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LECTURES ON ISLAMIC ECONOMICS

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Nature and Significance of Islamic Economics

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I

During the last 70 years or so, particularly after the First World War, quite a sizeable literature on themes relating to Islamic economics has been produced⁽¹⁾. One can discern an evolution of thought and widening of the scope of subjects and themes people have addressed themselves to. We started with an effort to understand the economic teachings of Islam as expounded in the Qur'an and the *Sunnah* and the later Islamic literature. Gradually we have moved from an exposition of Islamic economic teachings towards the development of what can be described as the emerging science of Islamic economics. The two are not synonymous. "Islamic Economics" represents a systematic effort to try to understand the economic problem and man's behavior in relation to that problem from an Islamic perspective. This systematization of thought is gradually taking place. However, I would humbly submit that amongst different areas and themes relating to economic teachings of Islam expounded so far, perhaps what can be described as the science of Islamic economics remains the least developed.

It may not be far too wrong to suggest that even if we look into the history of the evolution of economic analysis in the West, we find that the subject and its major themes were developed first and the systematization of the theoretical framework followed suit. A somewhat similar trend can be discerned even in other disciplines, particularly in social sciences. We start with ideas; with propositions; develop them into theories and explanations; refine them further and that is how crystallization of thought in the form of a discipline takes place over a period of time. Islamic economics is also passing through similar phases. That is why it would be easier to speak on how Islam looks upon the problems of property, *Ribā*, *Zakāh*, social security, even employer/employee relationships, monetary policy, population strategy and development activities. But it is more difficult to spell out precisely the nature and significance of Islamic economics as a discipline, as a science in the making of which all the above could act as building blocs.

In the literature on Islamic economics, we find that some effort has been made in this direction. Amongst the pioneers, the founding fathers, Syed Mawdūdī and Bāqir al-Ṣadr have touched upon the subject⁽²⁾. Syed Mawdūdī, particularly in his lecture on "*the Economic Problem of Man and its Islamic Solution*" and Bāqir al-Ṣadr in his "*Iqtisādunā*" (our economics) have tried to define the nature of the economic problem from an Islamic viewpoint and in this context have thrown some light on the nature of Islamic economics, taking care of both the ideological perspectives and the technical relationships. While the founding fathers spelled out the moral and the human aspect in greater detail, they only touched

upon the technical aspects. In later writings, Nejatullah Siddiqi in a number of articles dealing with the theory and spirit of Islamic economics tried to spell out the main concerns of Islamic economics, major areas of its study, and its unique approach to the economic problems⁽³⁾. He has also tried to highlight how the historical, analytical, descriptive and the prescriptive aspects of economics may be taken care of in an Islamic framework. In more recent writings, a number of articles have appeared in the *Journal of Research in Islamic Economics* starting with two papers produced by M. Akram Khan and Hasanuzzaman followed by the papers of M.A. Mannan and Muhammad Ariff. Monzer Kahf has also produced a short note on the subject and Anas Zarqa's paper in *Studies in Islamic Economics*, also touches upon the same theme. Naqvi's *Economics and Ethics: An Islamic Synthesis* represents an effort to develop an axiomatic approach to the subject. These, among others, are some of the major efforts that focus on the nature and significance of Islamic economics⁽⁴⁾. However, this is an area to which more thought has to be given and new literature has to be produced to fully articulate the nature, the scope, and the significance of Islamic economics as a rigorous discipline.

II

Historically speaking, Islamic economics has developed from the perspective of either *Kalām* (I am not using the word theology, because there is no theology as such in Islam), or *Fiqh*. *Kalām* unveils and expounds the *Hikmah*, or the rationale, behind Islamic teachings while *Fiqh* deals, *inter alia*, with the practical relationships, modes of behavior and conduct of a Muslim individual operating in a society. While this has been the context of the origin of Islamic economics, in our own times, Islamic economics is not a branch of either *Kalām* or *Fiqh*. Though it has grown out of that background yet it is a discipline in its own right. The challenge that we face as Muslim economists is that while developing an economic system based on Islam, we have to study different areas of economic activity for which Islam has provided concrete guidance, in a professional manner, and develop tools of analysis which would enable us to examine human behavior under different conditions and also to evolve tools of policy which would help in influencing things in the desired direction. All this has to be done with professional rigor and in a language that could even be understood by a non-Muslim economist.

This approach is necessary to make a systematized formulation of Islamic economics, to spell out the assumptions on which it is based, to develop the methodology it adopts and to find out its predictive capacities, so that we can have a framework for description and explanation as well as for prediction of human behavior in a given context; and, finally, to formulate policy recommendations highlighting its prescriptive role. That is the problem facing us and unless it is addressed in this manner the systematic development of Islamic economics as a science may not take place.

III

Let us now quickly cast a glance upon the mainstream economics in the context of which we are trying to make our effort. This is essential, first, because

most of us have been trained in modern economics and, whether we like it or not, we are somehow conditioned by that thought, training and experience. If we can make some of the implicit assumptions of modern economics more explicit, that would help us in developing a better understanding of the subject. In fact, one of the concerns about the mainstream economics is that it has always tried to conceal many of its value based assumptions and has tried to put up a face that may not be in total conformity with reality. Persons like Jacob Viner, Gunnar Myrdal, Paul Streeten, John Galbraith, Lester Thurow, Heilbroner and others have realized it and have established that all that is being presented in the name of positive economics is not necessarily value-free. So a quick look at the scenario, from which we are trying to move, could be helpful to understand the departure that we, as Muslim economists, might have to make from the traditional economics, if we want to do justice to Islamic economics.

It is well known that economics has passed through many phases. The earliest efforts to grapple with economic problems were made by moral philosophers and reformers beginning with Aristotle, if not earlier and going through the Greco-Roman-Christian period in the West and the Islamic era in the East. The origin of economics is to be primarily found in ethics. Even Aristotle's basic ideas on economics have been presented in the context of ethics. And it is very interesting that the founder of modern economics, Adam Smith, who was primarily a professor of moral philosophy, also begins from the same background. *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) was preceded by his *Theory of Moral Sentiments* (1759). The idea of self-interest, as it develops and unfolds itself in the *Wealth of Nations*, can be traced back to the concept of "prudence" which he spells out in the *Theory of Moral Sentiments*. Thus, historically speaking, the origins of economics has to be traced to the background of ethics. The difference is that in the pre-18th century phase, the economic problem, economic analysis and its relation with ethical values, and norms were intertwined. They almost merged into each other. It is in the post-18th century developments, despite its moral origins, that economics seems to have grown into a self-contained discipline.

It would be difficult to deny the social-moral paradigm in which economic analysis was situated. Its birth, evolution and growth remain rooted in a set of metaphysical assumptions and moral values and attitudes. However, they were taken as given. No effort was made to expressly demonstrate whether they were desirable or not, equitable or not, in consonance with the needs and aspirations of mankind or not and to what extent a second look on them was needed. Nonetheless, it was in the background of the utilitarian philosophy of the 18th and 19th century, that economic science grew as a scientific discipline. Its later development, despite the moral origins, was more of an engineering growth; a growth that was more concerned with the mechanical relationships, with internal consistency, with efficient allocation, etc. Gradually, efficiency became the key concept around which the whole stream of economic thought somehow clustered. During this period, secularism held sway all the world over and there was no significant development either in the context of Islamic thought or even in the context of religious thought of Christianity, Judaism or other religions; with the

result that the moral case went out by default. The only exception to this perhaps was Shāh Walīullāh who tried to reconstruct Muslim thought and looked at the whole spectrum of man's social existence from the Islamic perspective⁽⁵⁾. But even that did not spark off any intellectual movement which could lead to a fundamental review of economic thought. It is only a recent phenomenon that Muslims have started undertaking this exercise.

IV

Self-interest, as one finds in the original writings of Adam Smith, is a much wider concept than the narrow and more limited view taken later in 19th century economic analysis and then its development and somewhat 'perfection' or stratification in the neo-classical tradition. 'Prudence' in Adam Smith represented wisdom, understanding and self-discipline. All three were regarded as essential parts of the whole exercise of self-interest. This width is conspicuous, by its absence, in later developments. Whatever efforts were made to add some kind of a moral dimension to economics, somehow, always remained outside the mainstream. With the expanding hegemony of capitalism, it seems that systematic efforts were made to eschew the moral dimension altogether.

To take one example, we find that, in the context of the inequities of the industrial revolution and the capitalist enterprise, there emerged some serious concern for basic human needs, for essential conditions for human living and for distributive justice, particularly in the writings of Tawney, Pigou, Dalton and others. A new world began to be opened up in the form of welfare economics. But very soon even that was sucked into a not-too-different utilitarian framework. Comparison of inter-personal utility was considered to be somehow outside the scope of economics. And finally we arrived at Pareto optimality, which very much brought welfare economics nearer to the utilitarian background in which mainstream economics had developed. The prospects of a restructuring of economics somehow collapsed into a search merely for making others better off without making somebody else worse off. A very promising development was nipped in the bud. Instead of influencing the mainstream, welfare economics remained a by-lane of little consequence. Strangely enough, there is an influence of mainstream economics on welfare economics but there is very little that welfare economics has done to influence the nature of mainstream economics.

The Keynesian revolution represents another important departure. It created a concern for the economy and its global dimensions. It is very interesting that Lionel Robbins' *Nature and Significance of Economic Science* and Keynes' *General Theory* appeared almost in the same climate and in the same politico-economic context. Robbins tried to salvage economics from the morass of the ethics aiming at perfecting the tools in a manner that the blames of economic failure could somehow not fall upon the shoulders of economics. He makes a very clear statement that ethics and economics are strange bedfellows: there cannot be any link between the two. They can only be juxtaposed, not integrated. Keynes, on the other hand, was concerned with the economy and the failures of capitalism. His thought leads to the development of a positive role for the state

and new concerns for public policy and social economics. A freshness was breathed into economics, but again we find that, instead of a reformulation of the paradigm, changes began to be made within the paradigm and the end result is that within the neo-classical tradition, we have a burgeoning macroeconomics, while the moral assumptions and the micro-foundations of economics, remain as they were. The back-waters of economics remain unchanged.

Yet another major challenge came from development economics, again an area where the issue of changing the whole social system was involved. The multiplicity of factors, which ordinarily was not taken into account in economic analysis, had to be now taken account of. But again we find that the mainstream economics proves strong enough to suck in development economics and to put it in the same strait-jacket of capital-formation as the key to growth.

John Hicks, in his interesting essay, "A Manifesto", which has been published in his *Essays in World Economics* and reprinted in *Wealth and Welfare* makes the courageous claim that the rationale for economic freedom is not merely in economic efficiency as mainstream economists would make us believe. This is no more than a secondary support to freedom⁽⁶⁾. Economic freedom is important in its own right and if it is important in its own right then it means that it has an intrinsic value and not merely instrumental value. The very idea of intrinsic value and how to take note of it in economic analysis is a challenging idea. As I will show later on, this is where Islamic economics has to make a significant contribution.

The very idea of basic needs, whether in the context of welfare economics or development economics, is important not merely because of concern for needs, but, in my view, because of the foundation on which this concern is expressed and this is different from the limited framework of self-interest and of personal gain and pain on which bulk of the economic calculus is based. And if the idea of intrinsic value of things is accepted and accommodated, then, this would mean a major departure from the framework in which the mainstream economics has been developed. This digression primarily was with a view to invite attention to the way economics has developed and how a Muslim economist may look upon that.

V

The ideal of 'economic rationality' is primarily rooted in self-interest, at best, in the context of social achievement but nonetheless to be evaluated, understood and explained in the context of individual choice. This is germane to the mainstream economics. That is why major concern in economic analysis is on internal consistency so that resources are used optimally. There is some concern with external consistency also; that is a consistency between means and wants as they have been expressed, i.e. revealed preferences. Hardly anything beyond that is considered. When we try to reflect on this central problem of economics from an Islamic perspective, we find that the concept of rationality would have to be reconsidered. But before I come to that, let me in passing refer to the

economic world view or the paradigm within which mainstream economics has developed. If I try to put it in a summary form, I would say that it consists of three elements.

Firstly, individual motivation is to be self-interest; personal gain or loss. That is the real motivating force. It is not merely an assumption. It has also become the objective. And that is how, moving between assumption and objective along with the primary consideration of self-interest, the economic analysis, economic description and economic prediction have developed.

Secondly, the individual is assumed to be operating in the context of a market framework; a framework where he has the opportunity to make his effort, to compete with others, to utilize scarce resources. This context of freedom and opportunity or this framework of competition and market is also an essential element of that paradigm.

The third element which had not originally been there, but has been added, is the role of state, involving a slight widening of the concept of rationality, to take into view individual rationality along with social or national rationality. These are the three main elements which reign supreme in the mainstream economic analysis.

VI

The Islamic paradigm is different. It is different not necessarily by denying all these but by spelling out its own unique world view and approach in the context of which analysis has to take place in Islamic economics.

Rationality in Islam does not deny the need for internal consistency. It does not deny that self-interest is one of the factors which influence human behavior. What it challenges is the assumption of the mainstream economics that for all practical purposes it is self-interest alone that would explain human wants and that would determine individual and social choice. I have very strong reservations if this is even factually true. There is ample evidence in the literature within mainstream economics which casts doubts upon this view of man and upon the assumption that self-interest alone is the most important and the most decisive factor in decision-making by the individual.

George Stigler, in his lecture on "Economics or Ethics", has claimed that the assumption of the mainstream economics is empirically true⁽⁷⁾ but others have challenged this thesis and a number of alternative explanations are being offered in literature⁽⁸⁾. An equally strong case can be made for the possibility as well as rationality of rule-based behavior. Even within the framework of a market economy the possibility of different motivations can be demonstrated, not merely theoretically, but on the basis of empirical evidence. There is strong empirical evidence from Japan suggesting that systematic departures from self-interest based behavior to the direction of duty, loyalty, family traditions, cultural mores, goodwill and sense of belonging have played important role in its industrial successes.

What Michio Morishima has described as 'the Japanese ethos' cannot be explained simply by the calculus of self-interested behavior⁽⁹⁾. There is a strong case for plurality of motives. While self-interest remains an important factor influencing human behavior, it is very difficult to conclusively prove that this is the only factor exclusively determining human behavior in all cultural settings. If it is incorrect to argue that people always act selflessly, it is equally unsubstantiated to assume that their behavior is always determined by self-interest alone. If it can be demonstrated that the plurality of motivations is a more rational proposition and can be substantiated by actual behavior of people living in different social systems, then the whole edifice of mainstream economics will have to be looked upon differently. If ethical values, Islamic or otherwise, have any influence on human conduct, and if we are interested in actual human behavior, and not simply assumed human behavior, then, the whole matrix of economic analysis would have to be redrawn. So, in my view, the first question we have to face is: What motivates man? What is the fundamental principle of rationality? Is it self-interest alone as assumed by the mainstream economics? Is this assumption philosophically tenable? Is it morally acceptable? Is it actually so? Is it empirically establishable? The studies by H.A. Simon⁽¹⁰⁾ on human motivation and behavior, and also the evidence offered by the Dutch School, emphasizing the psychological approach to economics, empirically demonstrating multiplicity of motives, seem nearer to the human situation than the one-dimensional approach that is found in the mainstream economics.

The other aspect of self-interest is that it looks upon man primarily from the background that whatever he wants, is only for himself. 'Utility' and 'well-being' have almost been equated in economic literature. But is it really so? Is well-being coexistent with utility maximization? Is it possible to achieve well-being in ways other than utility maximization? Another aspect which deserves to be considered is "Does utility maximization always lead to well-being"?

Let us examine the question from another angle. Man operates at two levels. At one level, he is the object, and, at the other level, he is an instrument or he is an agent. For example, if I am prepared to give my life for my country or my faith, then, here, I am operating as an agent, pursuing an objective that is beyond my own physical well-being but something that I value. In welfare economics, the highest that we can think of is making others better off without making somebody worse off. But would that really always serve the interests of equity and justice, of social well-being, of human prosperity? If I am prepared, through my own volition, to be physically worse off to see that others are well-off, how would I take view of this approach? So, man whose behavior we examine in economics, has to be looked upon in both of these positions and not merely in one. One is that of him being an object, where self-interest may be the major motivating force and the other, where he is an agent; or should we use an Islamic term, a *Khalīfah*; where he is living for certain objectives. Nonetheless, the choice is his own according to his own evaluation. Yet, what he is trying to contribute is relevant to his economic behavior and to the economic consequences of his actions. Now this instrumental or agency role has not been taken into view by the mainstream economic analysis.

Similarly, on the question of rights, we find that a very utilitarian view of rights has been developed. Rights are valuable as instruments. Freedom is important as an instrument. In economic theory, whether in exchange or consumption, endowments or social security, the question of rights as having intrinsic value is ignored. yet, if there are rights with intrinsic value, then, it is something over and above the self-interest calculus. In that case, norms, rights and values would have to be integrated with otherwise mechanistic methodology of economics. So, when we look upon the issue of rationality from all these angles, we come to the conclusion that the narrow self-interest approach is a very limited approach. Although it is rich with a number of insights and capable of explaining many areas of activity and behavior, yet there are equally important areas which have been neglected or ignored or which are incapable of explanation within the narrow limits of its framework. As a result, thereof, we must admit that some falsification has also taken place in economic analysis and this has resulted in an impoverishment of economics.

Amartya Sen⁽¹¹⁾ has rightly emphasized that "moral acceptance of rights (especially rights that are valued and supported and not just respected in the form of constraints) may call for systematic departures from self-interested behavior. Even a partial and limited move in that direction in actual conduct can shake the behavioral foundations of standard economic theory. The impoverishment of economics related to its distancing from ethics affects both welfare economics (narrowing its reach and relevance) and predictive economics (weakening its behavioral foundations)".

The Islamic concept of rationality would not deny self-interest but would put self-interest in perspective with social responsibility and with behavior in the context of rules and norms. Again, it may be mentioned in passing that in the mainstream economics there is, *prima facie*, hardly any scope for rule-based behavior. But we do find that there are societies where self-interest alone has not been the most decisive factor. It has been supplemented by rule-based behavior: loyalty, sacrifice, restraint, altruism, service, respect for values of the society. This is not merely a moral proposition; it is an empirical reality. One can cite as examples, the early Muslim societies or even the Japanese and Chinese societies in the twentieth century. There are many factors that have played important role in shaping human behavior, which has led to economic activity and progress. There is some recognition of these factors in contemporary literature, even though it may be at the periphery. But these areas deserve to be considered seriously and that is what Islam does.

In Islam, self-interest has been put into the context of moral values, norms and rules. And all of these norms, rules and values are not necessarily man-made. They are not merely mechanically 'revealed preferences' of human behavior but Divinely revealed preferences and norms. They are based on the Qur'an and the *Sunnah*. They are part of the belief-system and moral commitment of the individual and the society. So, we find that we have several tiers or rationality. First, an internal consistency which is essential for efficiency. Second, an external consistency which takes care of the relationship between means and ends, i.e. optimal

use of resources for fulfilment of preferences, wants and needs. Over and above that, there is a third level which takes care of moral and material, individual and social, national and international requirements.

In the mainstream economics, wants as given. In Islam, wants may not be taken as given. They are also choice-based. But here choice is based on the moral values, on *Shari'ah*, on the criterion of *Halal* (the permitted) and *Harām* (the prohibited); and that is how the third level is developed. For want of a better term, this may be called the 'harmonizing consistency' which would ensure harmony between wants and values; between the 'revealed preferences' and the 'revealed preferences', between the actual and the desirable behavior in the framework of *Halal* and *Harām*. Our concern is not confined to an equation between means and wants. The whole exercise has to take place in the context of a process preparing us to want what we should want. Harmonization between wants and needs, between wants and values and norms is as important as efficient allocation at the technical level.

The level of wants is also influenced. There is a framework in which these needs and wants have to take place. Muslim thinkers have tried to develop needs-profiles. Shāṭabī and Imām Al-Ghazālī are early examples. Shāh Walīullāh has discussed it in the context of *Irtifāqāt* and *Sa'adah*. Bāqir-al-Sadr has touched upon this in the context of *Adl* (justice) and *Zulm* (exploitation).

The criminal law of a country is always the protector of the social values of a people. Generally, in the criminal law of other civilizations and societies, there are long lists of crimes and punishments prescribed for them. In Islam, we find that *Hudud* are very limited, just seven. When we reflect upon them, we find that perhaps there is a very close relationship between the Islamic concept of needs and values and the *Hudud*. In the Islamic scheme, the first major value is the protection of *Imān* and *Dīn* (faith and religion) because they constitute the basis on which the Muslim society, individual and the community, rest. And *Riddah* is the *Hadd* for that. Then comes '*Aql*, man's level of consciousness and we find there is *Hadd* for use of *Khamr*, (intoxication), which negates consciousness. Then comes life, the protection of human body, *Nafs*, and here we find the *Hudud* of *Qisās* and *Diya*. Then we have the moral dimension of honor, of chastity, of protection of family and integrity, and we have the *Hadd* for *Zinā* and *Qadhf*. Then comes protection of property, *Mal* and we have the *Hadd* for *Sarqah* and *Hirābah*. These are the only seven *Hudud* in Islam. The rest are *Ta'zīrāt*. This gives us a scheme for the real values or needs of a society which have to be protected and these are *Imān*, '*Aql*, *Nafs*, honor and property. Different scholars have tried to develop this scheme further and many more refinements may take place. The whole spectrum of *Halal* and *Harām* provides that framework.

This third tier is unique to the Islamic system and merges into a fourth tier of rationality highlighting consistency between the action in this world and the Hereafter. So the Islamic paradigm would consist of these values and then the behavior of the individual would have to be studied, examined and analyzed in this context.

VII

These submissions suggest a new approach to the economic problem, based not on total negation of what man has done so far, but, to provide a new framework and develop a new paradigm within which to assimilate what can fit into the framework and leave out what is abhorrent to it. In a way, the development of socialist economics represented a not too dissimilar effort, although, the extent of change Islam visualizes is far grater and more fundamental. Marxist concern was confined to structural change. Islam stands for structural change as well as textural change within men and society.

Marx tried to develop a new paradigm. however, Marx did not expound what could be described as the whole matrix of socialist economics. What he gave was a new paradigm and a new approach which later on led to the development of economics of socialism. His contribution lies in giving a new economic philosophy, an exposition of what he saw as laws of social evolution, based on a particular principle of historical materialism and in the light of that a vision of the future; how things are destined to move and grow. One fails to find the nitty gritty of economics of socialism in the writings of Karl Marx. In that context, Ludwig Von Mises and Fredrick Hayek were correct in raising certain fundamental questions about the impossibility of socialist economics but they were incorrect in assuming that Marx did not give a new economics. He did give a new approach and a new paradigm. We are in a similar position. Our paradigm is different from the paradigm of Marxism but the problem is very similar. Since we have a different paradigm, we have to adopt a new approach, a new methodology, and then only would we be able to produce a new content of economics.

I will not go into the other aspects of this paradigm which deals with certain other critical issues like property rights, the role of state, network of incentives, *Waqf*, social subsistence (*Kifālah-al-Āmmah*), etc. It may suffice to submit that the incentive of personal interest has been fully harnessed by Islam but not as the only or necessarily the most important factor or even the dominant factor. That is why personal interest is supplemented by other factors and that is why the concerns of Islamic economics, as also its points of intervention, start not merely with behavior or institutions but with motives. Now Islamic economics has a positive aspect, suggesting that it would be studying economic behavior as it is. But that is not all. It also has an equally important normative aspect. It is also interested in what ought to be. If moral values influence human conduct, and they do, then changed human behavior should also articulate itself in space and time. Our tools should be capable of comprehending that. We must not operate on the assumption that there is only one factor determining behavior. Ethically-based choice, ethically-based social behavior and ethically-based public policy fall as much within the scope of Islamic economics as different aspects of positive behavior. So the normative and the positive dimensions are poised together; both have to be there. In any way the normative dimensions come first as it is the starting point for the study of positive behavior which remains crucial.

In the study of the normative aspect, we rely upon *Shari'ah*, the Qur'an and *Sunnah*, the revealed guidance, as the primary source. Secondary sources include

Ijmā', *Ijtihād*, 'Urf, etc. Interaction between the two sets of sources would enable the Muslim intellectual to be always engaged in an unceasing effort to remain rooted in his spiritual sources and yet keep up-to-date with the problems and exigencies of the time.

On the positive side we have to study economic behavior as it is and also as it would be as a result of ethics-based choice, ethics-based incentives, ethics-based effort and ethics-based policy. So ethics-based behavior and departures, therefrom, are to be empirically studied and capacity developed to predict the same. Our tools of analysis and our methodology has to be such that it takes into view both positive and normative dimensions. Recent developments in economics throwing light on behavior under uncertainty may, among others, provide some pointers to the methodology that might be needed to study these types of behavior.

One of the problems that beset economics, as also other social sciences, relate to an uncritical extensions of natural science methodology to this science of man. Scientific methodology is no doubt important. Observation and experiment are important tools in our kit but blind use of the methodology of natural sciences in the realm of social sciences, particularly in economics, is at the root of the poverty of thought in our times. It has been a major mistake that has to be rectified, not by denying the methodology of experiment and observation but by supplementing it and putting it into context.

In Islamic economics, self-interest based behavior and rule-based behavior and interaction between the two have to be studied simultaneously. Similarly, in the realm of policy- analysis and policy-formation, the challenge lies in developing policy-based operational tools and development of techniques to study individual and institutional behavior in the light of these policy objectives and interaction between them. These are the areas where Muslim economists will have to make original contributions. They will have to develop their own models. They will have to skillfully use statistics, mathematics, econometrics, etc. They will have to make use of static as well as dynamic analysis. In these efforts they will have to seek truth with scientific integrity. In this quest, tentative results, learning from experience and verification through practice, would be as relevant as in any other exercise. Yet I must emphasize that all these would be relevant within the context of this new value-framework.

Value judgements come into economics in a number of ways: through personal biases of the researcher, through assumptions on which his approach or that of the economics is based, in the form of the paradigm in the context of which he is thinking and behaving, in the formulation of the problem, in the choice of methodology, etc. I think Islam's contribution lies in making many of these hidden assumptions and values open and explicit. That makes the Islamic approach more scientific because we articulate our values and we share the framework with others. The paradigm is more comprehensive and complete. And all that has gone to make it, is expressly stated. Then we are prepared to examine all the inter-relationships from internal consistency to external consistency and what has been described as 'harmonizing consistency' which looks into the re-

lationship between values and morals and objectives and the divinely revealed norms and rules to which we have to conform. It is a more scientific approach. Definitely, it would have to be a more comprehensive, all-embracing, and dynamic approach and a multidimensional methodology would be required because the required methodology cannot be limited to observation, experimentation and verification. They would continue to be important instruments of the tool kit but not its only instruments.

VIII

Finally, the significance of Islamic economics, if whatever has been said about its nature is correct, lies in enabling the Muslims to fashion their lives, particularly their economic system, in accordance with the Divine commandments. Its significance, however, does not lie merely for Muslims. There is no doubt that the development of Islamic economics is going to enrich the whole field of economics as such. It is destined to develop a new critique of economics, exposing some of its weaknesses and paving the way for its rectification. It would be able to throw fresh light on some of the areas which remain dark and virtually ignored in contemporary economics, at least in the mainstream economics. This may enhance the contribution that economics can make towards the solution of human problems. These insights which have been expressed but not fully availed of and the agonies and concerns that have been expressed by a number of economists but left unresponded may now be tackled in the new framework. The Muslim economists would be able to present a different tool kit, a more comprehensive framework for analysis and I hope a more realistic approach to what human behavior is and to what human behavior ought to be, and how the two interact with each other and how the society on the whole may be able to actualize the real objectives of *Falāh*, *Khayr*, goodness and well-being. In economics, despite all the lip-service paid to equality, the fact remains that efficiency has remained the prime consideration. Taking into view the inter-temporal aspects, though the growth dimension was added, yet equity and maximization of goodness and virtue and well-being in the society have never been properly and fully integrated within the framework of analysis as well as of prescription. At best it is at periphery and mostly even outside the periphery: either a trickle down effect or a by-product, never the real objective.

Our approach would integrate equity, efficiency and growth. Here, the objective would be *Khayr* and *Falāh*. Efficiency would have an instrumental role. Though, Islam would still be concerned with efficiency and with the judicious use of resources, yet the target would be maximization of *Khayr* and *Falāh*, the establishment of justice in all aspects of living and, with that objective, the individual and the collective behavior of the economic agents would be studied as well as influenced. It is through such interaction that a better society, a more equitable economy and a world which would be a better place to live in and which would be a stepping stone to success in *Ākhirah* (the hereafter) can be achieved. That is the objective we are setting before ourselves that represents our trust with destiny.

Notes

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Discussion

Nen Amran

Since our knowledge is required to be based on the Qur'an and the *Sunnah*, should we refer to these sources for our knowledge in Islamic economics also?

Khurshid Ahmad

This is a very important question. The whole seminar and not merely my reply, would be a response to this question. That is what we are trying to aim at. Because if we do not start from the foundation of the Qur'an and the *Sunnah*, then really we are not doing any service to Islam and the Muslims. The Qur'an is a book of guidance which covers all aspects of human life. The Qur'an is not a book of economics or history or sociology or even law. It has elements of guidance for all aspects: personal life, social life, relationship with Allah, relationship with the human beings, relationship with the institutions of society. The Qur'an gives us a particular approach to reflect upon economic aspects of life: that economic activity is to be subservient to the moral and social objectives. It has been made very clear in a number of places. Just reflect upon the following. The Qur'an says:

"O ye who believe! When the call is proclaimed to prayer on Friday (the day of Assembly), hasten earnestly to the remembrance of God, and leave off business and traffic. That is best for you if ye but knew. And when the prayer is finished, then may ye disperse through the land and seek the bounty of God: and celebrate the praises of God often (and without stint) so that ye may prosper". (62:9-10)

Just reflect upon the Islamic viewpoint. It has been said that when the call for prayer has been made, then leave your business and rush towards the prayer. When the prayer has been completed, then go back to the worldly affairs. The words used are beautiful. "Seek God's bounty". Why? Because this would ensure *Falah*. But while encouraging economic effort, we are also reminded to constantly remember Allah. This means that economic effort has to take place in the context of this value-framework. Seeking economic well-being, then, becomes a Divine bounty (*Faql-al-Ailah*). Whatever I am getting as a result of this effort is the result not only of my effort but also a blessing from Allah. I have to be honest to God and His creation. In this effort, I have to remember God. I must not commit any sin. I should not exploit others. I should not cheat. I must not deceive. All the guidance that the Qur'an and the *Sunnah* have given, I have to follow that. And then the result would be *Falah*. So *Falah* is the objective and *Falah* is material as well as moral; economic as well as spiritual; and applicable to this world as well as the other world.

In the Qur'an, we have been told that economic relations have to be organized on the principle of *Taradi*, on mutual acceptance, mutual integrity, where one party does not exploit the other party. This is the basis on which economic relationships have to be organized. And wherever there is exploitation, it has to be eradicated. The reason why interest is forbidden is that it involves exploitation *Zulm* of both the lender and the borrower. Fixed reward for capital cannot but be exploitation. The only just foundations are those of risk-sharing. The Qur'an

gives specific guidance about basic concepts, fundamental principles and certain key institutions. It has also clearly stated some of the economic rights. For example, the Qur'an says clearly that in the wealth of the rich there is a right of the poor and the needy (51:19). Now the mainstream economics would not accept this idea. According to welfare economics you can dole out something for purposes of social security but the idea that those who are deprived in the society have an inalienable right on the wealth of the rich and unless this right is fulfilled they would not be able to go to *Jannah* (paradise) is unique to Islam. In fact, the Qur'an says that those who fail to fulfil their duty towards the poor and the needy would be sealed with gold which they have collected. (9:34-35). So it is a very different concept. All these are there in the Qur'an and the *Sunnah*, the sources that give the parameters for the organization of Muslim society. *Fiqh al Mu'amalat* is based upon the injunctions of the Qur'an and the *Sunnah*. That provides us with the framework but that is not the whole story. Our task begins after that. Once we have imbibed these values and principles, then, we have to apply ourselves to analyze the situation and to see how descriptive, analytical and prescriptive activities have to be organized.

Summing up, may I submit that the Qur'an and the *Sunnah* give us those principles and values, the guidelines for economic behavior of the individual and the society. It is on the basis of these guidelines that inferences have to be drawn for specific application. Once this framework is before us, our task as economists begins. It is in the light of these values that individual behavior has to be modelled. What would be the shape of the utility function in the context of behavior influenced by these values? How the consumption curve would behave? What would be the production mix? What would be the policy of the government for different areas of economic activity? What are the points of its intervention? This is what we have to do. Our analysis should be inspired by the Qur'an and the *Sunnah* but it would not be valid to demand a verse from the Qur'an for each and every piece of analysis or description or prescription.

Hussain Mullick

Islamic ethics has two parts. Part of it is from the Qur'an and *Sunnah* which is very clear and there are no differences about that. But the other part is different. There are different schools and there are differences of opinion. If we think that ethics is the source of our modelling, of our ideas in the development of any science, of any discipline, how can we tackle the problem of different interpretations that may lead to different results? Also, ethics has a very wide scope. There are also social ethics which differ from one Islamic country to the other. Keeping in view the differences in cultural background and foreign influence, if we consider ethics as a source for theorizing, it would influence the nature of the system that we are going to look for. Or are we just going to abstract from that as positive economics usually does and concentrate on the pure Islamic ethics.

Moreover, Islam accepts that efficiency is an important element to maintain and improve economic power of any country. With the statements in the Qur'an and the *Hadith* as well as the general view of Islamic ethics, it seems clear that

efficiency would remain important. When we look for an economic judgement based on Islamic ethics, we do not just look to its position in terms of how to help the poor. We are also to see the general directions that the Qur'an and the *Sunnah* give to the Muslim society to obtain power, in the face of non-Muslim nations, to protect itself and to direct its resources and its economic system in order to maintain these conditions.

Khurshid Ahmad

There are three aspects that have been highlighted. First, efficiency is an extremely important element in the Islamic economic behavior. The Qur'an and the *Sunnah* make it very clear that we must avoid waste. Islam is so eager about efficiency that even when an animal is to be slaughtered, the Prophet (pbuh) has asked us to slaughter the animal with a sharpened knife so that the objective is achieved with minimum pain and fastest speed. 'To keep the horses ready', as the Qur'an exhorts, is not merely to keep the horses ready, but it means a state of readiness which covers every aspect of life and all levels of technology. In the Qur'an you will find that *Ṣabr* (perseverance) has been supplemented with *Muṣābarat* (competitive preservation) which points towards relative superiority and comparative efficiency. Not only we have to show perseverance but perseverance that is capable of surpassing the perseverance of others. So, efficiency is an integral part of the Islamic system. But efficiency to the neglect of equity is not real efficiency. It is a false view of efficiency which needs to be rectified.

Secondly, as far as the question of ethics is concerned, it is right to say that there are two sources - the primary and the secondary sources. The Qur'an and the *Sunnah* are the primary sources. Secondary sources have been *Ijmā'* and *Ijtihād* and even '*Urf* (common usage and custom). So, as far as the total corpus of the law is concerned, it has been influenced by all of these but I would like to invite you to think over the problem slightly differently. What the Qur'an and the *Sunnah* have given explicitly are not subject to dispute. There are, however, some areas where there are different interpretations. Nonetheless, most of the differences relate to eschatological issues and not with ethical and social issues.

In the ethical and social realm, the differences have emerged from either the different ways in which the Prophet (pbuh) behaved in given situations or through different interpretations and applications of the Islamic norm in given situations. If we analyze all the major schools of thought, these differences, instead of being a source of confusion, actually provide flexibility within the Islamic system. This means that Islam admits variety. It is not just a mono-type. It is possible to have plurality even within the Islamic framework, which gives us great area of experimentation and flexibility. So instead of looking upon these differences as barriers, let us look upon them as opportunities.

Let us take an example. In the *Hanafī* school, it is said that if the husband of a woman is not traceable, e.g. has gone abroad and has not come back and no information about him is available, she cannot marry over the previous marriage. She will have to wait. *Hanafī* jurists have said that even if she has to wait for

ninety years, she should wait. But other schools say that let her wait for a reasonable time, say seven years, and if, within that period there is no news about him, then assuming that the husband has died, the woman can remarry. Thus, Islam wants to avoid difficulty and, in situations like this, would welcome the easier course for its followers.

Also, look at the development of contemporary Islamic banking. I may have my reservations about making *Murābahah* and *Bay' Mu'ajjal* as the main modes to be used for financing in Islamic banking but the possibility of *Murābahah* in *Shāfā'i* school provided the contemporary Muslim bankers with an opportunity to take a tool from that kit and use it in the present-day situation. So, differences should not be looked upon as barriers. They may be examined as genuine opportunities defining the areas of flexibility within the Islamic scheme of things. That would be a great help and not a barrier.

Kazim R. Awan

How an Islamic economist is supposed to approach a research problem in terms of the methodology that he is to acquire or use, particularly in a transitional Muslim society where all Islamic laws are not being enacted or enforced? Is one supposed to take behavior as given as it is in that society, which is, I presume, primarily self-interest based? Or should one assume that the perfect Islamic economic society has been created and analyze the problem in those terms? It seems to me that, most of the literature that we have, takes a mixed approach. There are certain articles which would make the assumptions very explicit and there are others where one is not really sure. So a lot of the criticism that is made about Islamic economics is basically that it is in the mould of existing methodology and all that one is doing is removing one constraint and putting another one and analyzing behavior in that sense. So, fundamentally, behavior is as it was i.e. self-interest based. What has been added? If interest-based banking is removed and profit-sharing is introduced in the system, how does that help to change behavior in that society? I think there need to be some explicit statements about how one approaches this particular problem.

Another point is that it was said that the methodology of Islamic economics is not in conflict with using modern techniques. In certain instances, it may not be so, particularly the use of marginalist analysis, say, for the maximization of *Falah*. There are no trade-offs here. One is not talking of trading off one *Halāl* item against another. So, how does one square that? Is it being suggested that we somewhat modify the same technique? If so, in which direction should we modify the marginalist approach?

Khurshid Ahmad

I share some of the apprehensions about some of the writers on Islamic economics who remain too steeped in the analytical framework within which we have been trained. This is not unnatural. This is how all beginnings are made, provided we are conscious of the purpose and the objective where we have to

go and the departures that we will have to make. In my view, this is the trajectory. This is the path through which we will evolve and grow. So what is important is that we must be very clear about our objectives and about the norms that we have to accept.

Sometime back I tried to suggest a distinction between 'an Islamic economy' and 'an Islamizing economy'. Perhaps we will have to include to the list even a non-Islamizing economy and we will have to concentrate upon all these three situations and develop tools of Islamic economic analysis which can study all these three situations.

I am not very worried over the fact that sometimes we make liberal hypotheses even somewhat too idealistic but then I think that also helps us because in economics we are familiar with this approach. We start with the perfect competition model and then bring into analysis some of the imperfections. The perfect competition model may not be in a position to explain a number of developments and phenomena but with gradual introduction of imperfections we are able to make it more and more realistic. After all, Joan Robinson and Richard Chamberlain made seminal contribution to economic analysis by exposing the perfect competition model to actual imperfections of the economy.

I would not deny that we may have to adopt similar techniques. But where, I think, we should be very clear is that the starting point of a Muslim researcher should be a thorough understanding of the Qur'an and the *Sunnah*, and the *Fiqh* to have a clear grasp of its vision of man and society, of the values that Islam wants to nurture and nourish and of the behavior that it wants to discourage. We have to be imbued with that. Again, I am not very happy with giving the analogy but if a socialist economist really wants to work with rigor, he will have to be deeply steeped in the socialist philosophy of society, its concept of social evolution and its appraisal of the economic mechanism. But, then with that training and that commitment he will have to apply himself to the actual day-to-day problems. In my view, we have a long way to go and we must not be complacent about our positions. I think, Muslim economists must care for two virtues: first, we should have Islamic commitment and vision and secondly, we must have great humility. We should realize that most of our efforts would remain tentative and exploratory. Nonetheless, the subject would evolve through this very process.

As for the second question, I do not think the marginalist analysis would have to be abandoned all together or would have to be employed as the major tool of analysis, even though I don't agree that there are no trade-offs. There can be trade-offs in a number of situations. For example, in certain disvalues, you will find that you may have to bear a smaller damage in order to avoid a bigger damage.

Similarly, in positive values also, when there is a choice and it is an either/or situation then you have to drop the lower positive value for the sake of the higher positive value. For example, in *Badr*, the Prophet (pbuh) asked the Muslims to break their fast to fight the enemy in *Jihad*. Here, there are two positive values, *Jihad* and fast. But there was a situation that fasting had to be sacrificed. So

there would be trade-offs, but in my view, marginal analysis would not be the only or the main method we have to adopt. The structural problems would have to be studied and a number of evolutionary situations have to be taken into view. A more wide ranging approach may also have to be adopted, but, again, I do not say at the cost of one another. Instead, some would have to complement others. So, our obsession with certain limited techniques, perhaps, would have to be contained and then supplemented by other techniques.

Ghani Mohammad Khan

Is it correct to say that, unlike the mainstream economics, in Islamic economics, material indices are not the main or exclusive factor that condition the behavioral pattern of economic agents? Rather, in Islamic economics, the behavioral pattern has to be studied within the Islamic perspective with emphasis on welfare of the *Ummah* and, for getting enlightenment, we have to study or to brush up our knowledge of the Qur'an, the *Sunnah* and the *Fiqh*.

Khurshid Ahmad

I think you are very correct. I am trying to emphasize that the first essential for a Muslim economist is Islamic orientation. We must not stop at that, as that is our starting point. However, we must realize that Islamic economics is not merely quoting the verses of the Qur'an and that's all. Our effort should be to imbibe those teachings and values and then to see how to apply them to achieve our objectives. I could not touch upon the whole area of the structural framework of an Islamic economy in which the Muslim economic agent has to operate. It is part of our framework and it has to be developed and if that is not there at the moment, then we have to strive towards that end. Indirectly, this brings me to a point which a participant raised earlier. We are studying the economic behavior of Muslims who as yet are unfortunately not fully conforming to Islamic law. This is a reality but this is our starting point and Islamic economics is not to operate in a vacuum. We hope there would be an Islamic policy for the individual, for the family, for the society and for the state. We have to move towards the development of those institutions which are needed to enable the Islamic economy to operate efficiently. So it would be part of a total effort to Islamize.

There cannot be Islamizing of the economy in isolation of the rest of life, starting from the personal motives and manners and ethics of the person to the social modes of the society and institutions and policies of the state. Nonetheless, even limited efforts at Islamization are bound to produce results that would be relevant to the empirical study of a Muslim economist. For example, look at the lending habits of people in a Muslim society and of people in a totally capitalist society. You will find that a number of loans are and have always been taking place without interest not only for personal use for consumption purpose but even for productive purposes.

We find that when, in Pakistan, we switched over from totally *Riba*-based system to a partially *Riba*-free system, by just opening a *Riba*-free counter in the

banks, we found more than a proportionate increase in deposits in the *Ribā*-free accounts, suggesting that these accounts also captured savings which were not originally covered by the system. In other words, it was not merely a substitution of savings from *Ribā*-based system to a *Ribā*-free system. The new system was able to attract savings which were not responding to signals from the interest-based system. Does this represent a new type of behavior pattern? Does it not throw new light on the saving habits of the people in Muslim society?

Similarly, it deserves to be explored how far the switch-over from interest-based investment (or lending) to equity-based investment/lending is going to influence trading habits, financial relationships and even the psychological attitudes of the people towards profit, work and investment. What would be the consequences, for the economy, of a changeover from loan-based financing? Equity-financing calls for a very different attitude and approach both among the borrowers as well as in the lenders.

Though initially it may look like a formal change yet, if it spreads and persists, it is bound to bring about attitudes changes in the borrowers and lenders. It would also bring about changes in the vigilance and overseeing practices that banks exert over their investments. It would bring about changes in modes and styles of bank management and bank personnel because they would need a different type of expertise to take care of the new needs. Once the new system really reaches the stage of takeoff, would it not lead to changes in business and government? So, this small change may spark off a series of changes which would lead to a structural transformation of the society over a period of time. It cannot take place in a shorter time horizon but if effort is made in that direction then this change is bound to take place and I think it would be the task of the Muslim economist to study behavior at all levels and during different time-horizons.

Earlier, I gave the example of Japan. It has been empirically demonstrated that it was not merely the import of Western technology or simply the question of self-interest which lies at the root of Japanese economic growth. In Japanese economic growth, the Japanese social system, Japanese values of loyalty to the society and the family and the relationship between the corporation and the worker played a crucial role. Now an Islamic economist would be studying and analyzing all these factors and would not be assuming them away as is the case with the mainstream economics. He would go to the facts and would try to come back with those facts to interpret and, if necessary, even change the framework of analysis to accommodate all these dimensions. Maximization of one variable is no longer his objective. A more dynamic approach would be needed to achieve harmony and balance between a number of objectives.

Saiful Azhar Rosly

There is one particular area which needs to be highlighted and that is the concept of scarcity. In the conventional framework, economics can be defined as a study of how scarce resources are allocated among alternate ends. This is historically a micro-definition given by Robbins. Because of scarcity, we have to

make choices and that brings about the economic problems of what to produce, how to produce, for whom to produce and the questions of stability and growth. In the conventional framework the central motivation for a man to be involved in production and consumption is scarcity. When we come to Islamic economics, the problem arises that we can visualize man as both self-centered or self-interested and at the same time behaving as an agent, a *Khalīfa*. In the framework of conventional analysis, we can see that the scarcity phenomena brings about the main economic problems. However, in the Islamic framework, we could not say that scarcity is the only cause that creates these problems. How then should we go about to rationalize the need to discuss the problems of allocation, distribution, stability and growth. Is it due to scarcity only or something else?

Khurshid Ahmad

No doubt, scarcity is one of the central problems of economics. The whole problem of exchange and choice is conditioned by it and perhaps in Robbins' appreciation of economics, it is the most critical aspect. I don't think that Muslim economists ignore or belittle the fact of scarcity at a particular point in time. Scarcity only means limited resources in a given situation, but definitely it is so only at a particular point of time. Scarcity is not a dynamic reality. It is a reality only in a given situation. Robbins has also touched upon that in the context of growth. But if we look deeper, we find that Allah has provided for all that human beings or even animals need. This is also a historical fact that resources have not been static or given. They have been evolving and new resources are being discovered and better utilization of given resources is taking place. Technological efficiency has ensured better use of some given resources. The whole process of round-about production has led to greater production. Look to petroleum for example. About one hundred and fifty years ago, nobody knew of petroleum as a resource. But when it was discovered, it transformed the entire world economy. The use of solar energy or of nuclear energy at a vast scale is going to change the role as well as the form of technology. So, I may submit, scarcity is not a static concept. But at a particular point in time, it is relevant. It has to be taken into cognizance and that is why an efficient use, or, more appropriately, judicious use of resources is desirable, Islamically. The concept of absolute scarcity needs to be reexamined.

Another aspect is that some scarcity is produced by human institutions, by historical realities, by structures of society and by availability of opportunities. opportunities and scarcities are closely related to each other. A system which is prepared to expand the area of opportunities, the whole phenomenon of scarcity will assume a new shape and dimension. This would be a material difference which would take place in the Islamic framework. In the neo-classical and to some extent even in the schools of classical economic analysis, the question of distribution of wealth was by and large ignored. So was the question of interdependent utility. In our analysis, if all these considerations are taken, then at a theoretical as well as at practical policy levels, the question of scarcity would assume a different dimension. But, at different technological levels, the structural situation in which scarcity assumes a particular shape can be changed through

structural changes and through changes in attitudes and motives. The self-interest thesis would suggest that you should not do something which would make anybody worse off. This is the best that is thought of. But in Islam, the idea is that it is my duty to make the worse off better off. My own self-interest in the wider context of my success in the Hereafter, demands that I must share and I must help others. The whole idea of negative freedom and negative rights, not intervening in anybody's affairs, is given an altogether new dimension by the idea that you should help others in growing and improving and prospering. Now this is also relevant to the scarcity situation. Because, if this is my attitude then the consequences of scarcity would become different. So I think that if all these dimensions are kept in view then the problem of scarcity would be faced squarely by the Muslim economists and by Muslim policy makers, but from a different perspective.

Muhammad Khan

The point that the role of man based on self-interest and also as an agent of the society could be a major departure from the mainstream economics. It would really be a very good beginning if we are convinced on this second role i.e. man as an agent of society and *Khalīfa* of God. If this is made clear, then, we can make good advances in Islamic economics but, as far as, my understanding of the present-day situation goes, man is actually an agent for himself and this is unfortunately true in many Muslim countries also. You have given the example of Japan. That is true to a great extent but it is basically due to their institutionalized-wage system. That is what has made the behavior of individual subservient to the interest of society because the system is linked to his own welfare in the greater end. So that part will be taken care of if we first develop a system which gives him all the rights as an individual worker e.g. by giving him a share in the work that he is doing. Then, may be he can perform the second role as an agent or *Khalīfah*.

However, at present, everybody thinks that he is being exploited and self-interest, thus, dominates in the decision-making. In these circumstances, it cannot be assumed that man has a second role also which is said to be equally important. I think, before analyzing or theorizing human behavior into these two roles, it may be better that we first talk about the Islamic economic system. If we emphasize on this aspect, we could evolve a welfare system that ensures man his due rights in the society. Then, probably at some later stage, we may introduce this second element of his behavior that he should work as an agent of the society also.

Khurshid Ahmad

From what has been said, there is very little with which I differ. It is quite correct that we have to emphasize the Islamic economic system and we have to take it in its totality. It is only through changing the society and the individual that this new model can be actualized and not merely by theorizing. Yet, I would like to clarify that I gave the example of Japan not because I considered that as an ideal, that because I thought that it provided at least a different scenario for the

analysts to study the situation. I agree that, in Japan, the wage system has played an important role in institutionalizing that relationship but that relationship came before institutionalization. They value these relationships. It is part of their faith, their tradition, their education, their family life and the so-called Confucian ethics. It hovers round this, and once they valued that thing, they tried to develop their economic institutions i.e. the wage system and even the corporation in a manner that was in consonance with that value system. Why is it that, in Japan, in most of the cases, the second and third generation of a person continues to serve in the same enterprise? The reason for such a continuity is that their corporation system is based on different values and they did not try to develop their economic relationships in isolation of the value system or the social system.

In the Muslim countries, what has happened during the last 200 years of colonial life is that our new economic institutions, our economic relations and our economic ethics have been developed in isolation, rather in contradiction, of the ethics and values of the society and of the social system. Japan also tried to bring technology from abroad but it tried to bring it in a manner where it could be used without disrupting the social system. The Japanese brought new technology to every home, making the members of the house work without moving the house-members to the work place with the result that the family system did not disintegrate. Instead they developed the financial and distribution system in a manner that could cater for this. They wanted to use technology to serve their society. We brought in technology to disrupt the society and its institutions. The situation that is found in the Muslim countries today is, among other things, a result of the cumulative effect of a process of imitative Westernization. The so-called industrialization and commercialization of relationships has taken place in isolation of the values and norms of the society. This is what the famous Urdu poet Iqbal said:

*Thā Jo nā-Khūb, batadrīj Wohī Khūb Huā Ki Ghulāmī main badal jātā hay
Qawmon kā Zamīr.*

What was unwelcome, per force became welcome Because under slavery and colonization, the conscience of a people is metamorphosed.

This metamorphosis has unfortunately taken place. The problem that has been posed is valid but then the answer to that lies in attacking it at all levels. I am not against theorization. I believe, that this effort should simultaneously continue with efforts at education, propagation, guidance and changing of the system. Even the political will is an essential part of it. But, along with that, professional economists should try to reflect upon these issues and make new efforts. It will take a long time to really develop the new tools, new ideas, new models, new programs and new plans that would be needed to fully avail from the Islamic guidance.

Radi Ibrahim al-Bdour

As teachers of economics and especially Islamic economics, we are faced with probably an ongoing and continuing challenge, and that is why we have

different levels of advancement in our field. For example, we mix our microeconomics with macroeconomics. We have very high technical papers coming out in the literature but yet we don't have decent text books for Islamic economics. There is no systematic way of developing this literature and everybody is contributing, whatever he feels he can contribute, with the result that some contributions are highly technical, some very descriptive and some even repetitive. As Muslim economists, we do not have a program of how to fix our priorities, what to do first, what to do next and so on.

We also seem to be overconfident about the marginalist approach or neo-classical theory. Let us analyse the neo-classical concepts. There are some assumptions, some very big assumptions in neo-classical economics. Once those assumptions are removed or once they become shaky, the whole system will collapse. For example, we talk about a price-taker which means everybody is a perfect competitor. But we live in a world where sometimes monopoly has to exist, where we have to have monopoly, which is natural; so there is no way one can assume perfect competition. Another assumption is about the market mechanism. We all live in developing countries and sometimes we don't have a market mechanism. We have a government which prices bread because if we let private enterprise do it, poor people will not be able to buy it. We have many Islamic concepts operationally applied now but we don't look at them that way. Every Muslim country has *Sharikat* (companies). Many of these *Sharikat* don't take any *Ribā* and they do follow the rules of *Shar'iah* in their activities. What is the difference between them and a Muslim *Sharikah*? If we look at personal behavior or corporate behavior, we find many things that we do now are very much Islamic, but since we have been lost for so many hundreds of years we don't know that what we are doing is Islamic. There is hope at the theoretical level and the applied level.

I think as professional economists or Islamic economics teachers, our problem is we do not have a single proper book to work with. I would like to see a complete discipline in Islamic economics, books on Islamic banking, on principles of microeconomics, macro economics and resource allocation, etc. As long as we keep in mind that we can remodify, we can make all the assumptions we want as long as they are consistent with *Shari'ah*.

Khurshid Ahmad

I share the optimism of the participant, to the fullest measure. Both in theory and in practice, *Inshā' Allāh*, we will be able to face the challenge and make our contribution despite the difficulties that are there and I am sure once we have made that, we would not have the Islamic neo-classical theory but just the Islamic theory.

The first point that has been raised, is really an important point. We are all feeling the the pinch of it that we do not have proper teaching material in Islamic economics. I share the concern. All of us are conscious of that and only a couple of months back we met in Kuala Lumpur and one of the themes we had to deal

with again and again almost in every session related to this very issue. But we were of the view that perhaps it will take some time to really produce worthwhile textbooks on Islamic economics. The discipline is still in its initial phases of growth. Standard textbooks would take sometime to appear. This is quite natural and must come at a particular place in the development of all disciplines. For example, look to *Ilm al-Tafsīr*. You will find that Ibn 'Abbās', perhaps the first work of *Tafsīr*, would not look like a *Tafsīr*, if you judge it on the criteria of later works of *Tafsīr*, say for *Jalālayn* and *Rāzī*. Books of *Ḥadīth* came the same way. The books that you find in the first two hundred years were just collection of *Aḥādīth* by the narrators. But then you come to *Mu'ttā* of Imām Mālik or *al-Jāmi' as-Sahīh* of Imām Bukhārī. They were classified keeping in view the *Fiqh* needs, going to the sources and systematizing the material and so on.

In economics also, you find that a text book was not written by Adam Smith. Perhaps the first book that can be called a textbook was written by Alfred Marshall and then by Walras and others. But it took about 100 years to produce it and till the Second World War, most of the people were teaching economics in most of the European universities on the basis of this book. Before that, for example, in Cambridge, economics was taught as part of the tripos of moral sciences till Marshall's Principles came and then it became a subject in its own right. So, I think, we are passing through this larval phase and I hope we would be able to produce good textbooks in due course of time.

However, at Kuala Lumpur, it was decided that a committee will prepare a plan to produce a series of books of readings which would somehow represent the quintessence of writings on Islamic economics as they stand today*. These can then be tools for teaching Islamic economics. That would also help in harmonizing our thoughts and may serve as a stepping stone to the writing of the Textbooks.

A Participant

You have mentioned that in the Islamic economic system we would have need-based behavior. I am not clear about the consequences of such behavior for the market system and the distribution system. The need-based system would presumably produce a bundle of goods where people's needs are determined by the state of development of the society. However, it is not easy to estimate the needs objectively. Even if we were able to determine needs objectively, how to ensure their production? Do we order people to allocate resources to produce these goods? I do not know how Islamic it is to determine the type of job that people have to go to. The next stage is that after these goods have been produced, they should be put in the market, so that people buy them according to their resources. Everybody in the society may not be able to get the level of needs that we have decided. So the market system has to be done away with and some other system has to be evolved. What is the system that you will suggest?

The second question relates to the values and the rules of Islam as a source of Islamic economic theory. We know that Islam is a dynamic system, one which

is able to adapt to the needs and the development of the society at every stage. That is the unique thing about Islam. What will be the role of the Muslim Economists? We know that the Muslim economist is supposed to take the values from the society and the judgement or the interpretation of the rules from the 'Ulama'. Will there be a feedback mechanism from the Muslim economist to the Muslim society to shape the values and 'Ulama' to give their judgement?

Khurshid Ahmad

Both of these questions are extremely important. About the first one, I would submit that this idea of switch over from obsession with wants to conscious pursuit of needs is not my original idea. In literature there has been a lot of discussion on this. The cardinal and ordinal ordering of wants and needs has been done by a number of people. Many Muslim thinkers have touched upon it. For example, Shāṭabī when he categorizes the wants of people, has developed a three tier system of *Ḍaruriyāt* (necessities), *Ḥajīyāt* (conveniences) and *Tahsīnīyāt* (adornments) which is a beautiful formulation as against the necessities, comforts and luxuries which you find in the mainstream economics.

The idea that I was trying to suggest was that this whole area of wants would not be left unregulated in an Islamic economy. However, to say that it would be regulated and guided does not mean that it would be regimented and freedom or initiative of the people would be eliminated. Islam's beauty lies in making every individual harmonize his will with the Divine Will. That is what Islam means. So that you start accepting as your need what is genuine need and to dislike what is not accepted or thought of as a need by Allah and his Prophet (pbuh). For example, in the Western economy, if somebody wants to drink wine and he has the money to buy it, he is free to do it. The whole system is mobilized through the market mechanism to produce what people allegedly want and even to create artificial want through advertisement to see that the objectives of the productive machine are fulfilled. Now, in an Islamic economy *Ḥarām* is forbidden for a consumer and for the firm as a producer because of moral values and also because of the policy that the government has to pursue. So, there has to be a framework that certain things are *Ḥarām* and they are out. There are certain things which are *Ḥalāl* and they will be encouraged. There are certain things which are *Mubāḥ* (permissible). This would provide a vast area of freedom. Nonetheless, there would be certain limits within which this process has to operate. Market mechanism would be the chief mechanism because the idea of private property has been respected by Islam.

But along with that, Islam has not given human beings absolute ownership over property. The ownership is in the nature of a trust which is subject to a set of rules. Any violation of the rules will forfeit the right to control and/or own these means. For example, in Western legal theory any person who owns a property has a right to destroy it, if he does not cause any injury to others. If I want to

* Reference is being made to a coordination meeting of teaching and research institutions active in the areas of Islamic economics, banking and finance, which was held at the International Islamic University, Malaysia, at the behest of Islamic Research and Training Institute, Jeddah - Editors.

crush this watch of mine by a stone I have every legal right to do it and there is no moral obligation beyond that. But in Islam, I cannot do that because my right to ownership does not give me the right to wantonly destroy it. I can use, I can dispose of, I can share, I can give it to others, but I cannot destroy it. And if I destroy it, then the state has a right to penalize me for this. I cannot even destroy my own self. So there are limits. These limits are there because of the values of the society. These values have to be imbibed through education, through faith, through societal influences. They have to be protected by the institutions of the society.

There is also a role to be played by law. Law normally operates at two levels. One, it identifies the limits and two, it checks the violation. In Islam, people are not forced and regimented to behave in a particular manner as in a totalitarian system. In fact, there are certain things in which they are allowed to err to make a mistake. Even if there is a penalty for that aberration, the freedom to commit that is not eliminated. So there is a vast area of freedom.

However, market mechanism is not the only mechanism. The market mechanism would be supplemented by educative, informational and moral networks which would be influencing persons in the desired direction. For example, certain rules would be framed for advertising. Now, today main function of advertisement is not only to share information which is a very valid function, but to influence demand in a particular direction and there is no check on that. In a capitalist system, it is the big firms who are the real sovereigns, not the poor consumer. It is their choice that prevails. That is why they make you want what they want to sell you. So there have to be certain limits.

Even the state has to play a certain role with clear-cut forms and points of intervention; not with a view to supplant the market mechanism, but to guide it and supplement it and ensure its healthy operations. In an Islamic economy there would not be merely a two sector situation of individual ownership and state public sector. There would also be a noncommercial private sector which is altruistic, the *Waqf*, the service sector and that would, in a way, let the society be a freer society. Wherever there is a market failure, that function would not automatically go to the state. It is rectified at different levels.

So, in that framework need-identification takes place in an objective manner. A part of that has been spelled out in the *Shari'ah*. There are certain things which have been declared *Ḥarām* that cannot be considered as needs. There are certain other needs which have been accepted as authentic. There is a five-tier system in *Fiqh* viz. *Wājib*, the *Mustaḥab*, the *Mubāḥ*, the *Makrūh* and the *Ḥarām*. It gives the gradations and, in the light of that, the whole spectrum of needs and wants would be ordered. Even in welfare economics literature, the identification of needs is given certain importance and it influences the production pattern and consumption-mix albeit through a network of incentives as well as regulations.

The current basic needs approach to development also represents a form of contradiction of the self-interest mechanism which is not going to take care of

that. So, market failure is not merely because of lack of information or because of externalities. Market failure can also be because of moral factors, social factors and that is why there is emphasis on needs along with wants and perhaps before wants but there would be a vast area of choice. The question of income distribution is also relevant in this context.

About the second question, perhaps it would be of interest to mention that when the first major effort of development of *Fiqh* was undertaken by Imām Abū Hanīfa, he was not doing it as one single person. There was a council of some forty persons and the majority of them were not technically '*Ulamā*'. They were persons knowledgeable in various fields. There were people who were experts in lexicon, grammar, linguistics, Qur'an, *Sunnah*, *Tafsīr* and various other sectors. Also there were people who were good businessmen. Imām Abū Hanīfa himself was a good businessman. He was a successful businessman even before he became a successful jurist. This council discussed every issue thread-bare. There was a lot of interaction. This is what the Qur'an says; this is what the *Sunnah* says; this can be the inference; this is the political situation; what would be its implications? Thus interaction and feedback are part of the process. It is one of the legacies of colonialism plus the wrong system of education as it developed after the fall of Baghdad in 13th century that a bifurcation between religious and secular knowledge took place. Originally, there was a convergence of religious and worldly sciences. Economic issues were discussed in books on ethics and in books of *Tafsīr*. For example, *Ahyā' al-'Ulūm* is primarily a book of *Kalām*, of understanding the whole spectrum of religious thought. But you will find that all major economic issues are covered in that. *Fiqh* starts with '*Ibādāt*' (the laws of worship) and goes on to *Munakihāt* (family law) and then develops into *Mu'amalat* (social relations and transactions) and *Ta'zīrāt* (criminal law) and *Jihād* and *Siyār* (law of war and international relations), etc. So there has to be interaction. We find Ibn Taymīyah giving us very deep economic insights about market practices, about societies' intervention in the market, about *Waqf*, about *Hisbah* and he is a great jurist and *Mufasssīr*. So, this interaction is part of Islamic system of education.

It is a tragic situation that today we are torn between two closed worlds of old and new educational systems with very little communication. Traditional and modern education flow like two parallel streams nowhere to meet. The people who know the Islamic sciences, have very little exposure to the thought and problems of the times. Those who are at the helm of worldly affairs are by and large, cut off from their own religious and cultural roots. But it was different in the past. Is it not a fact that the first major challenge, that was faced by Islam from the Greek thought, was faced by the Muslim '*Ulamā*'? If we look to the original system of education you will find that along with the Qur'an and the *Hadīth* they were studying law, administration, mathematics, astronomy, etc. All these were part of the education curricula but then we didn't keep up with the march of the times. With the result that today we are teaching an astronomy based upon the Greek thought which has no relevance to an understanding of the universe as it is understood today under the impact of the discoveries of Copernicus, Newton, Einstein and Fred Hoyle.

When the Prophet (Pbuh) asked his colleagues to learn different languages, (he sent one of his colleagues to Syria to understand their language) he wanted Muslims to be abreast of their times. Mathematics came to Muslims during the first century and they developed it to an extent that the world identified it with Arabs. Today the problem is that because of the colonial legacy and the system of education which was developed after the fall of Baghdad, that fusion of knowledge is not taking place. But our effort now is to change that situation and to see that, the '*Ulamā*' help us in understanding the guidance given by the Qur'an and the *Sunnah* and we assist them in understanding the problems of the day. Unless there is a happy marriage between these two, we would not be able to solve our problems.

In this country, (Pakistan), in the Council of Islamic Ideology, we have '*Ulamā*', economists, bankers, judges', etc. who sit together and argue. Not only that, I believe that the next phase would come when whatever we are saying is worked upon and experimented in the laboratory of society. Then, there would be feedback from practice as well. There would be many things which we are suggesting in good faith, but in practice they may not produce the desired results at least to the full extent. So we will see how things have taken place in operation and where changes have to be made.

This is exactly what Muslims did in the past. Many forms of business organization from the first century onwards were developed by Muslims. These were not developed merely through logical inference. They were based upon real problems of the people. So, interaction is a must. But our education system also has to change so that the one-sidedness with which we are presently possessed, comes to an end. At the moment, our '*Ulamā*' see only part of it and the modern educated persons see another part of it. Both remain prisoners to a different type of education and training. Our two eyes unfortunately do not focus at the same point. If both eyes do not focus on a particular point, then we have blurred vision. This is the state of the Muslims today. If we do focus on the same point, then in the transitory phase we will have to have interaction. But finally we should think of having economists who have access to the Qur'an and the *Sunnah* directly. They should be able to reflect upon the Qur'an, the *Sunnah*, the *Fiqh* and come out with new ideas as Ibn Taymīyah, Ibn Khaldūn, Shāh Walīullāh, Mawdūdī, Bāqir al-Ṣadr, Syed Qutb, etc. did. In the same way, we should have '*Ulamā*' who know political science, sociology, anthropology, psychology and whatever they say is enriched by insights of these disciplines. This interaction and feedback is extremely important for the future of Islamic economics.

This university (International Islamic University, Pakistan) is a humble step in that direction. It is just the beginning but the idea is the same. For example, the school of economics, tries to teach its students the mainstream economics, also some of its offshoots, like institutional economics, socialist economics, etc. But we are also trying to give the students command and proficiency in Arabic language. Then there are courses on economic teachings of the Qur'an, economic teachings of the *Sunnah*, *Fiqh al Mu'amalat*, readings in Islamic economics, etc.

By the time a student graduates, he acquaints with both and then if he goes for Master and Ph. D. programs, he would be able to specialize. So, unless this fusion of the two streams takes place, we would not be able to produce a new generation. This is the need of the hour.