

World Forum Report:

Addendum to Justice Taqi Usmani's Response

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The message of World Forum Report, "The current economic crisis should warn us to fundamentally rethink the development of the moral framework and the regulatory mechanisms that underpin our economy, politics and global interconnectedness" is clear. The message has three elements:

1. It recognizes that the moral framework currently governing the economic and financial systems in different parts of the world, has something missing, which have to be discovered
2. It recognizes that reforming moral framework will not be sufficient. It has to be supplemented with a regulatory framework. Legal framework has to be streamlined to protect and implement the reformed moral framework
3. Economic system does not work in isolation of other systems in a society. It is an integral part of the society and is influenced by other aspects of the society such as political system, global interconnectedness etc. The reforms in regulatory framework therefore would be global and would cover different aspects of the social, economic and political framework within which the modern economies operate
4. The reforms have to come from religion (as all possible man made systems and framework failed to deliver the improvements in human wellbeing). In the words of the World Forum Report, "The most fundamental question today is whether we can adopt a more communitarian spirit or whether we will fall back into old habits and excesses, thereby further undermining social peace" World's most influential religious and faith leaders call for a radical rethinking of values in the global economy. Encompassing topics such as ethics in business, values in society, globalization, sustainability and climate.

These are the questions that Islamic scholars in general and Islamic economists in particular have been working for last several decades, in the hope of getting a global positive response to Islamic approach of economics and finance and draw lessons for introducing a New World Economic Order¹. The renewed call from World Forum as another challenge for Islamic thinkers to provide more practical solution to current global economic and financial crisis. Justice Taqi Usmani has responded to this call and highlighted contours of economic and financial system based on Islamic system of life.

The World Forum call and Justice Taqi Usmani's response are steps in the right direction. It is, however, only beginning. The World Forum Report and Justice Taqi Usmani's response clearly point to the direction in which the next step is to be taken. This note is my reflection of the direction of the next step. I hope this will generate interest among Islamic economic scholars to take the argument to its logical conclusion.

World Forum Report

World Forum Report is based on a survey posing various questions to cross section of respondents and their answers providing the material for the report. As a part of the first step, the questions included in the report are very well thought out. But one can immediately realize that most of the questions are loaded questions. There would hardly be two opinions in answering many of the questions. In many questions, the difference of opinion may simply be reflection of sampling error.

Our objective for such a survey should have been:

1. Identifying the missing values relevant for business, economics, politics, interdependent utilities, interconnectedness of cultures
2. Exploring public opinion on where to look for the missing values and what should be the unifying source of universal values and how to introduce them in human economic behavior

A second survey needs to be conducted to get the answers to these questions. The next step to get answers to these questions should be taken by the leaders of major faiths. Islamic scholars for example should identify the missing values and seek public opinion from cross section of cultures. The values like 'love thy neighbor' and 'finding out if no one is hungry in the neighborhood before eating one's own meal' are part of the system of universal values. The town planning and community structures are, however, being built up in a way that there will be hardly a chance to make this value a part of the system of life. Will the public opinion support the idea of mixing up the poor and rich members of the society to live in the same community? What regulatory mechanism would be needed to eliminate negative consequences of such mixing (the negative consequences which in fact led to the segregation of classes and developed class cultures)?

Public perception needs to be measured across cultures to find out if such a mixing will help meeting mutually inclusive economic and financial needs of the members of the community.

Leaders of major faiths assisted by economists, sociologists and psychologists need to initiate such surveys to draw lessons for policy makers. There are

objective reasons that leaders of Islamic faith assisted by Islamic economists should take the lead to conduct this survey and present it as a supplement to the World Forum report.

Justice Taqi Usmani's Report

Justice Taqi Usmani response highlights following features of Islamic system of life.

1. Islam is for the entire humanity
2. The world needs economic system, local as well as global, based on **true values** and **sound principles** to make the system **equitable, balanced and inherently immune from turmoil** (emphasis added)
3. Market economy with just distribution

While there may not be any two opinions that economic system need to be based on the principles of market economy. Concentrating on the phrase “market economy” is not enough. The question is ‘what makes Islamic concept of market economy different from the concept prevailing in the world particularly in the developed countries (claimed to be market economies)’. The mere reference to the qualification of “just distribution” does not make the concept of Islamic concept of market economy different unless we show that there are specific features in the Islamic concept of market make just distribution an integral part of market operations. Unless we identify the reforms in the market economy that would lead it to generate distribution, our argument will be incomplete. From World Forum Report, it is clear that the world is looking for the institutional changes required to make the market economy immune from turmoil. These changes need to refer to

1. Islamic approach to factors of production
2. The Islamic approach to market structure, particularly the elements that are missing from the contemporary markets.
 - a. The conditions that require markets to be free and competitive, and the conditions that require government intervention
 - b. The institutions that would take care of just distribution when competitive factor markets fail to do so
 - c. The institutions that would take care of have-nots who fail to enter competitive markets
3. The elements of Islamic approach to economic activity that will not allow gambling to prevail in the name of speculation, hedging, risk management etc and suggest the institutional arrangements that need to be developed to take care of such aspects of economy

4. Islamic approach to reduce information cost, a factor being realized to be responsible for market failures in several economic activities, including Capital Market². Islamic business ethics and norms for trading in market do address the issue of information cost. Only an institutional arrangement is needed to implement these values. These Islamic values and trading norms are shared by almost all religions. Here comes the role of religious leaders and religious institutions like mosque, church, temple etc to lay down the blue print how to prepare to inculcate these values in the society in general and in business, finance and market operations, in particular.

Islamic approach to identify the missing elements from the contemporary markets can be looked in the voluminous work on Fiqh al-Buyu' (understanding Islamic law on exchange). This literature has to be screened to get general principles and objectives Islamic approach to market and identify the missing institutions that need to be introduced/eliminated to make "the market economy with just distribution"

The work on Fiqh al Buyu' is the work on theory of markets in Islamic economy. The application of this theory is available in the form of court procedures and discussions, preserved in archives in different locations. These archives also need to be screened to identify the issues relating to the application of Islamic theory of markets.

Individual efforts of religious scholars alone or of Islamic economists alone cannot be expected to carry out this work. The work is to be done for humanity, as a whole. Universal change in the markets around the globe is to be aimed at. A global team including renowned academic institutions, where the work is being done on Islamic economics institutions need is needed to take up the task. Duke University, USA is one such institution where application of Islamic law covering economic activity in historical perspective is one of the projects in the Business school.

This is true that market in principle is likely to generate greed because motivation in market transactions is maximizing profit. Justice Taqi Usmani rightly recognized that putting limits on profits is not the solution to control greed. Prophet sallallahu alaihi wa sallam is reported to have refused to control prices of even food in times of scarcity. The question is then how the temptation to make as much money as possible can be arrested. How to make human beings not to derive satisfaction merely by counting money? This is a social value but individuals instinctively resist it. What regulatory measures can control this instinct without killing the spirit of making markets competitive? There is some guidance available from Islamic history to draw lessons for contemporary economic and financial environment. Islam describes one of the dimensions of human activity to spend in God's way. The institutions, known as Zakah, Awqaf,

obligatory spending for others are practical manifestation of regulatory arrangements that arrests the greed instinct. Other religions also have such institutions.

Islamic societies have a great temptation to establish Awqaf but legal environment and system of property rights in these societies are not very conducive for promoting such institutions. Awqaf institutions have proved to be very effective to motivate Muslims to follow instincts other than the instinct to make more money. People are reported to have widely followed other instincts such as urge to carry out scientific work, research, and spread of knowledge, promote social development etc in Islamic societies. Historical records are witness to it. Historical records are available to draw lessons in this respect. This is a question that requires collective efforts from economists and religious leaders.

As regards Riba, the modern world is not only aware of the alternative financing techniques but is practicing Riba-free methods of financing to conduct their business. The academicians are convinced of the advantages of these methods over Riba based financing methods to conduct business. The problem arises only on one account. The policy makers find it convenient to use bank interest as a policy tool for macroeconomic management. They are convinced that the Riba based financial system is causing great troubles in the management of economy, the current global financial crisis being the greatest evidence. But policy makers have developed over time an institutional framework that makes it easy to run a financial system on the basis of Riba. Consequently, the private sector also finds it convenient to use the banking system promoted by the policy makers. What is needed is an institutional mechanism that will make it smoothly and effectively switch the financial system to an alternative framework. Despite global growth of Islamic financial institutions and Islamic financial markets, there is no sign of a paradigm shift. The institutions are simply following the same

Speculation is integral part of economic activity. But unregulated handling of speculation in market activity can easily lead to gambling attitude. The classical Islamic literature on understanding Islamic law on market activities have laid down specific rules to keep the traders and economic exchange to indulge only in speculation that is needed for enhancing production and exchange in real goods and services rather than looking for unearned gains or making money without adding value or without generating counter value (like in Riba). Islamic rules provide a good starting point for economist to suggest reforms in real and financial markets to minimize gambling attitude without adversely affecting the productive needs to speculate. Some of these rules have been elaborated by Justice Taqi Usmani provide starting point. Shari'a scholars of Islam in cooperation with Islamic economists and policy makers can take a lead to prepare a blue print of reforms in national and global markets.

