

Nature and Methodology of Islamic Economics: An Appraisal

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INTRODUCTION

Islamic economics emerged as a discipline separate from the general science of economics in the wake of the political process of Islamisation of the Pakistani society and economy during 1977-88.

In formulating its fundamental principles, Islamic economics seeks to fuse Islamic religion with economic science; that is, it tries to combine the study of economic phenomenon of ordinary business of life with religious beliefs, ethical norms, moral ideals, rules and laws, thus putatively believing that the social science of economics is a secular discipline which does not concern itself with value judgements, and that Islamic economics is a plausible alternative to modern economics since it is based on the values, norms and principles of Islam. [Ahmed (1981), p. xiv; Chapra (1985), pp. 19-29].]

SCOPE OF THE PAPER

The scope of this paper is limited. The treatment of the problems discussed is not meant to be exhaustive. We do not intend to assess the quality of the literature on Islamic economics, nor do we want to discuss the relationship between economics and religion which has been dealt with separately [Haque (1991)]. The purpose

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of this paper is modest: we shall examine the nature, definition, subject-matter and methodology of Islamic economics and compare it with the scientific methodology of modern economics.

As we shall discuss in this paper, there seems to be a tension, contradiction or discrepancy in the term Islamic economics both on the intellectual and practical planes because it endeavours to fuse matters of religious faith and religious ethics with the economic problems of the ordinary business of life. Religious faith implies absolute certainty of final truths whereas economic statements, propositions, conjectures and hypotheses are tentative, always open to tests and criticism. Therefore progress of economics from its classical roots since the times of Adam Smith (1720–1790) to its neo-classical (or Keynesian, Marxian or radical) developments was possible only because its results acquired scientific validity only since they were refutable or falsifiable and not because they were final and immutable.

The contention of this paper is that the Islamisation of the economy was a politically motivated scheme of the ruling elites of Pakistan to perpetuate their rule and hegemony over the large masses of Pakistan; and Islamic economics was developed as an implicit ideology to forestall any social and economic change in the semi-feudal socio-economic order and thus use religion to obfuscate the real economic problems of the people.

There is no consensus of opinion among the Islamic economists on the definition of Islamic economics. Even the classifications of its subjects appear to be vague [Siddiqi (1978); Khan (1983); Khan (1983)]. Under the main heading of Islamic economics the Islamic bibliographers include subjects of religion, law, philosophy and history. This shows that Islamic economics, more or less, resembles the discipline of scholastic economics which emerged during the medieval period under medieval/feudal socio-economic conditions. For the scholastic Doctors of medieval times, like the Greek philosophers, economics was not an independent and autonomous subject but a branch of moral philosophy or moral theology. They approached the economic problems of their times from an ethical and legal point of view. They were less concerned with the mechanism and-operation of the economic system. [Roover (1955), pp. 162-163].

DEFINITION OF ISLAMIC ECONOMICS

What does Islamic economics mean and what does it study? How is it defined to demarcate its boundaries, limits and scope? What is an Islamic economy? In other words, what is an 'Islamic' economic phenomenon or 'Islamic' reality and how is it different from a non-Islamic economic phenomenon? There is unfortunately no clear-cut and unambiguous definition of Islamic economics available in

the extant literature.

This ambiguity in the definition is perhaps due to the reason that many concepts, notions, ideas, practices, customs and institutions like *riba*, *mudaraba*, *zakat*, *ushr* etc., which originated in early medieval times, are subject to different interpretations.

Let us now see how Islamic economics is defined by Islamic economists. [Mannan (1986), p. 18] defines Islamic economics as a "social science which studies the economic problems of a people imbued with the values of Islam". Values are higher moral principles, or standards and norms of behaviour. They are ideals like equality, freedom, goodness, justice, courage, patience, honesty etc. which are abstract terms with different meanings and connotations in different societies, periods and places. "Values of Islam" is therefore a vague phraseology which requires clear definition and interpretation. Islam is a theological term in the sense of human submission to the Divine Will. What does Islam mean in reference to a specific economic or political system of a given society? Values are ethical terms. There is the problem of preference of one value over the other in a given society. Is efficiency more important than equity? Must freedom be preferred to economic equality and justice? Is rationality a value? Which type of rationality is to be preferred?

According to [Hasanuz Zaman (1984), p. 52]: "Islamic economics is the knowledge and application of injunctions and rules of the *Shariah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligation to Allah and the society". He defines *Shariah* in terms of broad rules/values and laws. He explains that "the principles which prevent injustice are contained in the *Shariah*. The *Shariah* comprises two things: injunctions and rules. The first signify the do's and don't's in the Quran and the Sunnah while the second are those set of principles which the *Fuqaha* have derived from the first (*injunctions*)". (*ibid.*)

The broad moral values or principles emanate from the Quran and the Sunnah of the Holy Prophet (peace be upon him) whereas the specific laws or rules derived by the jurists (*Fuqaha*) are their own conclusions. These Jurists had applied *Shariah*-values on their contemporary societies with their specific methodologies. How the laws and conclusions derived by the Jurists of medieval times under the feudal socio-economic conditions are applicable to the economic conditions of modern industrial societies, Hasanuz Zaman does not explain. Feudal society and the modern industrial society have different modes of production, social formations, social structures, economic categories, and institutions. For example, interpretations of the terms of *riba*, *zakat*, etc. will vary from feudal to modern times as

the overall economic conditions and economic contents have radically changed.

The Quran and the Prophetic Sunnah contain broad moral principles, norms and ideals, but the *Fiqh*, jurisprudence is the product of human intellectual/speculative activity; it constituted a methodology to derive laws and rules for a medieval society. It was largely based on the method of deductive analogy (*Qiyas*) according to which the validity or legality of a certain medieval institution or concept was derived from the precedent of a parallel institution or concept. In this way, the *Fuqaha* tended to rationalise and legitimise many medieval institutions. For example, they legitimised the medieval institution of *muzaraa* (crop-sharing) on the basis of the parallel institution of *mudaraba* (sleeping partnership, or profit-sharing). [Haque (1985), pp. 160, 195]. The modern industrial society came into being after the decay and fall of the feudal society. The rules and practices, laws and regulations of a feudal society are not relevant to a modern industrial society.

[Khan (1984), p. 55] says that Islamic economics "aims at the study of human *falah* achieved by organising the resources of earth on the basis of cooperation and participation. For [Arif (1985), p. 97] "Islamic economics is the study of Muslim's behaviour who organises the resources which are a trust, to achieve *falah*".

These definitions of Akram Khan and Muhammad Arif interpret the Quranic word *falah* in the sense of economic welfare or material prosperity. This meaning is opposed to the Quranic meaning, which is actually 'spiritual' success or non-material well-being of a Muslim (literally one who submits his will to the Will of God). *Falah* is thus a religious/theological term in the sense of salvation (in the Hereafter) and attainment of Paradise. It cannot be reduced to the sense of ordinary economic and material gain, profit or prosperity, the sense in which modern economics implies as maximisation of utilities and profits. This brings us to the concept of *homo Islamicus* or 'muslim man' which the Islamic economists substitute for the concept of *homo economicus*, or 'economic man' of the neo-classical economists.

The ideal 'muslim man', according to the Quran, is a God-fearing, devout, morally righteous, selfless, humble, truthful, just, good, sincere and altruistic human being who, in his submission to the Divine Will, bargains material things of this ephemeral world for the Paradise, for the Hereafter, for the higher values and principles for which he struggles throughout his earthly life.

On the contrary, the concept of *homo economicus*, or 'economic man' of modern (neo-classical) economics, is the product of the movement of the Enlightenment. He is a maximiser of advantages, satisfactions, gains and profits. This abstract 'economic man' is a 'bargain-hunter', motivated by self-interest. He is actually an ideal type who possesses rationally ordered preferences and perfect information. This 'economic man' is an economic agent in the instrumental sense;

that is, he allocates scarce economic resources for multiple ends in a rational way in order to realise his material gains. To maximise gains and satisfactions is a normal rational behaviour of calculation. This concept of rational behaviour has now been extended from economics to the other social sciences. [Hargreaves-Heap (1987), pp. 54-55], also [Martin Hollis (1975), p. 54].

SUBJECT-MATTER OF ISLAMIC ECONOMICS

Islamic economists appear to be more interested in medieval socio-religious and ethical concepts and institutions, laws and rituals than the real economic problems of their present-day societies. The literature so far produced by them is particularly devoted to the study of social and economic justice, *riba*, interest-free banking, *mudaraba*, profit and loss sharing, just monetary system, *zakat* and *ushr*, etc.

The concepts and institutions of *riba*, *mudaraba*, *muzaraah* (crop-sharing), *zakat* and *ushr* etc. were the organic parts of a pre-capitalist and feudal economic order based on barter and not on a monetary economy in the modern sense. In medieval times economics was not an independent discipline; it was a handmaid of religion and theology, law and ethics. The medieval mind was not only religious but also legalistic. The Muslim jurists (*Fuqaha*) of medieval times were thus more interested in matters of commutative justice or just economic exchanges.

The concept of commutative justice governed all economic activity, exchange and sale of commodities. According to this notion of just exchange, a commodity could be exchanged for an equivalent commodity in measure and weight. Any excess or increase in payment, charge or recompense above this equivalence was regarded unjust and iniquitous.

Riba was therefore interpreted by the medieval jurists as an unearned income charged in loans as well as in sales, thus extending the concept to all areas of economic life, in loans, exchange, production, and trade etc. [Haque (1985), Chapters 3-5].

As regards the institution of *mudaraba*, it was an ancient, and pre-Islamic institution which has nothing to do with Islam. It was relevant to a medieval society where the merchant's capital dominated and where money economy, banking and financial institutions, wage labour, and joint-stock companies had not come into being. To institute this concept in a modern economy is a retrogressive and anachronistic policy. [Haque (1985), pp. 177-222].

A profit and loss sharing [PLS] scheme was introduced in Pakistan in the early 1980s. This was supposed to be the basis of interest-free banking. The profits paid to the depositors in this scheme have been falling gradually because Islamic banks

compete with the conventional banks run on the basis of interest.¹

In medieval times *zakat* was levied on money (gold and silver), cattle and agricultural products as industrial capital in the modern sense had not yet developed. To levy *zakat* on the banking accounts of the middle and lower classes and exempt all industrial capital is leading to unequal distribution of wealth and income. This has further tended to exacerbate the economic cleavages between the powerful and rich ruling elites and the powerless poor masses of Pakistan.

The methodologies of modern economics and Islamic economics are different and even opposed to each other. Islamic economists in general approach their problems from religious, legal and ethical points of view, in the framework of medievalistic fixed notions and categories. They are interested, like the medieval jurists, in what *ought to be* than *what is*, in ethical and legal problems than in the real problems of a modern economy.

The modern science of economics developed gradually during the last three centuries when feudalism declined and the Middle Ages ended. As a social science it separated from religion in the period of the Enlightenment during the eighteenth century when the human mind freed itself from superstition and religious dogma and interpreted science and religion, morality, politics, law and economics independently from the dictates of the church, and religious authorities. As a social science thus economics became an autonomous and independent discipline.

Although Adam Smith was not the only founder of modern economics, yet he was a great systematiser of this science. Smith gave to economics a distinctive analytical form. In his *Wealth of Nations* (1776), he gave a description of political economy (economics) in the sense of a study of the economy of a given society, a matter-of-fact reality, an existing thing, i.e., *what is*, [Smith (1937), p. 397].

This independent tenor of scientific inquiry in economics separate from religion and other social sciences has been retained by modern economists. According to [Henry Sidgwick (1987), pp. 58-59], economics has gradually come to lay more emphasis on '*what is*' than '*what ought to be*', on being a science than on being an art and thus acquiring the change in title from political economy to 'economic science'

¹"In any case neither the Islamic Development Bank nor the commercial Islamic banks established since 1975 in over 50 countries" observes Timur Kuran, "have much use for profit and loss sharing. From 1975 to 1986 the portion of profit and loss sharing in the Islamic Development Bank's portfolio fell progressively from 55 to 1 percent... [Kuran (1991), p. 398.]

See also: Nawazish Ali Zaidi, "Profit rates policy for PLS depositors". *Journal of Islamic Banking and Finance*. 4:4 (Oct-Dec. 1987).

Clement Henry Moore, "Islamic Banks and Competitive politics in the Arab World and Turkey". *The Middle East Journal*. 44:2 (Spring 1990).

Christine Gieraths, "Pakistan: man participants and final financial products". In Rodney Wilson (ed) *Islamic Financial Markets*. London: Routledge, 1990. pp. 171-195.

or economics. He defines economic science (a branch of larger social science) which is "mainly concerned with the social aspect – as distinct from the special technical aspect – of such human activities as are directed towards the production, appropriation, and application of the material means of satisfying human desires, so far as such means are capable of being exchanged".

CONCLUSION

The discipline of Islamic economics has been developed by Islamic economists as separate and independent from the general science of economics. It is a logical corollary of the political scheme of Islamisation of the Pakistani economy and society which was initiated by the ruling elites of Pakistan during 1977–88. The subject aims at developing an Islamic economic theory which is supposed to be based on the moral values, norms and traditions of Islam. The discipline of Islamic economics was thus developed as a part of the political scheme of Islamising the Pakistani society and economy by the powerful ruling elites to preserve the semi-feudal and neo-colonial social and economic conditions in Pakistan. In this political scheme religious rituals were used to control the masses.

As Islamic economics fuses religion and economics together, this uneasy juxtaposition of the two has led to contradiction and tension in the term, both at the intellectual and practical planes. Religious faith is based on absolute certainty, conviction and finality of knowledge, whereas economic science, its discoveries, hypotheses, conjectures and conclusions are tentative, and refutable. This is the main reason for the progress and development of economics during the last two hundred years from classical to neo-classical phases as a rigorous, scientific and empirical discipline which has come to emphasise 'what is' more than 'what ought to be', that is, it deals directly with the real economic problems of a given society, of existing human beings.

Islamic economics, on the other hand, is more concerned with 'what ought to be' with religio-ethical and religio-legal problems and with outmoded medieval categories like *riba*, and *mudaraba*, thus neglecting the real problems of a modern economy.

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Comments on
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An Appraisal"

Islamic Economics is an emerging discipline and, although the literature dealing with it is increasing day by day, very few authors have tried to crystallise, classify and arrange its themes in a universally accepted standard form. The author has made full use of this weakness but in the process has made a number of sweeping statements and contentions which students of Islam, economics, and man's intellectual history will find difficult to endorse.

The article is full of repetitions but its basic themes are quite simple and can be recapitulated as follows:

- (i) Islam is merely a religion dealing with the spiritual success of its followers in the Hereafter and has nothing to do with life's material aspect;
- (ii) As a religion it is anti-science because matters of religion involve subjective beliefs and convictions of absolute certainty whereas science deals with tentative and refutable hypotheses and conjectures;
- (iii) Economics is a science and Islam a religion, hence it is contradictory to fuse them together to produce a new discipline of Islamic Economics;
- (iv) Pakistan's ruling elites have initiated Islamic Economics as a part of the general scheme of Islamisation for exploiting poor masses to maintain semi-feudal and neo-colonial socio-economic relations. This process started during 1977-78; and
- (v) The themes being developed in the so-called Islamic Economics – *riba*, *muzaraah*, *mudaraba*, *zakat*, *ushr*, etc. – originated in pre-capitalist medieval society and are not relevant to the modern industrial socio-economic structure. The Greeks, and later the Medievals, did not consider economics as an independent subject but a branch of moral philosophy combined with theology, law and ethics. Economics was liberated from this hotchpotch only when the age of Enlightenment and rationality dawned in Europe in the 17th and 18th centuries.

Ziaul Haque has built up his article around the above themes and has given several references and quotations to prove his points. However, his grasp over both Islam and modern economics seems to be weak.

Islam calls itself a complete system of life and not merely a collection of religious rites which in any case are few. It takes man as a complete unit and does not draw distinction between his spiritual and material well-being. Much has been written on this aspect and practically all serious scholars of Islam are unanimous on this point. The Quran and the Hadith are full of verses and instructions regarding economic aspects of life, for which the study of economics is necessary. For example, one of the famous verses of the Quran gives the policy direction of circulating wealth among all sections of people and not restricting it to the richer sections (59.5). How could this direction be implemented without understanding the working of the economy.

Islam is not anti-science. On the contrary it repeatedly asks its followers to think, investigate and understand. Every branch of knowledge or system of ideas and convictions has a basic bedrock to stand upon. Islam's bedrock consists of the concepts of [توحيد], [رسالة], [آخرت], and [عقائد آدم]. It lays down certain basic principles of social and economic life and leaves the rest to human investigations and requirements of changing times and ages. This is the essence of *fiqh*. The principle of movement or [اجتهاد] is a novel concept of Islam which makes it dynamic for all times to come. Iqbal's *Reconstruction of Religious Thought in Islam* contains an authoritative exposition of this aspect of Islam. Historically speaking, it was the heyday of Islamic civilisation which saw the flourishing of sciences and arts of all types. Even economics was developed as a separate branch of knowledge in its own right, like physics, chemistry, mathematics, political science and biology. Fuller's *History of Philosophy* and Guilleumes *Legacy of Islam* throw light on these developments. Ibn Khaldun's famous thirty-two chapters on economics need the attention of the author which explain the actual working of the contemporary economy.

The author's reference to the unsuitability of some of the medieval concepts to present-day conditions may contain truth but Islam does not debar modern economists and policy-makers to devise more suitable measures in the light of changed conditions. The concept of [اجتهاد] within the framework of original (not medieval) teachings of Islam is helpful to meet the changing social requirements.

As for the science of modern economics, the author himself makes reference to its positive and normative aspects but to suite his convenience he considers only positive economics as the real economic science. This is not the view of a very large body of modern economists. *Positive* and *normative* themes are valid economic themes. Economics deals with human beings and its laws and positive findings give insight into the ways which can be adopted to lessen human economic sufferings. The entire framework of development economics and planning is based upon policy considerations. The themes of cumulative justice (which the author wrongly

thinks to be an outdated concept) is very much alive today, as is evident from worldwide discussions of the new world economic order. The concept of selfish *economic man* (as discussed by the author) has to give place to a *humane man*.

No doubt the author has posed some serious questions to the students of Islamic Economics but he has derived his arguments mainly from the conflict between science and religion which was rampant in the Christian Middle Ages from which the contemporary Islamic world was free. As for the situation in Pakistan, the ruling elites are considered to be the main hurdle in the way of the implementation of revolutionary Islamic economic ideas.

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