islam concept, to become the basis for the analysis of consumer. I discussed in some detail why a concept like need can help us develop our own theory of consumer behavior quite distinct from the conventional theory.

On my presentation, one point that was repeatedly referred to was how to define ‘need’ and how to distinguish it from ‘want’. For example, Monzer Kahf said that “who will tell me except God --- we can analyze consumer behavior of Islamic society using conventional theory”. First of all I believe that it required a little more thinking than a spontaneous reaction to making need as a basis for consumer decision making. I have discussed it elsewhere that it is ‘need’ rather than ‘want’ that is in reality the basis for ‘rational’ consumer’s decision making. The two may overlap to a considerable extent for a ‘rational’ consumer but we often do find that many wants cannot qualify as ‘need’ in the social and cultural set up in which consumer lives and many needs (determined by the value system of society) may not become wants of the consumer because of several cultural factors. It gives a lot more insight and analytical rigor to make ‘need’ rather than ‘want’ as the starting point for analysis of consumer behavior. Nejatullah Siddiqi supported the distinction between ‘need’ and ‘want’ as he too believed that Islamic approach

¹⁸ Khurshid Ahmed (1), pp.-----

¹⁹ Monzer Kahf (9), pp. 23.

with its emphasis on society and care for others provides a distinct vision for the development of different theory of economics, to be called “Islamic Economics”.

In case of firm behavior, we know that there are so many theories. Economists have their own more than one theories. Management scientists have their own theories. All explain firm behavior from the point of view of their own vision and World view on human and human behavior and come up with their own conclusions. Similarly markets and their structures can be explained differently with different visions. In my presentation, I emphasized that developing our own theoretical perspectives on behavior of economic agents may lead us to understanding the need of developing appropriate institutions to guide the behavior of economic agents to conform to Islamic norms. This may need empirical research relating to the study of behavior of economic agents in Muslim societies. For example, several Muslim countries are currently conducting household-income expenditure surveys. These surveys can be easily and conveniently redesigned to include aspects that can provide a wealth of data for Islamic economists to study the consumption patterns and consumer behavior in Muslim societies in relation to Islamic teachings on the subject and give them their own basis to develop a theory of consumer behavior, more relevant and more realistic.

Lack of statistics and empirical data is one of the basic hurdles in the development of *Our Theory*. All the existing data explicitly or implicitly serves the interests of the conventional theory because conventional theories underlie in the collection of all the data. The data to serve the interest of *Our Theory* will not be generated unless we have our own theory recognized. This is a circle that needs to be broken down by taking an initial step. Having a need-based theory of consumer behavior and getting the household income-expenditure surveys accordingly re-designed would be an effective step to overcome the deadlock.

Ethics and Economics: Theory of Firm

The value system of Islam is a potential source of providing distinct dimensions in the process of delineating a distinct theory about economic aspects of human life and economic behavior of mankind on earth. Naqvi (11) provided a good example of such an exercise. The participants of the Round Table, generally did not think so. Imad Imam, represented their view when he said that in (conventional) economics, we have all the models to take care of all our values. Trying to develop a new theory to incorporate Islamic values in economic analysis will mean nothing but an attempt to re-invent the wheel. Imad Imam is right. If it is only a matter of making economic analysis of a behavior combined with Islamic values we do not need to re-invent wheel. We have the conventional framework available to do it. But my question all along this discussion was whether the conventional framework is relevant for the type of analysis we need. Many in the Round Table discussion said, yes while I and a minority view with me said no and that is the basic issue we need to resolve. Those who may say yes, they of course are referring to type 2 analysis discussed earlier. For a type 3 analysis where we need to develop our own framework and theory to understand the economics of our own value system, then it is not re-inventing of wheel. It is discovering a new path leading to new destinations not visualized by the conventional economics. As Nejatullah Siddiqi said, if we are not where we wanted to be then we definitely took a wrong path.

In answer to, where we went wrong, Tag el-Din identified, though in a different way, the mistake in incorporating Islamic moral values and ethics in economic analysis²⁰. Tag el-Din said, “The main drift was to develop a morally loaded theoretical model of economic behavior with special emphasis on replacing the pivotal postulate of self-interest in the mainstream Western positive economics by the Islamic norms of mutual caring, brotherly cooperation and altruism”. He quotes Keynes to say that this is a confusing approach and cannot lead to any practical guidance to benefit from ethics. “The question is not whether the positive enquiry would complete as well as form the foundation of all economic discussions, but whether it shall be systematically combined with ethical and practical inquiries, or pursued, in the first instance, separately”²¹.

Tag el-Din suggests adopting a, what he refers to as, Moral policy Method. According to him, “Rather than assuming the ideal moral behavior in a purely value-loaded theoretical set-up, this method is characterized by a recognition of positive realities, and hence, the figuring out of suitable policies to help change those realities to the better and attain the desired moral goals”. To him, “Moral policy is heedless to the ethical appeal of the basic economic assumptions (e.g. self-interested behavior, scarcity, etc) so long as the ultimate objective of the analysis is to enlighten the process towards moral goals”. For Tag el-Din, formulation of ethical assumptions and axioms is not important in the context of Islamic economics. What is important is the achievement of moral objectives and moral policies. In his own words, “The real challenge of Islamic economics is to correlate perceivable Islamic economic policy with the implications of the generally acknowledged economic theory, that is, to analyze the economic jurist intents (almaqasid), rather than develop a pure Islamic theory. What we mean by the ‘generally

²⁰ His presentation is included in this volume.

²¹ Keynes (), pp. 47.

acknowledged economic theory' is the ever growing and critically debated body of positive economics, to which Islamic economists must contribute, not the current state of the art. The best means for Islamic economists to communicate with the mainstream economists is to delve more thoughtfully and rigorously into the mainstream circle of theoretical economic dialogue".

Tag el-Din extends his point to apply to the theory of firm and theory of entrepreneurial behavior. He did not agree with approach taken so far by Islamic economists such as restating the theory of firm in terms of Islamic moral values as against the behavioral assumption of profit maximization or reclassifying the factors of production and factor remuneration with special attention to the position of capital²². Instead, Tag el-Din, believed that, "More illuminating insights to Islamic economics could be attained if the entrepreneurial behavior and the related issues are approached from the perspective of a general theory of profit and production organization. Had such a theory been developed, it could have helped explain the vulnerable scope of the neoclassical theory, as well as predict and justify the present trend where major developments in financial markets and the modern investment theory have, by far, transcended the neoclassical theory of the firm". In the "general theory of profit and production organization" as Tag el-Din, put it, "The entrepreneur must be assumed to be capitalizing on a relative information advantage about the final product market not shared by the other factors of production. Accordingly, the neoclassical assumption of perfect information must be governed by the condition that information is only factor-specific, in the sense that every factor is content with 'perfect information' about its factor market price. If this qualification is introduced, the

²² With respect to factor remuneration, Tag el-Din was probably referring to my paper (14) on factors of production where factors of production could be utilized by the entrepreneur in two forms; one, they could be hired (this will exclude hiring the fungible capital, as it would involve payment of interest) and the other, they could be hired on profit-loss sharing basis. The idea was to recognize that income-sharing arrangement was a valid productive organization. Tag el-Din himself recognized the significance of this. According to him, "For no obvious reason the income or profit sharing option is assumed away by the neoclassical theory. The Islamic economist should be in a unique position to perceive significant flaws in the theory of the firm, given the empirical relevance of sharing options in the Islamic legacy".

neoclassical theory can no longer hold the claim of information efficiency, even under the ideal perfect foresight model”. According to Tag el-Din, “The key words for the needed general theory of profit and productive organization, to which Islamic economists may take the lead, are informational efficiency and risk management”.

Theory on Market Structure:
Lessons from Fiqh

Without believing that Islamic economics can be an independent discipline, Mabid Jarhi implicitly made a strong case that we need to develop our own understanding of market structures as (conventional) economists dealt with market structures with an eye (only) on gains from trade, specialization and economic efficiency and hence keeping several issues relating to market structures unresolved to the satisfaction of theoreticians and policy makers. Mabid Jarhi pointed out the need of a revolutionary approach towards understanding the development of market structures. He gave two reasons for adopting a revolutionary approach:

- 1) “Modern theoreticians in Islamic economics would like to think that an Islamic economic system values competitive markets and their advantages. However, due to the long period of totalitarian economics that passed over Muslim countries, several apologists for market control have arisen both from religious scholars as well as economists. A counter revolution is therefore, needed, based on a fresh rereading of fiqh and Islamic traditions, and armed with modern tools of economic analysis”.
- 2) “Another area that requires further thinking is related to how risk-sharing influences market structure. Both conventional and Islamic economic literature is still groping on this subject. It is known that the Islamic economic system, properly applied, provides a higher degree of risk sharing than does a conventional economic system. Such risk sharing would be manifested in both the relationship between fund

suppliers as well as fund users from one side and financial intermediaries from the other side. It would also be manifested by greater integration of markets among Islamic countries, if and when they the Islamic principle of free trade among Islamic countries, based on the Islamic teachings, that restricting trade among Muslim is unlawful”.

Mabid Jarhi gave examples from Fiqh having implications for developing the understanding of market structures from Islamic point of view. One example relates to what is called Ihtekar. Ihtekar, a monopoly-cum-hoarding based market activity, is prohibited in Islam. First issue is how we define, Ihtekar market. Fiqh only tells us that Ihtekar in the market means:

- (a) storing goods, and
- (b) selling them at a later date, presumably when prices are higher.

The spirit is not to deprive the market from competitive fair play. For some goods, Ihtekar in market places will always exist without adversely affecting the competition in the market. For some goods even a small tendency of Ihtekar may destroy the competition. This issue is similar to the issue of gharar. Gharar (to be broadly referred as imperfect information) in the market exchange is prohibited in principle. But some gharar will inevitably exist in the market otherwise market will not function.

How to define competitive market structures to take care of such Islamic provisions and develop policies to ensure the existence of desired market structures. According to Mabid Jarhi, there are several Shari’ah rules relating to market structure but current Fiqh literature relating to these rules is not clear enough for the economists to understand what implications they have for

market structures. Mabid Jarhi suggests a fresh reading of Fiqh and Islamic traditions to develop Islamic understanding of contemporary economic institutions.

Alternatively, we may argue that it is not fresh reading of Fiqh that is required but instead fresh reading of economics underlying the contemporary laws and institutions is required in order to properly understand economic application of Shari'ah rules and accordingly develop the institutions and legal framework to achieve the desired objectives. In either case, the bottom line is that a revolutionary approach is required to re-write economics besides re-readings Fiqh. And this is nothing but developing a new discipline which Mabid Jarhi did not like to admit. Mabid Jarhi's discussion on other examples from Fiqh such as ruling against fixing prices in the market or ruling against making exchange outside the market lead to the same conclusion contradicting Mabid Jarhi's own assertion that Islamic Economics cannot be a distinct discipline.

Implications of Risk-Sharing

Mabid Jarhi regarded risk sharing a basic feature of the Islamic economic system and considered it an interesting proposition to study the implications, of the relative pre-dominance of risk sharing in the capital markets, for the efficiency in the economy. It will be very naïve to assume that such a testing will be meaningful in the conventional economic paradigm. Risk sharing is not a tool. It is an alternate philosophy and a part of an alternate paradigm. It will be very misleading to see the implications of this philosophy on the concept of efficiency as defined by another paradigm. No doubt the question raised by Mabid Jarhi about pre-dominance of risk-sharing in the financial and capital markets of the economy is important. We do want to understand its implications, but for our own paradigm. We may study it for another paradigm but

only to show that it would not make sense²³. We then have to come back to our own paradigm to show why it may make sense.

Risk-sharing in financial markets has implication for consumer behavior, production organization, entrepreneurial behavior and exchange in the goods and factor markets. Risk-sharing in financial dealings is an integral part of our financial system that has a strong encouragement requiring economic agents to accommodate financial needs of others without any economic returns and strong discouragement for borrowing other than to meet needs.

Conclusion: Where are we.

My own conclusion from the above discussions in Round Table is that we do have a strong case for exploring a new science that can be termed anything but what is known as Economics.

But a hard care conventional economist, attending the Round Table, probably as an exception, neither agreed nor disagreed. He was only disappointed. In the paper written after participating in the Round Table discussion, Ali Khan wrote;

“In two days of discussion in the Round Table, I come away with the perception of a palpable sense of disappointment in what is termed the subject of Islamic Economics”.

²³ Strangely enough. Mabid Jarhi himself wrote in the paper that he presented in the Round Table that “It is rather difficult in a debt based market economy to test for the relationship between risk-sharing and efficiency”.

Ali Khan made a valuable review of the entire discussion from the point of view of a (conventional) economist²⁴. While reviewing the discussion he made several suggestions to Islamic economists. One of the suggestions can be summarized in the following words:

“If you want to talk to me, you first mind your language”.

If we want to be a school of economics then we use the economic jargon in its right context and with right connotation. Retaining the jargon like self interest, maximizing, etc. but using them with different interpretation and connotations has not been able to gain the attraction of economist. This perhaps may be one of the main reasons behind the slow or no progress in the recognition of the Islamic economics even as a school of economics.

To me this is however a reflection of what I have been saying above. As Islamic economists we have been playing in a wrong field. We better find a ground where we will be more comfortable to play and our terminology and language will be better understood or we develop our own framework with our own terminology and jargon in clear context and with clear connotations. Doing this may lead us to have a discipline which may or may not be called Islamic economics but will give us a platform to have a meaningful and useful interface with Economics.

So what is my conclusion now with respect to the question of “To be or not to be” with respect to Islamic Economics, after the above synthesis of the discussions in the Round Table?

I believe that the Round Table discussion, though belated, did succeeded in making one point very clear.

²⁴ The review is included in this volume.

Islamic knowledge about human nature and human behavior gives a very distinct perspective to look at the economic pursuits of human beings. A scientific formulation of this perspective is needed on its own merit. The outcome will be a discipline distinct in several from what is known as Economics.

Suppose we give Paul A. Samuelson the parameters like prohibition of interest, the injunctions of Zakah and Ushr, the injunction about Israf and Tabzeer, the Quranic statements axioms about human nature and objective of human life in this world, etc. and ask him to develop an economic theory based on these parameters, forgetting or not, what he wrote in Foundation of Economic Analysis and during more than half a century onward, then what we get from him, would it be different from what the Economic Theory that we now have? Even if we hope that this new theory could be distinct from the Economic Theory, it does not help us because it is an impossible proposition; not because Samuelson would not do this job, but because it may be impossible to give him an agreed upon set of Islamic axioms and parameters about human behavior relevant to develop our Economic Theory. On the other hand if we give a comprehensive note on the institutional framework of Islam and ask him to explain economics as implied in these institutions, then what we will get from him may be totally different, more relevant and more realistic Economics than the conventional Economics.

The point is only this. An alternative framework has to be found to make economic analysis of the institutions that Islam gave us for human life and hence develop a distinct discipline that we would call Islamic economics. Until we develop our own framework, the framework of NIE is probably the best alternative framework from the existing methodologies that can serve our purpose.

There has been a sustained serious demand in the Muslim social scientists in general and Muslim economists in particular to look for a paradigm within the Islamic system that would clearly and scientifically present solutions for the economic problem faced by world in general and Muslim societies in particular. This demand will always remain. I sincerely hope that this review of the Round Table discussion may provide new starting points to the economists working on this front.

M. Fahim Khan

Chairman, Riphah Centre for Islamic Business
Ripha International University, Islamabad
mfahimkhan@gmail.com

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