Anthology of Islamic Economics: Review of Some Basic Issues

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Abstract: This paper discusses the evolution of Islamic Economics (IE) and evaluates and compares its basic concepts with conventional economics. The study adopts a critical approach and measures the different dimensions, values and vision of IE by identifying and articulating its core essence. The focus of this study is the review of IE literature, addressing some of the basic issues relating to its application in the real world; how it can benefit and assist students of IE and discusses the contributions of both Islamic scholars of the past and contemporary Muslim economists.

JEL Classifications: P40, P48, P52, O53.

I. Introduction

In this advanced age of information technology, the nature and structure of knowledge has become very different from what it has been in the past centuries; new disciplines of knowledge are emerging, structural changes are occurring in the old disciplines an interdisciplinary approach is becoming ever more important. The higher education institutions have, in the main, attempted to adapt by changing their curricula, adopting procedures and re-organisation to meet the challenges, which the knowledge revolution has brought about.

Many individuals nowadays have to handle many frames of reference in order to understand themselves and the world around them. This has been described by Barnett (2000) as an age of ‘supercomplexity’, the outcomes...
of which will be changing perceptions of the function of knowledge and profound challenges to the future of higher education. Among the different disciplines, Islamic Economics (henceforth IE) is one which experienced a revival after the mid-20th century.

The introduction of Islamic Economics into university curricula started quite late in spite of the enthusiasm shown by the Muslims towards the application of the precepts that contain the principles of Islamic economics. After the conference on Islamic economics, which was held in Holy Mecca in February 1976, this subject has been adopted into the curricula of many universities. At present, Islamic economics has become one of the prescribed subjects in numerous institutes and universities within the Muslim countries as well as in the Western world.

The basic purpose of the module of all these programmes is to educate students in conventional economics as well as teaching them economics from Shari’ah perspective to allow competitive discussions between the two, and to explain how IE can be applied to provide alternative solutions to modern economic problem. After a period of thirty years, it is now appropriate to analyse the problems and challenges faced by the institutes teaching IE and to understand the future prospects of this discipline.

In the literature of IE, a number of attempts have been made over the last forty years by Islamic economists in constructing the moral economy framework of IE. Such contenders among others include: Khurshid Ahmad, Umar Chapra, Nejatullah Siddiqui, Anas Zarka, S. N. H. Naqvi, Fahim Khan, Munawwar Iqbal, Masud ul Alam Choudhury, M. Akram Khan, and Hasanuzzaman.

The main objective of this paper is to survey the literature related to the basic concepts and issues of Islamic economics. An effort is made not to include the technical and more advanced topics in this anthology. This paper is organized in the following manner: Section II discusses some basic concepts related to IE, its definition and objectives, and explains its system as well as summarising its relationship with the other prevailing systems. Section III presents the debate on the methodology of Islamic economics by making particular reference to economics of exchange. Section IV presents historical developments in the construction of IE framework.
II. Islamic Economics

2.1. Some basic assumptions

IE theory, as an alternative system, is based on the following different assumptions to the conventional/mainstream economics (see: Khan, 1984; Arif, 1985; Zaman, 2005; Ahmad, 1992, 2003; Zarqa, 2003; Khaf, 2003; Naqvi, 1981, 1994, 1997; Choudhury, 1989, 1995, 2000; Chapra, 1992, 2000):

(i) **Tawḥīd** (Unity and Sovereignty of Allah [swt]). Allah (swt) is the creator and owner of each and every thing in this world. The association of other gods with Allah (shirk) is labelled as a great injustice (ẓulum) and tawḥīd is the ultimate source of all justice on Earth.

(ii) **Rubūbiyyah**: The activities of human beings must respect the divine arrangements in the natural and social environment for nourishment, which aims to directing things towards their perfection. In other words, God is most merciful, most forgiving and most caring for his creation, and therefore total submission to Him brings all the good (khayr) to his creation.

(iii) **Guidance**: IE is guided by the Qurʾān and Sunnah, two main epistemological sources of Islam.

(iv) **Khilāfah**: The role of human beings as Allah’s vicegerent on the earth (Man who is at once the vicegerent on earth and servant of Allah [swt]) has to play the role of a trustee, utilizing nature for the benefit of humankind. Both these roles have to be lived simultaneously and any neglect of either one would not enable man to function as his true self.

(v) **Tazkiyah**: The economic and financial activities of human beings have to aimed at growth which should be purified through a moral filter.

(vi) **Spiritual Accountability**: Belief in accountability on the day of judgment and its Implications for the life in this world and in the hereafter implying that human beings are accountable to him for all of their deeds).

Almost all of the literature of IE is based on the above mentioned assumptions, which differ from conventional/mainstream economics. However, the validity of these assumptions are based on the theory of the existence of a pure Islamic environment necessary to create such an economic utopia.
2.2. Definition of Islamic economics

IE is still in its transitory phase so one cannot find a well-established definition in current literature. However some of the definitions in available literature are presented here:

Ahmad (1992) defined IE as: “Islamic Economics represents a systematic effort to try to understand the economic problem and man’s behaviour in relation to that problem from an Islamic perspective”. In contrast to such a systematic approach, Hassan Uz Zaman (1984) provides fiqhi dimensions by defining it in the following way: “Islamic Economics is the knowledge and application of injunctions and rules of the Sharī’ah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah (swt) and society”

Khan (1984:55) developed a spiritual objective oriented definition: “Islamic Economics aims at the study of human falāḥ achieved by organising the resources of earth on the basis of cooperation and participation”.

Arif (1985: 87) defines Islamic Economics as: “Islamic economics is the study of Muslim’s behaviour who organizes the resources, which are a trust, to achieve falāḥ”.

Hanif (2005: 46) broadly defined Islamic Economics in the following words: “An approach to interpreting and solving man’s economic problems based on the values, norms, laws and institutions found in, and derived from all sources of knowledge (Sharī’ah)”.

The representative economic unit in an Islamic society is a Muslim - one obedient to Allah. His spirit of obedience demands that he follows the path of Islam by acquiring the knowledge of Sharī’ah and applying it to solve all his problems including the economic ones. Thus Islamic rational behavior is built into his personality and thinking. Consequently he always follows the injunctions and the rules of the Sharī’ah in all walks of his life. The ultimate objective of a Muslim is the achievement of Falah in both of his lives (this life and in the hereafter) (Khan, 1984; Arif, 1985; Hassanuzaman, 1984; Zaman 1984; Naqvi, 1981, 1994, 1997; Chapra, 1992, 2000; Choudhury, 1995, 2000).

The above definitions implicitly emphasise cooperation in view of the fact that inter-personal relationships in Islam are based on the universal brotherhood (ukhuwwah) of all human beings. As members of an Ummah the Muslims are visualized like one body, so that the whole body senses pain
if any organ is suffering from any discomfort. The Qur’ān has explicitly ordained Muslims to help one another in furthering God-consciousness (taqwā) and virtue (birr). Thus mutual help rather than conflict should be the basis of all economic relationship (Khan 1984; Arif 1985; Zaman, 1984).

The nucleus of all the above-mentioned definitions is the same and have the gist that all the economic activities of this life are governed by the fundamental injunctions of Shari’ah and not by the human desires and experiences. And the ultimate objective of Shari’ah is to achieve falāḥ, and seeking the pleasure of Allah (swt). How this objective can be achieved that is based on the degree of God fearing (taqwā) and the cooperation among all the economic agents.

2.3. Goals and objectives of Islamic economics
Chapra (1992, 2000), Naqvi (1981, 1994), Tag El-Din (2008), Khan (1984), Arif (1985), Zarqa (2003), Kahf (2003), Siddiqi (2008), Choudhury (1995, 2000) and many others have explained the objectives and goals of Islamic Economics. The primary aim of life for humans as described by Islam is to achieve happiness or falāḥ in this world and life hereafter (ultimate success). Man is urged to use the resources in this world to achieve success not only in this world, but in the life hereafter as well. In the mould of Aristotelian ethics, one of the most prominent scholars in Islamic scholarship, Al-Ghazali, mentions four means to achieve this ultimate success: goods of the soul, goods of the body, external goods and divine grace. Material pursuits (wealth) would be considered external goods that are part of the provisions to achieve success provided it does not contradict the other categories, especially the goods of the soul (faith and good character or knowledge and right action). The ethical imperatives of this requirement are again very profound. Justice is the observing of moderation in all things. All virtuous qualities of the soul are thought to stem from temperance and justice while selfishness/greed is not seen as a virtue (Hanif, 2005; Khan, 1984; Zaman, 2005; Ghazanfar and Islahi, 1997).

Following are some points describing the goals and objectives of Islamic Economics (Khan, 1984; Arif, 1985; Zaman, 1984, 2005; Ahmad, 2005; Naqvi, 1981, 1997; Chapra, 1992, 2000; Choudhury, 1995, 2000).

(i) Muslim economists have the consensus that the main objective of Islamic Economics is to establish social justice, elimination of poverty, tangible reduction in economic disparities, free society of corruption
society through the institution of Zakāh, interest free system, moral and ethical instruments of Islamic teachings and the ultimate goal is to seek the pleasure of Allah (swt);

(ii) The Islamic economic system does not support the debt-based economy – an unjust, exploitative and inequitable economy. Interest is abolished in and Islamic economic system, which develops a risk-sharing, stake-holding, participatory, community-oriented and people-friendly economy (i.e. muḍārabah and mushārakah).

(iii) The financier should become a real investor, prepared to play a participatory role as investor along with the entrepreneur (muḍārabah or mushārakah).

(iv) In an Islamic system, the bank is also an investor. It remains an active participant throughout. As such, the bank is concerned with and responds to early warning signals if things start going wrong. In this way mistakes can be set right before the rot goes too far.

(v) It calls for the more stable and transparent system. In such a system there is an automatic adjustment of real assets and their financial counterparts. In the conventional banking system there is no such mechanism for adjustment. It is, therefore, hoped that banking that operates on Islamic principles will ensure growth with financial stability, equity and distributive justice. It can be sustainable both horizontally, that is at a particular time, and vertically, deep into the future.

(vi) The ecological dimensions and the needs of future generations would equally be taken care of.

(vii) However, it deserves to be noted that the abolition of interest and the implementation of Zakāh system is only one aspect of Islamic Economics, Islam aims at establishing a just economic order, based on Shari‘ah rules and regulations. Islamic economics clearly spells out economic rights and concepts of property, contracts, work and the distribution of income and wealth. It stipulates a framework of values and disvalues, desirables and undesirables and hedges the market mechanism with a set of moral filters so as to ensure efficiency and equity in the processes of the allocation of resources.

(viii) Furthermore, the Qur’ān informs us that Allah (swt) has created sufficient resources for His creatures (41:10). Therefore, scarcity may be either due to lack of proper utilization of natural endowments or an imbalanced distribution. Islamic economics studies resources from
the point of view of ‘adequacy’ rather than scarcity. It starts from the premise that the resources of earth are ‘adequate’ to achieve falāḥ. Therefore, if some ‘scarcity’ is being encountered man must be doing something wrong, and ways and means should be found to restore the natural state of adequacy. This may be by broadening the productive base, improving technical know-how, re-distribution of resources or curtailment of misuse of resources, or of excessive and frivolous wants. Scarcity of resources is a man-made situation and Islamic economics studies it in order to rectify it.

All the above-mentioned goals are based on the actions of the ʿibād al-raḥmān. If individuals are God-fearing, seeking the pleasure of God and also thankful to Him then these goals can be achieved properly with the implementations of Islamic injunctions. It is clear that the principal goal of Islam is to provide a way for the spiritual development of man. All else, including economic striving, is a means to this goal.

2.4. Why Islamic economics?
A number of attempts in the literature of Islamic Economics discussed why there is a need to develop a separate discipline other than the conventional/mainstream economics (Ahmad, 2003; Zaman, 2005; Khan, 1984; Arif, 1985; Hanif, 2005; Chapra, 1992, 2000; Naqvi, 1994; Choudhury, 1989, 1995, 2000). Development of any subject/field observes different phases such as it starts with ideas, propositions, then theories and explanations, further refinements and through this process the crystallization of thoughts in the form of discipline takes place over a period of time. Islamic economics is also passing through the similar phases. The early Muslim economists discussed the ideological perspectives and technical relationship, moral and human aspects in greater detail, and only touched upon the technical aspects. However, this is the requirement of the present time that more efforts are required to articulate the nature, scope and significance of Islamic Economics (Ahmad, 1992, 2003; Arif, 1985; Khan, 1984; Chapra, 1993, 2000; Naqvi, 1981; Choudhury, 1995).

It is worthwhile to note that almost all of the Muslim economists tried to develop Islamic economics as a value based under the umbrella of Shariʿah. One of the concerns about 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. The origin
of economics is primarily founded in ethics. It is in the post-18th century developments, despite its moral origins, that economics seems to have grown into a self-contained discipline, a growth that was more concerned with the mechanical relationships, with internal consistency, with efficient allocation; systematic efforts were made to eschew the moral dimensions together. Welfare economics is another dilemma - it has little effect on mainstream economics but influenced by the mainstream economics. In the mainstream economics, the concept of rationality constitutes the essential part of methodology, which is articulated as self-interest. It is the effort of Muslim economists to reconsidered the concept of rationality and tried to redevelop it (Ahmad, 1992, 2003; Chapra, 2000, 1993; Choudhury, 1995; Khan, 1984; Hasanuzzaman, 1984; Naqvi, 1994, and Zaman, 1984, 2005). Rationality has the following points:

(i) Individual motivation is be self-interest; personal gains or losses;
(ii) The individual is operating in the context of market framework;
(iii) Social rationality or national rationality.

Islamic economics is different in that sense it has its own prerequisite, approach and its unique assumptions. It is a valid and strong argument which also admitted by the follower of institutional economics that self interest is not the only factor which formulates human behaviour (Jones, 1995; Williamson, 1975, 1984, 1989, 2000). Muslim economists agree that the construction of Islamic economics within the framework of Shari‘ah could only be possible within the periphery of the following basic questions (Arif, 1985; Ahmad, 2005; Chapra, 1992, 2000; Choudhury, 2000; Naqvi, 1981, 1994; Zaman, 2005):

(i) What motivates individual?
(ii) What is the fundamental principle of rationality?
(iii) Is it self-interest alone that formulates human behaviour as assumed by the mainstream economics? Is this assumption physically tenable? Is it morally acceptable? Could it be empirically constructed?
(iv) Does utility maximization always lead to well-being?

It is the consensus among the Muslim economists that man is an object as well as an agent. The problem of optimality (which is considered as the main ingredient of neo-classical economics) is not much important,
i.e. some one is better off without the losses of others. For Muslims the term Khilāfah (vicegerent of Allah (swt)) is more important as individual lives for certain objectives (Arif, 1985). Individual’s role as agent is not considered by the conventional/mainstream economics. Islam would not deny self-interest but would put self-interest in perspective with social/ethical responsibility and with behaviour in the context of rules and norms, which are governed by Shari‘ah. Self-interest within the Islamic framework has been put into the context of moral values, norms, rules and most important is the accountability on the Day of Judgement. The assumption of rationality is based on the benefits of this world as well as on the rewards of the Hereafter. Certainly these principles are not man made but based on guidance of Qur‘ān and Sunnah (Ahmad, 1992, 2003; Arif, 1985; Chapra, 2000; Choudhury, 2000; Khan, 1984; Naqvi, 1994).

It is observed from the following literature that a four-tier system prevails in Islam, internal and external consistency; the third, which is consistent with both of them, is moral and behaviour norms of the society, i.e., harmonizing consistency. Most important is the understanding about the nature of ḥalāl and ḥarām (allowed or not allowed). The fourth tier is unique in an Islamic system and highlights consistency between the actions in this world and the Hereafter so behaviour of Muslim individuals should be examined, studied and analyzed in the context of structural and textural change within men and society (Ahmad, 1992, 2003; Chapra, 2000; Choudhury, 1995; Hasanuzzaman, 1984; Khan, 1984; Naqvi, 1981, 1994; Zaman, 1984, 2005).

The cultural, political and social system of an Islamic society is developed on different norms from secular one, so conventional/mainstream economic analysis may not be applicable in the former situation. No doubt some of the theoretical/empirical development of conventional / mainstream economics may, however, be based on the study of human nature, which may be the same everywhere and for all times. To this extent conventional/mainstream economic analysis may be valid for Muslims as well. In sum, the approach of Islamic economics is inter-disciplinary. No doubt a very high content of Islamic economics is normative (Zarqa, 2003; Ahmad, 2003; Arif, 1985; Chapra, 2000; Choudhury, 1989, 2000). For example, in an Islamic society, caring for others, preferring others over ones’ own interest, looking after orphans, widows and invalids, hospitality to guests, mutual cooperation at moments of distress are great virtues and accepted as norms of behaviour. In economically vital areas, individuals do
behave in such manner that they sacrifice their personal interests for others. In secular societies as well, people do behave likewise but the conventional/mainstream economic analysis does not take this fact into account and is not based on the fourth tier (consistency between this world and the Hereafter), which is a cornerstone of the Islamic economic system (Khan, 1984; Ahmad, 2003; Zaman, 1984, 2005; Naqvi, 1981, 1994; Hasanuzzaman, 1984; Chapra, 1992, 2000; Choudhury, 2000).

The responsibility of an Islamic economist is to study the extent of divergence in individual behaviour from the Shari‘ah and to suggest policy measures which keep the economic system within the constraints of the Shari‘ah. One of the basic tenets of the Shari‘ah lays down equitable distribution of income as imperative. A number of Islamic injunctions promotes the income distribution towards the equity, for example the institution of Zakāh and charity, interest free economy, avoidance of high degree of gharar, gambling, hoarding and speculations are not allowed, etc. (Arif, 1985; Khan, 1984; Zaman, 1984; Naqvi, 1981, 1994; Chapra, 1992, 2000).

However, it is only possible if we are considering the behaviour of an individual Muslim (whose main objective is to achieve the falāḥ in both of his lives) as the micro foundations of Islamic economics. An economic system, which is not centrally planned, is very strongly affected by the behavior of its individual economic units. This is true for an Islamic economic system as well. It is founded on the philosophy of economic individualism based on a Muslim's role as the vicegerent of Allah (SWT). This role calls for some unique behavioural characteristics that manifest themselves in his economic decision making, and have very far-reaching implications from the macroeconomic point of view. If Islamic economics fails to recognize these characteristics of a Muslim, which, in fact, are the basis of the micro foundations of the system, then it will be difficult to develop a macro policy package consistent with the nature and the demands of the Shari‘ah paradigm, and necessary for its efficient functioning (Arif, 1985).

On the contrary, if an individual as described by the conventional/mainstream economics guided by his utility oriented self-interest, then he does not find any appeal either in Shari‘ah or in falāḥ. Thus there is no scientific justification to develop Islamic economics. But if we clearly recognize a Muslim man who is the representative economic agent of the Islamic society then the need for the establishment of Shari‘ah and the achievement of falāḥ gets built into his behaviour. This recognition provides us the scientific basis to develop the Shari‘ah paradigm of Islamic
economics. This is fully consistent with the scientific traditions of paradigm building (Arif, 1985; Khan, 1984; Zaman, 2005; Chapra, 1992, 2000; Naqvi, 1981, 1994, 1997).

It is consensus among the Muslim economists that for the development of Islamic economics a different paradigm, a new approach, and a new methodology is required and then they will be able to produce a new content of economics. For the development of this subject the primary source is Qur’ān and Sunnah and secondary source is ījmāʿ, ījtihād and ʿurf. Islamic economics encompasses positive as well as normative impact, i.e., what is and what ought to be. Both positive and normative dimensions should be considered, scientific analysis is always important. Values are implicitly as well as explicitly taken in the system of Islam. It has its own significance not only for Muslims but also for non-Muslims. It is based on a more realistic approach (Arif, 1985; Ahmad, 2003; Khan, 1984; Tag El-Din, 2008).

It is consensus among the economists that if an economic system based on the above mentioned assumptions and principles would be developed then the current economic problem may be minimized and an economic and social justice can be achieved. However, for the development of this system a dedicated and selfless effort would be required.

2.5. Islamic economic system and society
This is the message of Islam that everything obeys the order of Allah (swt). The system which is given by Allah (swt) covers all the dimensions of life. This divine system starts from social reforms passes through the political reforms and then ends on the economic reforms, encompasses development as well as welfare (falāḥ), covers the both dimensions, i.e., positive as well as normative, complementary to each other. Two main ingredients of Islamic Economics are institution of Zakāh and interest free economy (Naqvi, 1981, 1994, 1997; Choudhury, 1995, 2000).

Some important features of Islamic economic system are as follows: Islamic system is ethically oriented; rejects the absolute ownership; induces its followers to care for others including non-Muslim; charity is the right of those who live under subsistence level; justice is the most important phenomenon even between the generations; creates a feasible economy for the increase in the wage goods; provides an opportunity space for the increase the size of public goods to private goods; instead of convexity supports the concept of lexicographic ordering; essentialises production and consumption structure to reflect a greater concern for the needs of poor; aims at
developing opportunity spaces for the income of poor should increase greater than the rich; all of above it is based on the divine law of ‘adl and iḥsān (Naqvi 1981, 1994, 1997; Chapra, 1992, 2000; Choudhury, 2000).

Consequently, four axioms can be extracted from the literature of Islamic economics (Naqvi 1997): tawḥīd (vertical dimension); al-ʿadl waʾl-iḥsān (horizontal dimension); ikhtiyār (free will); farḍ (social equilibrium).

Basically, the universal set of Islam is faith and the subsets are beliefs, instructions, and socio-ethical-economic values. In this environment different sets of economy, i.e., production set, labour-consumer set, banking set, autonomous demand set and banking set must work within the framework of Islamic faith, not to distort or twist values in favour of one to the exclusion of others, but to reinforce and help the internalization of values for the social, ethical and economic growth of the community, society as well as economy (Azid and Asutay 2007.). Allah (swt) states:

“By the soul (self) and proportion and order given to it. And its enlightenment as to its wrong and right. Truly he succeeds that purifies it. And he fails that corrupts it” (Qurʾān, 91:7-10); and “And had the people of those towns believed and feared Allah, we would of surety have opened up to them blessing from the heavens and the earth; but they belied, so we seized them for what they had been earning” (Qurʾān, 7:96).

Once some companion of the Prophet (pbuh) asked from him about their rights, he replied perform your duty and then asked your rights from Allah (swt). In this sense it is most important to perform the duty, each and every agent of the set should perform its ethical cum economic duty then asks its rights. The Divine guidance about the coalition of all the sets of economy is: “Help one another in righteousness and piety but do not help one another in sin and rancor” (Qurʾān, 5:2).

Biraima (1991) sketch a very comprehensive picture of the believer and non-ethical behaviour in the following way:

<table>
<thead>
<tr>
<th>Believer (Ibad ur Rehman)</th>
<th>Non-Ethical Behaviour</th>
</tr>
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<tbody>
<tr>
<td>(i) Wealth and children</td>
<td>Wealth and children</td>
</tr>
<tr>
<td>(ii) The potential of the self for good deeds</td>
<td>The potential of the self for wrong deeds</td>
</tr>
<tr>
<td>(iii) Purification of the self</td>
<td>Corruption of the self</td>
</tr>
<tr>
<td>(iv) Success due to purification</td>
<td>Failure due to corruption</td>
</tr>
</tbody>
</table>
(v) Good deeds       Bad deeds
(vi) Thankfulness for God’s   Thanklessness for God’s
      bounties        bounties
(vii) Worship of God      Worship of worldly pleasures
(viii) The pleasure of God The displeasure of God

Siddiqi (2001: 16) states that “Once we agree to the notion of differences in behavioural norms among the members of a society, and the possibility of people acting differently under a different organizational set up, it makes all the sense to claim that the goal of an Islamic economic system is viable”.

The Islamic economic system guides that an Islamic State has an obligation to prevent the concentration of wealth in a few hands even if the income or wealth could have been acquired through proper means. This provides a clear justification for the state to use tax and transfer policies to impede concentration of wealth after the production process is completed. On the other hand Islam teaches that those people belonging to relatively lower income groups should not be jealous and envious of the rich. The great task of the political economy of Islam is to devise a production mechanism which is not only efficient and addresses the issues of unemployment and inflation but intrinsically and endogenously tackles the problem of distribution, not leaving as a residual issue (Siddiqi, 2001).

Naqvi (1997) developed a model in which the needs of the least privileged in society are given priority. In his model maximizing the social welfare in this sense would entail the following:

(i) the opportunity cost of capital accumulation (a greater inequality of income and wealth) is reduced by a more egalitarian distribution of income and wealth (taking from rich and giving to the poor through the Islamic injunctions);
(ii) increase the share of wages;
(iii) the proportion of wage goods in total production is increased.

Qadir (1992) made the proposal more concrete, suggesting that the ethical norms proclaimed by the society should be built into the social welfare function and the individual functions should then aggregate to give the required social welfare functional.

However, the nucleus point is the training of the individuals in an Islamic society and efforts should be made to create the environment for
establishing the Islamic ethics and norms and there is a need to develop the society where individuals are acting as ‘ibād al-raḥmān, i.e., self interest with purification under the guidance of Shari’ah and seeking the pleasure of Allah (swt). Otherwise all the efforts for the development of the very subject will be all in vain.

2.6. Comparison with secular systems

According to Chapra (2004), Islamic Economics was born during the struggle of Muslims to regain independence from their colonial masters. At the time, there were two dominant economic systems, capitalism and communism/socialism. Both of these Western economic systems (or philosophies) shared the common goal of improving material welfare of human beings, and also agreed on importance of material conditions (and relative unimportance of the spirit, ideals, etc.) as determinants of history. In contrast, Islam gives prime importance to spiritual and moral considerations as determinants of human welfare and also of history. The economic system, institutions and laws of Islam would be guided by moral principles (as they were in the European past referred to earlier). The idea that Islam has a distinct political and economic system was a component of the demand for the creation of separate states for Muslims after the colonial period all over the world. Kuran (1997) views the birth of Islamic Economics as a way of providing a distinct identity to Muslims. This was a stratagem aimed at strengthening Muslim solidarity and preserving a distinctive Muslim identity in face of a modernist onslaught.

A Muslim is the one whose purpose in life is to achieve falāḥ by being successful in his role as the vicegerent of Allah (swt) on this earth. His success in this role depends among many other things, on the acquisition, allocation and disposition of the resources, which are a trust, according to the consent of Allah. In the case of Islamic economics Shari’ah is the paradigm. Arif (1985) has presented the structure of a normal science (the case of economics) and comparison with the capitalism and socialism in Figure 1 and Figure 2 respectively.

It is a well-recognized phenomenon that an Islamic economic system is completely different from socialism and capitalism because of its distinct features. As discussed above, the third and fourth tiers are not part of these two conventional systems. In an Islamic economic system every economic activity is moving around a specified nucleus, i.e., falāḥ in the this world and in the Hereafter.
Chart No 1
The Structure of Normal Science: The Case of Economics

Normal Sciences

Social Sciences
A B C

Natural Sciences
Y Z

Economics

The Economic System

The Paradigm

Basis of Micro Foundations

The Philosophic Foundations

Source: Arif (1985)
III. Methodology of Islamic Economics

In the framework of the science of economics, two commonly accepted paradigms at present are: the Marxian paradigm of socialism and the market...
economy paradigm of capitalism. The paradigm of Islamic economic system is based on \textit{Shar\'i\[ah} which is primarily distinctive from the above two. Every paradigm in economics is based on certain philosophic foundations and is a system of belief (Edwards \textit{et al.,} 1978).

Zarqa (2003), Kahf (2003), Mannan (1983), Khan (1985) and Rashid (1991) have discussed the issue of the methodology of Islamic Economics in detail. It is the consensus among the Muslim Economists that methodology of Islamic economics and social behavior of Islamic society is based on two important variables: faith and accountability in the Hereafter.

These two variables develop a value-based system of Islamic society. So the social analysis for the Islamic Economics and valueless secular/conventional system has a fundamental distinction (Zarqa, 2003). It is a general practice that Islam is giving extraordinary importance to the certain moral and ethical norms so social behavior would be developed accordingly. In reality it is not true. However, it needs a specific training, rules and regulations. A rigorous methodology based on sound theoretical approach is required (Zarqa, 2003; Kahf, 2003; Khan, 1985; Mannan, 1983; Rashid, 1991).

Greed and niggardliness, which is the basic assumption of the neoclassical economics, is also recognized by the Qur\’an. As discussed by Biraima (1991) a man has a potential to attain the \textquoteleft highest of the high\textquoteright (as \textquoteleft ib\textacute{a}d al-ra\textacute{a}hm\textacute{a}n) and yet sink to the \textquoteleft lowest of the low\textquoteright (as unethical behaviour). These two categories are available in every community. It appears unrealistic to think that a community of saints can be attained. If such were the case, it would be possible for example to say that hoarding and luxury consumption cannot be problems since they have been forbidden by Islam. Nor can one rely on the state to eradicate all problems, since choices are left to individuals and cannot be taken over by the state. Thus when referring to the task of Islamic economics, the emphasis would be on an analysis of community-mandated institutional reforms to be brought about to allow a true Muslim to choose to live in accordance with his beliefs within the matrix of a just society (Khan 1984; Zarqa, 2003; Kahf, 2003; Khan 1985; Mannan 1983; Rashid 1991).

Four types of methodologies prevail in the mainstream of economics (Zarqa, 2003):

(i) Debate about the appropriate methods;
(ii) Different methods of investigations, \textit{i.e.,} deductive, inductive and experimental, \textit{etc.};
(iii) Related to basic assumptions, such as utility, rationality, etc.;
(iv) Deals with scope of economics, positive or normative, pure science or social science.

Islamic economics focuses on the last two areas. Muslim economists generally accept the principle of plurality of methods in economics, many contributions are deductive in method; a Muslim as an economic agent would be significantly different from what is assumed by neoclassical economics.

As we know neoclassical economics has the following five crucial assumptions:

(i) Man is selfish by nature and he behaves rationally;
(ii) Material progress is a supreme goal;
(iii) Every person has an inherent tendency to maximize his material welfare;
(iv) Each individual also has the knowledge and ability for deciding what is good for him;
(v) An individual’s utility is dependent of that others.

In Islamic economics the concept of self-interest and rationality is based on reward in the Hereafter, whereas material progress is also desirable but it would be as: “Material prosperity is desirable so far as it helps one to perform his duties towards God, society, family and one’s own self. It should be a means to achieve falâh in the ākhirah” (Khan, 1989). Khan also quotes a hadith in which Prophet (p.b.u.h) said “(Lawful) wealth for a virtuous man is an excellent thing” (Khan, 1989). Material progress is permitted in the Islamic system. However, it all depends upon educating Muslim society as an agent on how to behave after achieving material progress. Interdependent utility is a challenge for the Muslim economists (Zarqa, 2003).

“Islam considers man incapable of knowing what is the best for him. Only God has perfect knowledge. The human knowledge is imperfect and man needs guidance for making various decisions in life. God in his ultimate mercy has revealed guidance for man through prophets and books. Man needs this guidance” (Khan, 1989).

Conventional economists fail to appreciate that the individual’s self-interest and resulting purposeful action can be influenced by instituting different social values based on different sources of knowledge and
alternative rules of the game for economy. It is worth emphasizing that it is
the point where the role of Islamic Economics (or any other social doctrine)
becomes clear (Zarqa, 2003; Khan, 1989).

In this context Kahf (2003) raises the following five questions:

(i) What are the basic goals and objective of the Islamic economic system?
(ii) On what ideology is this goal and objective based?
(iii) What are the axioms and principles?
(iv) Why the dominant economic doctrine of the contemporary world or
economics is unsuitable for a Muslim society?
(v) Why Islamic Economics?

According to Khaf (2003) that the methodology of Islamic economics
would be developed in the periphery of the above points, whereas Zarqa
(2003) raises two questions:

(i) What is the relation between conventional economics and the religion
of Islam?
(ii) What is the relation between Islamic Economics and Islamic Jurisprudence?

According to Zarqa (2003) God’s ways in the universe and society
are expressed in descriptive statements, whereas the commandments of
Sharī‘ah are expressed in normative statements. Furthermore he discussed
the essential elements for the presumptions, choice of variables and
assumptions and their impact on the development of the knowledge
in general and particular to economics. According to Zarqa (2003) we
have to take six sets of assumptions/categories. Category one includes
Islamic normative assumptions, number two includes Islamic descriptive
assumptions, 3 and 4 are shared between Islam and economics, where 3
includes normative assumptions that are confirmed by both Islam and
economics, whereas 4 includes Islamic descriptive assumptions that are
confirmed by economics, 5 includes normative economic assumptions and
6 includes descriptive economic assumptions. On the basis 5 and 6 we are
not able to derive any axiom based on Sharī‘ah.

Zarqa (2003) has two conclusions about the relation between Islam
and economics. The first is that Islam is basically a religion of guidance,
the main purpose of which is to supply us with normative statements, i.e., Shari‘ah rules commanding what we should do and what we should refrain from doing or statements expressing normative preference of one situation over another.

The second conclusion is that there is a common ground of interest between Islam and economics. According to him we have to only consider 3, 4 and 6 set of assumptions for Islamic Economics. We should not mix the events of the economic history of Muslims with the Islamic economics, whether they are normative or descriptive aspects. The main difference between the science of jurisprudence and Islamic economics is that the basic objective of jurisprudence is to arrive at normative statements, which are legal judgement or rulings. These normative rulings constitute a very great proportion of justice material. On the other hand, the objective of Islamic Economics (as well as conventional economics) is to arrive at descriptive hypotheses or assumptions that diagnose reality and link the various economic phenomena.

Is not there a relationship between the task of fiqh in arriving at Shari‘ah rules and the task of Islamic economics in describing and interpreting the economic phenomena related to these very same rules? In the response of this question Zarqa (2003) states that the answer to this question is affirmative: “there is a relationship between the two tasks, which could be summed up by saying that among the task of Islamic economics is to seek the economic wisdom of the rules of Shari‘ah, that is to analyze the results of these rules and their short and long-term impact on the economic life”.

Zarqa (2003) further added that rules of Shari‘ah are based on what is in the interest of people regardless of whether the reasons for such rules are seen or hidden. But for those issues on which no definitive Shari‘ah textual evidence has been given, proper deduction of the law or rule from its sources should be based on:

(i) The nature of the case under consideration and its expected results, which cannot be known except from the descriptive side of the various sciences, such as economics;
(ii) Evaluation of these possible results in accordance with the meaning of relevant Shariah texts and objectives;

Zarqa (2003) also discussed the terms of istiḥsān and istiṣlāḥ. He concluded that “one can say that economic rules that are based on Istiṣlāḥ (pub-
lic interest), or affairs pertaining to economic policy, must be built on both Islamic law and economics, for such rules constitute the common ground shared by both subjects. He also gave an auxiliary plan for the Islamization of economics”.

It is observed from the above discussion that Islamic economics is different from the conventional/mainstream economics because Islamic economics is based on two distinct variables, which are not the part of conventional one, *i.e.*, faith and the consciousness of the hereafter. Keeping that in view its methodology would have its own canons, which should be confirmed by *Shari‘ah* as well by the very subject of economics.

### 3.1. Economics of Exchange

Whenever economic exchange takes place between two parties some extra real income will be generated which can be shared with them and also whatever goods and services are produced are exchanged many times before they reach the final user. This is the fundamental conclusion of the traditional theory of economic exchange. Economic exchange has also sizeable impact on the division of labour; the more advanced a society becomes technically, the more it needs division of labour and exchange of goods and services many times over, because there are numerous intermediate goods which go through various stages before they reach the final users. Cost of exchange can be split up into three categories: information, transaction and implementation. By and large, exchange is described as covering any economic activity that captures one or more than one of these categories; replacement, substitute *bay‘* (sale), trade, preference or choice. In the general comprehension of exchange we find that the holy Qur‘ān uses it in the sense of choice or preference: "these are they who have purchased error in exchange for guidance their trade has brought them no profit" (Qur‘ān, 2:16). In Islam the idea is to permit exchange to take place on the basis of mutual willingness and just standards; Islam places a great deal of emphasis on the market and its moral principles and efficient operations (Zarqa, 1992; Nur, 2008).

*Shari‘ah* not only promotes exchange, it considers the permissibility of exchange and freedom of exchange (within the limit of *Shari‘ah*) to be the standard rule, which should not be violated except for very clear and justifiable reasons. Exchange receives maximum attention from *fuqahā‘* and many of the rules of *Shari‘ah* related to exchange can be found in the books of *Shari‘ah* under the section about sale (*bay‘*), two kinds of rules, guiding and binding. One main rule is to minimize the cost of exchange
among the parties and maximize the benefit of exchange. *Shari‘ah* has a more realistic attitude towards exchange than mainstream economics. It is interesting to note that *Shari‘ah* does not take the assumption of full/symmetric information and minimum transaction cost. This is the reason *Shari‘ah* teaches us about honesty and truth, caring about others and the spirit of sacrifice during the process of transaction (Zarqa, 1992; Nur, 2008). *Shari‘ah* assumes the following (Zarqa, 1992; Nur, 2008):

(i) *Shari‘ah* admits the inequality of information among the participants;
(ii) It accepts that transaction costs are positive rather than insignificant;
(iii) Realizes that not all parties to the exchange can protect their own interest equally.

*Shari‘ah* has three vital rules related to exchange which are supported by the Qur‘ān and Sunnah (Zarqa, 1992; Nur, 2008):

(i) All transactions must be based on knowledgeable consent of the two parties;
(ii) Benefits of exchange should be reasonably divided between the contracting parties;
(iii) Contracts are to be enforced and honoured.

Exchange should be beneficial for both the parties. However, unbeneficial exchange such as the exchange of one coin for an identical one, items of no worth, dead animals or dust, unlawful commodities (e.g., pork, wine), or exchange having those elements which are not allowed by *Shari‘ah*, such as gambling (*maysir*), interest (*ribā*), intolerable degree of uncertainty or ignorance (*gharar*, or *al-jahālah*), intimidation, time-restriction, uncertain specification (*gharar al-wasf*), harm (*al-ḍarar*), and corrupting conditions (*al-shurūṭ al mufsidah*) are excluded from legitimate exchanges in Islamic tradition (Al-Zuhayli, 2003).

It is a well known fact that faith and consciousness about the Hereafter are two main pillars of each and every economic activity whenever it will take place under the umbrella of *Shari‘ah*. Honesty, truth, caring of others and an appropriate degree of sacrifice are by-product of the above-mentioned two variables. So it is not possible to achieve the above-mentioned state of economic exchange without the proper education of the every economic agent.
IV. Historical Developments

Islamic economics is not a new area of discussion among the Muslim scholars. A number of Islamic jurists have discussed the subject since its re-emergence in 1950s by revealing the existence of the body of knowledge since the revelation of Islam (Siddiqi, 1992; Chapra, 2001; Islahi, 2008; Ghazanfar and Islahi, 1997; Mirakhor, 1987).

4.1 First Phase: Jurists, sufis and then philosophers,

Most of the jurists discussed the notion of utility (maṣlaḥah, or pleasure) and disutility (mafsadah or displeasure) involved in an economic activity under the periphery of Shari‘ah. They discussed the normative as well as the positive aspects. However, most of their analysis was in the framework of microeconomics but not the macroeconomics. Abū Yusuf was the first among all of them and he wrote a famous book named al-Kharāj. His major contribution was in public finance but he also discussed other policy measures like price policy. Muhammad bin al Hasan wrote on earnings (kasb) and earning a clean living (Kitāb al-Iktisāb fī’l-Rizq al-Mustaḥab). He also discussed charity, consumption, hiring out, trade, agriculture and industry. Muḥammad’s book al-Aṣl and Abū Yusuf’s work describes the individual as well as collective economic living of the Islamic society. Abū Ubayd’s Kitāb al-Amwāl is a comprehensive work on public finance and he also discussed the ruler’s right on the subjects and the subject’s rights on the rulers.

The main principles of Sufism are altruism and unselfishness service of Allah’s creatures. Ḥārith ibn Asd al-Muḥāsibī’s work on ways of earning a livelihood published under the title makāsib emphasises that one should be sincere and should engage in business with the intention of helping other Muslims. Junayd al-Baghdādī taught to discard selfish motives, to cultivate spiritual qualities, to devote oneself to true knowledge, to do what is best in the context of eternity, to wish good for the entire community, to be truly faithful to Allah (swt) and follow the Prophet (pbuh) in the matters of Shari‘ah. Māwardi’s al-Abkām al-Sulṭāniyyah discussed the duties of administrator and muhtasib. His other book Kitāb al Din Wa’l Duniya is focused on the behaviour of Muslim individual, and also discussed the four ways of earning a living, i.e., agriculture, animal husbandry, trade and industry. He said that there is no end to greed which is destructive of all virtues. His work is also published under the title of mudārabah. The approach of Islamic philosophers was mainly based on that of their Greek
predecessors, especially Aristotle. However, within the periphery of Shari‘ah, economics became global, universal as well as rational. Ibn Miskawayh’s work on ethical philosophy is an attempt at synthesizing Aristotle’s view on the subject with Islamic teaching. He observes justice of exchange and role of money as:

“Men are by nature social. They cannot live without cooperation. Hence they must serve one another. They take from one another and give to one another, so they demand suitable compensation, (al-mukāfā‘ah al-munāsibah). If the shoemaker utilizes the services of the carpenter and gives him his own services, it becomes the reward if the two works were equal. But nothing prevents from one’s work being better than the work of others. In that case, dinār will be one to evaluate and equalize between the two (al-muqawwim al-musawwī baynahumā)” (Miskwah cited by Siddiqui, 1992: 110).

“And that he who exchanges many things for gold and stores it in their place, and as a substitute for all of them, he does the right thing, because he can get whenever he wants whatever he wants through that gold” (Miskwah cited by Siddiqui, 1992: 112).

3.2. Second Phase: Al Ghazālī, Ibn Taymiyyah, and Ibn Khaldūn’s Contributions

Al-Ghazālī’s economic ideas are influenced by Sufis which he quoted profusely in Iḥyā’ Ulūm al-Dīn (revival of Religious Science). His other work on Economics can be found in Uṣūl al-Fiqh, al-Mustaṣfā and two other tracts Mizān al-‘Amal and al-Tibr al-Masbūk fī Naṣīḥat al-Mulūk besides the Iḥyā’. His major concern is individual behaviour in the periphery of Shari‘ah, great emphasis on good intentions and purposive action. He also discussed such as division of labour, evolution of money and how the civil society was organized out of necessity. He tries to explain prohibition of ribā al–faḍl by arguing that it violates the nature and functions of money and condemns hoarding of money on the ground that money is designed to facilitate whereas hoarding obstructs this process.

Ibn Taymiyyah’s focus was society, its moral foundations and how it should conduct itself in accordance with Shari‘ah. He paid more intention to social issues like contracts and their enforcement, prices and under what conditions they could be regarded just and fair, market supervision, public finance and the role of state in need fulfilment. His writing are Ḥisbah and al-Siyāsah al-Shar‘iyyah fī ʾislāḥ al-Rā‘ī wa’l- Raʿiyyah (Legal Policies to
reform the Rulers and the Ruled) are the major sources of economic ideas. His assertion that a share contract is morally superior to a hire contract permissible under the same circumstances. He also discussed role of demand and supply in determine the prices and the incidence of tax.

Ibn Khaldun’s *Muqaddimah* may rightly be regarded as the greatest work in social, political and economic analysis in the Islamic tradition offering insights into such subjects as division of labour; money and prices; production and distribution; international trade; capital formation and growth; trade cycles; poverty and prosperity; population; agriculture, industry and trade and the macroeconomics of taxation and public expenditures. Ibn Khaldun also stated that “The most powerful factor contributing to population and civilization is minimization of the quantity of taxes on the people to the extent feasible”. He continued arguing that “As we have already noted, the state is the biggest market, the mother of all markets, their base and their core in so far as incomes and revenue is concerned. If this market contracts and expenditure in it decreases, it is but natural for the other markets to follow suit, even to a greater degree”. He also gave a scientific explanation of why trade would promote development. He argued that development does not depend on the stars (*i.e.* luck) or the existence of gold and silver mines. It rather depends on economic activity and division of labour, which in turn depend on the largeness of the market and tools. Tools, however, require saving, which was defined by him as the “surplus left after satisfying the needs of the people.” Increase in the size of the market boosts the demand for goods and services, which promotes industrialization (*ṣināʿah*), raises incomes, furthers science and education, and accelerates development.

### 3.3. Third Phase: Shāh Walīullāh

Shāh Walīullāh’s significant work is *Ḥujjatullāh al-Bālighah*, which set out to explain the rationale of *Shariʿah* rules for personal conduct and organization. According to him *Shariʿah* has prohibited activities which social violate the spirit of cooperation such as gambling and ribā. The meaning of ownership with respect to men is only one being more entitled to utilization than others. Taxation is, therefore, necessary to meet the cost of government and to undertake such “common expenditures which many people can hardly afford or which is well beyond their means”. He said city can only prosper with easy taxation and supporting the administrators only with what was necessary.
All of the economic literature which was developed by the Muslim jurists during the glorious classical glorified period of Islamic history has its own value and worth. Later on their work became incorporated in mainstream economics without credit being given to them, e.g., utility, division of labour, market forces, determination of prices, etc. It is worthwhile to note that all of these development are following the basic rules and regulations of Shari‘ah. The main concentration of these Muslim Jurist was on the microeconomics instead of macroeconomics. However, we have to admit that their research was not able to incorporate the technical jargon, which prevails in modern conventional/mainstream economics. So, it is the duty of current Muslim economists to develop their work by using the modern techniques and terminologies.

V. Conclusion

It is worthwhile to note that a number of efforts have been made in the literature related to Islamic Economics. It is clear from such literature that faith and honesty is the main ingredient of Islamic economics and that the Qur‘an and Sunnah are the basic source of guidance. It should also be apparent that jurists have also put a remarkable efforts in this field and some of major topics of modern economics has been developed by them, e.g., theory of labour value by Ibn Khadūn, the concept of utility and market structure by Ibn Taymiyyah, etc. However, most of the current and past work is theoretical in its nature and there is a dire need of work on empirical research. This is the requirement to explore a more problem-oriented approach and give priority to operationalisation of Islamic concepts and goals and to address the major issues like poverty elimination; income distribution; consumer behaviour; fiscal policy and socio-economic development in the context of a just monetary and economic system. By and large these areas have remained less-developed, and it is also felt that there should be an independent field of Islamic economics, which should not follow in the footsteps of conventional economics.

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