



Islamic Economics: Still in Search of an Identity

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Abstract

The last few decades have seen a phenomenal growth of the emerging discipline of Islamic Economics and Finance. In this paper I trace the origins and birth of this nascent science, examining the various factors that gave impetus to its emergence and development. I contrast the different characterisations of the discipline as it has developed within the broader socio-political context and the reasons thereof. Despite the concerted efforts of the proponents of Islamic economics to shape for their discipline a distinctive paradigm they have had little success in doing so beyond arguing that it is underpinned by a strong moral ethic. By and large, its epistemological roots have remained firmly within the framework of Rationalism and methodological individualism and consequently, it has not been able to shed itself of its neoclassical moorings, the very paradigm it originally set out to replace. I illustrate several of the contradictions apparent in the discipline as hitherto enunciated, and I critically analyse the reasons for some of these shortcomings. The Islamic economists, recognising the impasse and acknowledging that their mission has remained unfulfilled, have variously suggested different approaches to regenerate the process and chart the way forward. These propositions are examined to evaluate their import and relevance for the discipline. Finally, I conclude by arguing that if Islamic economics is to fulfil its *raison d'être*, i.e. articulate a sound and coherent theoretical paradigm for the discipline and to demonstrate its operationalisation in the real economy, its proponents must resolve its theoretical and practical difficulties by clearly expounding on its *weltanschauung* and develop its content and form appropriate to this worldview.

1 Introduction – The Birth of the Discipline

Muslim communities residing in the Middle East, North Africa and large parts of Asia had for several centuries attempted to pattern their lives according to the principles, values and norms of Islamic civilisation. Consequently, a number

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of Muslim scholars had documented in several monumental works dating as far back as the 8th century (for example, Abu Yusuf (d. 798)¹, Ibn Hazm (d. 1064)², al-Ghazali (d. 1111)³, Ibn Taymiyya (d.1328)⁴, Ibn Khaldun (d. 1406)⁵)⁶ the theory and practice of economics in Muslim societies. Almost all of these scholars, however, were not economic specialists as we understand the profession today, and accordingly, their works had analysed and examined economic issues from a multidisciplinary socio-political perspective. Until the beginning of the twentieth century, much of this discourse incorporated various moral, social, and political factors, and there was not any particular emphasis on the economic variables that are of interest in the contemporary world. Consequently then, the field was never conceived as an isolated phenomenon and Islamic Economics remained primarily an integral part of the unified social and moral philosophy of Islam until the Second World War.

It has only been from the middle of the last century that scholars have begun to consider and analyse the emerging *discipline* of Islamic Economics with greater scrutiny. Two interrelated developments played a significant contributory role in the characterisation of the subject as a dedicated science: one socio-political and the other, epistemological.

With the colonial invasions of Muslim lands, many of the institutions⁷ that formed an integral part of Muslim society were obliterated and supplanted with foreign ones that were alien and inimical to the culture of Islam. Preceding this period, the Muslim world had already been internally weakened both politically and intellectually and was unable to effectively resist the onslaught of the ensuing cultural and educational imperialism that followed external military occupation.⁸ Subsequent to the political independence⁹ of most Muslim countries after the War, social reformers realised the urgent need to revive and restore these Islamic institutions.¹⁰ Their aspirations received a further boost from the

¹ See, for example, his work *Kitab al Kharaj* in which he discusses topics such as economic development, taxation, etc.

² See his magnum opus *Al Kitab al-Muhallâ bi'l Athâr*.

³ See also his magnum opus *Ihya Ulum al-Din*. For a more detailed exposé on his economic thought, refer to Ghazanfar and Islahi (1997) and Ghazanfar (2000).

⁴ Refer to his specific work *Al-Hisbah fi'l-Islam*. For a comprehensive account of Ibn Taimiyah's conceptualisation of economic phenomena, see Islahi (1988).

⁵ See Spengler (1964) for an exhaustive account of the concepts and ideas in economics that were introduced by Ibn Khaldun and which only much later came to be elaborated upon by Smith, Laffer and others. Based on his significant writings and contributions to economics, especially in his celebrated work *Al-Muqaddimah*, several scholars regard him to be the real Father of Economics (Boulakia, 1971; Oweiss, 1988).

⁶ Islahi (2005) has undertaken an encyclopaedic review of not only the role and impact of medieval Muslim scholars in Islamic economic thought but also their influence in the evolution of mainstream conventional economics.

⁷ I use the word "institutions" throughout this paper in the broadest possible sense as detailed by Hodgson (1998), unless otherwise qualified.

⁸ al-Faruqi (1982), al-Attas (1978), Bakar (1991) and AbuSulayman (1993), each elaborate on this point, with al-Attas and AbuSulayman discussing at length some of the reasons for these internal crises.

⁹ The extent of this "independence" is still a thorny issue in Muslim political discourse and although quite intriguing, its detailed analysis is beyond the scope of this paper.

¹⁰ See Rahman (1979) for an instructive account of the challenges faced by reformers in this

general resurgence and activism that swept across the Muslim world, especially during the 1970s. There were strong calls by the intelligentsia of these countries for their economies to be restructured in the light of Islamic teachings (Behdad, 1994; Hefner, 2006). Given the competing forces for change that inevitably characterise any post-liberation period, it became imperative for Islamic scholars to outline clearly their vision of the kind of economic order that they hoped to establish.

On the intellectual front, Muslim social scientists were too keenly aware of the impact that secularism and its natural corollary, the compartmentalisation of knowledge, has had on the social sciences in the Western world. They were convinced that any such dichotomy between the secular and sacred sciences in the Islamic scheme is untenable. Over the last four decades, there has accordingly been a concerted effort to unify the body of all knowledge, a process which has become known in Islamic academic circles as the “Islamisation of Knowledge/Science”. An important component of this agenda was to establish a framework for the deliverance of knowledge that would be devoid of the secular orientation characteristic of modern (western) science. Islamising economics was thus an extension of this intellectual movement and is in fact considered to be one of its most important pillars (Haneef, 2005b; 2007, Hefner 2006). In a sense then, it might also be seen as an important test case of this ambitious project. Chiefly among the proponents of this movement are the likes of Nasr (1968), al-Attas (1978, 1995), al-Faruqi (1982) and Choudhury (1990, 1995, 2006).¹¹

Against this background, key figures in the Islamic revivalist movement of the last century, such as Sayyid Qutb of Egypt, Sayyid Mawdudi of Pakistan and Baqir al-Sadr in Iraq, set the tone and popularised the idea through their writings¹² that Islam prescribes its own distinctive economic ideology. The impetus was thenceforth provided for scholars from across a broad spectrum of economists (both Western and Muslim), socio-political activists, Orientalists and (Islamic) legal experts to examine and analyse this somewhat newly delineated field of study. Since then, thousands of books, journal articles and pamphlets in many languages have been published in an attempt to establish the separate identity of the subject.

In addition, numerous Islamic economics conferences in various parts of the world have been hosted and a number of research centres such as the International Institute of Islamic Economics (Pakistan), the Centre of Research in Islamic Economics (Saudi Arabia) and the International Institute of Islamic Thought (United States (US)) have been established to support the growth and advancement of this field. Several international universities, for example, the International Islamic University of Malaysia, Islamic Economics and Finance, Trisakti (Indonesia), the Markfield Institute of Higher Education (United King-

task.

¹¹There are some important differences though, among these scholars, on how this ought to be conceived and what the challenges are for its realisation.

¹²See for example, Mawdudi (1941/1978), Qutb (1948/1970) and al-Sadr (1961). For a critique on the contributions of each of these authors, see Kuran (1997) and Chapra (2004), Shephard (1992) and Wilson (1998), respectively.

dom (UK)) and Durham University (UK) offer undergraduate and/or postgraduate courses and programmes in Islamic Economics and Finance. The stated commitment by the Islamic Development Bank based in Saudi Arabia to fund projects based on Islamic (finance) principles also played a pivotal role in giving life to some of the ideas espoused by Islamic economists. As a further expression of this drive, the Islamic finance (and banking) industry has expanded at a rapid rate, extending its range of "Shariah-compliant" services across the globe.¹³ It is from all of these developments that the nascent field of Islamic Economics as a dedicated social science has begun to grow and attract a great deal of attention in both Muslim and non-Muslim¹⁴ countries.

But has this concerted effort on so many fronts produced the kind of enterprise that its proponents had envisioned? More recently, the realisation has dawned among the various participants in this project that its objectives have hardly been achieved, with respect to both its intellectual development and its realisation in practice. The Islamic economists have had little success in articulating a sound and coherent theoretical paradigm for the discipline, let alone in demonstrating how it would find practical expression in the real economy. This paper traces the various strands in the growth of the idea of an economics that is Islamic and the contradictions arising therefrom, and it then analyses the reasons for this apparent lack of coherence in the way in which the science has been cultivated.

2 State of the Art

2.1 *Islamic Economics as Socio-political Doctrine*

It is important to note at the outset that Islamic economics as a specialised field of study emerged at a time when conventional economics¹⁵ was the dominant paradigm in economic thinking in most parts of the world. As a new science in the making, and one that explicitly aimed at establishing a superior or at least a viable alternative vis-à-vis the subject matter, value-orientation, methodology, objectives and outcomes to that espoused by the Western world, much of its discourse has been located within the jargon and dialectic of the mainstream neo-classical paradigm. Partly as a result, there have been several pathways along which much of the literature on the character of Islamic economics has manifested itself. The specific orientation of the contributors to the field would thus also have been reflective of, and influenced by, their fields of specialisation, their expertise in its related sciences, their personal biases and ideological

¹³To the extent that the previous British Prime Minister, Gordon Brown, announced of his desire to see Britain as the gateway to Islamic trade and to make it the global centre for Islamic finance (BBC Business News-13 June 2006). More recently, even a country as stubbornly secular as France pledged to take steps "to make (Islamic banking) activities as welcome in Paris as they are in London and elsewhere." (Reuters - Agence France Presse (AFP) - 22 July 2008).

¹⁴See also Wilson (2007).

¹⁵I use the word "conventional" here to include the neoclassical, Keynesian and monetarist schools of economics.

predispositions and quite decisively, the cultural and political milieu in which they lived. This phenomenon of the influence of the ideological element is, however, not unique to Islamic economics. Schumpeter (1949) demonstrates quite cogently why and how it conditions scientific thought even in the cases of logic, mathematics and physics and more so in the social sciences. Myrdal (1958) underscores even more emphatically the inevitability of value impregnation in scientific analysis. That economics itself, as a study of the economy, is deeply rooted in a belief system and ideology has been highlighted by Robinson (1962) and more recently, Heilbroner (1988).

At the politico-ideological level, a sizeable amount of effort, at the initial stages in the development of the discipline at least, has been dedicated to comparing the principles and practices of Islam vis-à-vis capitalism, communism and/or any political economy that may be drawn up as a result of the marriage of the two. In other words, Islamic economics is presented as a Third-Worldist ideology, which is defined in terms of Capitalism and Communism, and also as that which the two Western ideologies are not (Nasr, 1989). The central thrust in most of these writings (Khan, 1951; al-Sadr, 1961; Ahmad, 1970; Siddiqi, 1975; al-Qadhafi, 1975; al-Faisal, 1986; Taleghani, 1982) was firstly, to denounce what they consider to be the inherent weaknesses of other economic orders and then to demonstrate why Islam is diametrically opposed to them. For example, it is asserted that both capitalism and communism are almost entirely hedonistic and materialistic in their outlook whereas Islam has a transcendental orientation. Similarly, capitalism, despite guaranteeing constitutional liberty for individuals, is condemned for its ruthlessness and exploitation (through, for example, the institution of interest) whilst communism, regardless of its pietistic claims to a just and equal society, is singled out for violating basic human freedoms.

Inevitably then, many of these writers, by concerning themselves primarily with refuting secular Western ideologies, described Islamic economics in terms of what *it is not*, rather than developing any positive content for it (Philipp, 1990). Notwithstanding this criticism, Islamic economists, then and even now, viewed this approach as critically important; given that the global political landscape of the post-colonial period was characterised by the competing economic paradigms of Capitalism in the west and Communism in the east, the Muslim world largely saw itself sandwiched both physically and ideologically between the two. Consequently, these works played a crucial role in two respects. It “weaned away the Muslim masses from the lure of socialism and capitalism” and at the same time, it “restored confidence in their elite that their economic problems could be solved within the framework of Islamic teachings” (Siddiqi, 2004:10).

The second pathway along which Islamic economics has evolved, though in some respects paradoxical to the works mentioned above, is an attempt by some scholars to adopt an apparently more conciliatory approach to some of the values and practices of capitalism and/or socialism. On the one hand, some of these writers (Rodinson, 1966; Labib, 1969; Hosseini, 1988; al-Lababidi, 1980; Abdul-Rauf, 1984) assert that because Islam promotes (free) trade, guarantees

the right to private enterprise/ownership, allows the reaping of profit in business transactions, etcetera, it shares a strong affinity with capitalism. Contra indicatively, there are others (Lewis, 1954; Abd-al-Hakim, 1953, Siba'i, 1960; Shariati, 1980) who argue, according to their understanding, that Islam justly represents the ideals of socialism in both theory and practice. This is so because, they claim, Islam aims towards the creation of an egalitarian and classless society, eschews the accumulation of wealth and instils in its adherents a strong sense of compassion, mercy and care for others.

The preceding analysis is not to suggest in any way that these socio-economists were willing to unequivocally endorse the form of laissez-faire, unbridled 19th-century capitalism, or conversely, the extreme variants of Marxism. In the case of the latter group, for example, apart from Lewis (1954) who portrayed a close nexus between Islam and communism, all the others are avowedly anti-communists/anti-Marxists.¹⁶ Consequently, it is not unusual for these scholars who have a predilection for the principles/ideals of either of these systems to designate their variation of it as either *Islamic Capitalism* or *Islamic Socialism*, respectively, to distinguish it from its non-Islamic varieties.¹⁷

2.2 *Islamic Economics as a 'Science'*

The third track along which Islamic economics has developed is the endeavour undertaken by its proponents to establish and anchor the discipline as a modern science by attempting to use primarily the methodology and tools of analysis employed in conventional economics. This literature is far more extensive and analytically rigorous than the preceding two categories. Given this orientation, it is not surprising that many of these writings have largely been produced by Western-trained (Muslim) economists or their counterparts who have received a similar education in their home country institutions, and to a lesser extent, Islamic jurists/legal experts (for example, Usmani, 2000). These works can be classified more generally into those that deal with (Islamic) economics as a science and those that fall under the rubric of Islamic banking and finance (IBF), with the preponderance of literature being in the latter class. Some of the more renowned contributors among those writing on Islamic economics are the likes of Mannan (1970), Naqvi (1977, 1981), Kahf (1978, 2003), Siddiqi (1970, 2004, 2008), Chapra (1979, 1992, 1996, 2000; 2002), Bani-Sadr (1982), Ahmad (1978, 1980), Ahmad (1989, 2002), Zaman (2005, 2008, 2011) and Choudhury (1986, 1993, 1995, 2006, 2008).

The key focus of most of this discourse is to demonstrate that a *homo Islamicus*, as part of an Islamic economy would behave differently to that of his (neoclassical) counterpart, *homo economicus*. A society populated with *homo Islamicus* participants would act both individually and collectively within the framework of certain ethico-politico-legal norms, for example, justice, benev-

¹⁶See nevertheless, Hosseini (1988) on how Marxist thinking has influenced many of the Iranian clergy in their conceptualisation of several economic precepts!

¹⁷See also (Brohi, 1975) for the conceptual difficulties that arise from these hybrid expressions.

olence, self-sacrifice, etcetera. Such behaviour, it is argued, would lead to economic outcomes that are just, equitable and optimal¹⁸. So in contrast to neoclassical economics which is claimed to be rooted in positivistic theory, the emphasis in most works in Islamic economics is on the normative: a thesis on the expected or preferred behaviour of human beings in their individual and/or collective capacities.

These professionally trained (Islamic) economists generally do not deny the postulates of scarcity, self interest, optimisation or even rationality. Rather, they argue that because Islam has a transcendental orientation, *homo Islamicus* is also motivated and/or can be constrained by other factors and hence his self-interest and private gain would be tempered by, and subjected to, higher and nobler objectives. It is thus clear why Nasr (1989) has interpreted this approach as an attempt by these scholars to engage neoclassical economic thought in a dialogue and to imbue into Western materialism a sense of the sacred.

The above exposition on the different and seemingly disparate approaches used by scholars to flesh out the concept of Islamic economics does not signify that the field of study has no philosophical underpinnings of its own. There is a core set of axioms to which most Islamic economists more or less subscribe and adhere to. These are, for example, a belief in *Tawhid* (God's absolute Unity and Sovereignty), *Khilafah* (man's role as God's vicegerent on earth), the absolute ownership of everything resting with God, a relationship of co-operation and justice characterising human interrelationships, and the indispensable role of Revelation as a primary source of guidance for man in both his material and spiritual pursuits. On the basis of these axioms, scholars derive principles which they consider to be reflective of the objectives of the *Shariah* (Islamic Law) and they then set out to demonstrate how these objectives can and ought to be accomplished and actualised in an Islamic society.

3 Critique

The outcomes of the process of inference adopted by the Islamic economists, though ostensibly predicated on Revelation and apparently formulated around a set of values espoused by Islam, is not without its difficulties and contradictions both in thought and praxis. Firstly, different scholars may, and indeed have, derived different sets of principles that also have a bias towards their own intellectual/cultural persuasions (see also Nasr, 1987). Even if we assume that the vast majority of Islamic economists hypothetically agree on a given set, what should the order of importance in the ranking of these principles be? In other words, should there be a primacy of one or more principle(s) over others? Or is it theoretically sound, in the first place, to even conceive of a ranking? Is it possible for one or more principles so derived to be in conflict with (historically) established Islamic laws and practices? How ought this incongruence between the two be resolved, if and when it does arise?

¹⁸In this context, 'optimality' does not necessarily mean "efficiency" as the term is commonly understood in conventional economics.

This lack of consistency on the interpretation and/or relative importance of different principles, for example, is particularly noticeable with respect to the rights of ownership and distribution of income and resources. There is almost universal agreement among the Islamic economists that Islam allows for both private and public ownership of property. But that is where the consensus ends. On the substantive issues of the limits and rights associated with each form of ownership for the various types of property and how these ought to be regulated in an Islamic economy, considerable differences arise. Some Muslim economists like Mannan (1980) and Siddiqi (1988) are strongly in favour of private ownership as the norm in an Islamic society, with the state intervening only under exceptional circumstances. There are yet others who restrict private ownership to priority usufruct rights only, without recognising any rights of unequivocal possession of property. At the other end of the spectrum, Naqvi (1981, p. 7) advocates for “severely limited” private property rights and even the confiscation and redistribution of private property beyond a certain point. In a similar vein, Abu Sulayman (1970) suggests that all natural resources should belong collectively to the whole community, allowing anyone capable of benefiting from them to do so. Given these varied opinions, Behdad (1989, p. 185) concludes that this singular issue on property rights alone constitutes the “most significant theoretical controversy among Islamic economists”.

A similar lack of coherence is also to be found with respect to principles relating to the distribution of income post production. Muslim Economists, in the main, concur that the ability to fulfil the basic needs of life ought to be guaranteed to all and that wealth should not be allowed to accumulate in the hands of a privileged few. They all may even concede that some differences in income and wealth might also be tolerated. So far, so good. But on the crucial questions of what constitutes the fulfilment of basic needs, the extent of income inequalities that is morally justifiable, and on how all of these objectives ought to be pursued, there is wide divergence. Some propose that the state should take responsibility for ‘basic need’ fulfilment, whilst others like Naqvi (1981: p. 67) insist on the enforcement of a “socially acceptable minimum” wage. To minimise the distribution gap, Kahf (1978) favours a reliance on the market mechanism together with other socio-economic institutions such as compulsory and voluntary charity, whereas Naqvi (1981) and Naqvi et al (1984) go so far as to call for massive rates of taxation in pursuit of the ‘ideal’ of an absolutely equal distribution of income. Mannan (1984) and Siddiqi, on the other hand, are willing to allow the rich, subject to the fulfilment of certain obligations by them, to maintain their wealth and income, despite some people remaining poor and needy. So which of these positions then, actually represents the true Islamic one in this regard? Or, at the very least, have the Islamic economists developed any ‘criterion of Islamicity’ to evaluate or rank any of them?

These conflicting prescriptions and the mechanisms to achieve them is, furthermore, not only apparent between the Islamic economists, but can also be sensed through a critical reading from within the writings of individual scholars

themselves.¹⁹ What is peculiarly interesting in these seemingly contradictory ideals is that identical juridical rulings²⁰ and the self-same set of axioms of *Khilafah* (Vicegerency) and the Absolute Ownership of God, referred to above, are invoked to justify opposing viewpoints. What is equally perplexing is that certain conclusions arrived at through this deductive process on the basis of certain principles so derived also appear to contradict explicit verses of the Quraan.²¹

Secondly, and as pointed out earlier, several scholars aver that Islam's economic order is essentially a capitalistic one, yet there are others who assert that Islamic economics is strongly socialist in its orientation. Given the vast treasure-house of the Quraan and Prophetic tradition, it is technically possible, with some stretch of imagination though, to also 'torture this data long enough until it confesses to anything'. Consequently, it is not uncommon to find scholars of greater or lesser reputation attempting to integrate a set of preconceived ideas into Islam. But what is remarkable in this context is that each group appears to be well-armed with appropriate Quraanic citations/Prophetic traditions to buttress its logic and justify its (opposing) standpoint.²² How then, do the Islamic economists defend and resolve these apparent contradictions in the various characterisations of their field? What is even more telling is that, despite some protestations and the vindication of this line of thinking (Rahman, 1979, Naqvi, 1981), most Islamic scholars have soundly rejected the appellation of Islam to either of these *isms* on several grounds, showing quite compellingly that the essential doctrinaire of these two ideological systems are innately and manifestly incompatible with the core principles of Islam.²³

Thirdly, Islamic economists are at pains to emphasise that *homo Islamicus* would behave in a manner more amenable and conducive to the goals of realising a prosperous society than his cousin *homo economicus* would. They contend that whilst some of his activities may need to be regulated by formal rules and regulations, desirable forms of behaviour such as altruism, the judicious use of both natural and produced resources, a work ethic aimed at excellence, and other codes of praise-worthy conduct would, in the main, be intrinsically motivated. But apart from a cursory mention of the transience of this world and the punishment-reward incentive (hoped for by well-behaved individuals) in the Hereafter, there is very little in the literature explaining how these norms would be actualised in practice. This failure on the part of Islamic economists has been very harshly criticised, particularly by Kuran (1983), Nasr (1986) and Choudhury (2000, 2008). Critically also, despite the primacy of the Human-God relationship in Islam there is almost no discussion on how this relationship is manifested in both belief and action with specific reference to economic behaviour.

¹⁹ See Haneef (1995) for some examples of these.

²⁰ Ibid.

²¹ For example, the notion of income equalisation clearly contradicts verses of the Quraan which allow for differences in income and wealth.

²² See also Pryor (1985).

²³ For a fuller discussion of these arguments, refer to Siddique (1974), and also al-Attas (1978) and Brohi (1975).

Fourthly, proponents of Islamic economics have consistently emphasised that the founding of the science is not merely an intellectual exercise, but has as its ultimate objective the realisation of an Islamic economic order. Even if the epistemological and procedural concerns highlighted above were to be assuaged, there still remains the contentious issue of formulating appropriate policy to implement and realise the envisaged system. On several issues of paramount importance identified in the literature, Islamic economists have been at variance with one other, at times, in fact, offering conflicting prescriptions. For example, socioeconomic justice and its assumed corollary, the eradication of poverty (or at least its alleviation) ranks very high on the list of imperatives in many writings on Islamic economics.²⁴ How would an Islamic economic system achieve this key objective?

Scholars like Chapra (1992) strongly argue that the market mechanism with some institutional constraints, a progressive taxation system and the moral persuasion of individuals to avoid ‘conspicuous’ and ‘wasteful’ consumption is still the best route to realise this objective (à la ‘Islamic Capitalism’ again?). At the other extreme Husaini (1980), Engineer (1992), Naqvi (1981), etc.²⁵ insist on widespread nationalisation of resources and even confiscation of excess wealth from private individuals (à la ‘Islamic Socialism’ as well?). Siddiqi (1978, 1981) and Mannan (1984), on the other hand, seem to adopt a compromise stance by favouring interventionary monetary and fiscal policies and moderate amounts of State ownership of resources (à la Islamic ‘Welfare State’?). There are still yet others like Bani-Sadr (1982) who trust neither the individual’s moral conscience nor the State’s hegemony to distribute wealth equitably, but who argue for a kind of decentralised communitarian ownership and management of resources.

Given the absence of an Islamic political economy, despite the verbal commitments of several countries like Pakistan, Iran and Sudan to embrace one, Islamic Economists have looked towards downstream areas like Islamic banking and finance (IBF) to give expression and operationalisation to the normative assumptions of Islamic economics. It was hoped that by avoiding interest-based transactions and other unethical practices, these institutions would serve as effective mechanisms for the realisation of a business environment that is ethical, sustainable, inclusive and socially enhancing. With the central position that the prohibition of interest holds in an Islamic economic framework, interest-free banking became almost synonymous with Islamic economics (Khan, 1999). Notwithstanding the rapid development of this sector, there is an increasing realisation among both proponents and critics alike²⁶ that even within this limited area of application, the stated objectives have been met, at best, with limited success. Whilst a detailed critique of this warrants a separate study in itself, what are some of the reasons for this sombre assessment? Asutay (2007, 2008) and Omar (2011) attribute this to an axiomatic discrepancy in the pathways pursued between Islamic economics on the one hand and IBF on the

²⁴See for example, Siddiqi (2004).

²⁵See also Siddiqi (1981).

²⁶See for example, Kahf (2004) and El-Gamal (2006), respectively.

other. Other scholars (Rahman, 1964; Shams, 2004; Farooq, 2007)²⁷ meanwhile, have questioned altogether the fundamental premise of IBF on the riba-interest equivalence adopted in its current practice.

Now if Islamic economics, as hitherto enunciated, is rooted in its religious practice and Divine sources then why is there hardly any unanimity on issues that its proponents argue are fundamental to its *raison d'être*? Why is there a lack of agreement²⁸ on certain basic concepts and principles and in many instances, inconsistencies and ambiguities on key policy prescriptions? How do the Islamic economists reconcile these profound differences that arise among themselves, more especially when God, The Most High so unequivocally proclaims in the Quraan that He “has *perfected* your Religion [Islam] for you. . .” (Ch. 6, V.3) and elsewhere that He “sent down upon thee the Book [The Quraan] as an *explanation for every thing*, a Guide, a Mercy and Glad Tidings to those who submit” (Ch. 16, V. 89)? These and similar other verses do not imply that Islam is intolerant of differences of opinion or that there is no scope for variation in its interpretation. The Qur’an, in fact, quite nonchalantly narrates divergences in verdicts issued by even the great prophets of the past, without castigating them in any way.²⁹

Furthermore, differences in thought and praxis are not without any historical precedent in the other Islamic sciences as it was developed by Muslim scholars. It is only natural that any intellectual enquiry, any effort to build up its knowledge structure, by virtue of it being a human experience, would inevitably lead to differences by the participants of that process on various aspects of its academic discourse. To illustrate, well over a thousand years ago various distinct schools of law in Islamic legal (and philosophic) thought had emerged and evolved with complex and highly sophisticated intellectual tools of analysis. But despite the rich variety of opinions expressed on innumerable issues there was almost always a general consensus on the essentials, namely, fundamental principles and methodology. Seemingly, such a consensus is disappointingly lacking in Islamic economics.

That Islamic economists do actually have a lot to learn from this Islamic intellectual heritage is a point I will return to later. It is even conceivable that at some point in future there might also emerge various schools of economics within the discipline of Islamic economics itself. With the extensive writings of Choudhury,³⁰ it already appears that the foundations have been laid for a distinct school based on his “*Tawhidi*” philosophy. But has ‘mainstream’ Islamic economics, in the first place, matured sufficiently enough for this to become a reality? Has its proponents been able to clearly articulate its basic philosophy coherently and meaningfully to see its growth and development as a fully-fledged discipline? According to one prominent economist, Islamic economics is so entrenched “body and soul in mainstream economic doctrines that it has remained

²⁷Their objection to the riba-interest equivalence, however, does not represent the mainstream view.

²⁸See also Hussein (2004) and Salleh (2011)

²⁹See for example, al-Quraan: Ch. 21, V. 78-79.

³⁰See references for some of his works.

without (even) a distinctive birth-pang of its own” (Maurer, 2002: 652).

4 The Need for Intellectual Clarity

Given some of the shortcomings alluded to above, one can easily discern from across the spectrum of cynics, neutral observers and (even leading) proponents that all is not well with Islamic economics. From amongst its most truculent critics, Kuran (1983, 1986, 1989, 1995a, 1995b, 1997), Philipp (1990) and Haque (1992) project the phenomenal growth in Islamic economics as part of a broad campaign by Muslims to preserve their culture and tradition. They aver that the discipline has no economic agenda as such and consequently dismiss the entire project and effort as an exercise in identity politics. In a similar vein, Behdad (1989, 1994, 1995, 2005) and Mehrdad (1993) argue that the idea of an ‘Islamised’ economy in Iran only gained popularity in the wake of the Islamic Revolution but disappeared soon thereafter from the Iranian political agenda. Furthermore, both commentators emphasise the pervasive influence of Marxist thinking that characterised much of the debate and political discourse of the 1980s. Ultimately, however, Mehrdad contends, the reason for its failure in Iran was due to conflicting notions of what exactly constituted a “true” Islamic economic order.

Many in the West are also fascinated by the zest and conviction of the Islamic economists to establish an alternative economic paradigm for the adherents of the Islamic faith (Nienhaus, 1982, 2006; Wilson, 1983, 1998, 2007; Pryor, 1985; Pfeifer, 1997; Maurer, 2002; Sauer, 2002; Shams, 2004; Hefner, 2006; Asutay, 2007, 2009). Their general observation is that Islam’s textual sources can indeed serve as a foundation for Islamic economic *thinking* but they are doubtful about claims, as yet, to a distinctive Islamic economic science. Nienhaus (1982), for example, bemoans the inability of proponents of Islamic economics to mesh their theoretical ideas with the theological basis of Islam and its epistemology. Like others, he is particularly critical of those who “add a type of cultural/folkloristic colouring to Western concepts” and then present them as being “Islamic”.

What is most encouraging in many writings, though, is the acknowledgment on the part of Islamic economists themselves that “something has gone wrong” and that they need to reassess critically the reasons for their mission remaining unaccomplished (Nasr, 1986, 1989; Hosseini, 1988; Ali, 1990; Metwally, 1997; Choudhury, 1999, 2006; Akhtar, 2000; Chapra, 2000; Siddiqi, 2004, 2008; Kahf, 2004, Haneef, 2005a, 2007, 2009; Salleh, 2011). These writers have proffered various explanations for what Siddiqi (2008:1) calls the “collapse of the grand Islamic agenda”. The reasons for it faltering range from a lack of resources to a misconceived notion of trying to imitate the methods of ‘Western economics’ to the more fundamental conceptual and epistemological contestations. Ansari (1989) and Farooq (2008) have described this lack of substance in both the form and content of Islamic economics as the “poverty of Islamic economics”, a recurring theme in its critique for almost three decades. Whilst some might view its ‘enrichment’ as requiring only minor adjustments that can be achieved

relatively easily and quickly, there are those that argue that a paradigm shift altogether is critical for reform.

All of these factors are, however, not unrelated. Many of these aforementioned scholars have generally observed that the preoccupation of the Islamic economists within the narrow confines of IBF³¹ is, somewhat paradoxically, partly to blame for the current malaise in the discipline. As Haneef and Furqani (2010) reiterate, the (premature) rush into developing “end-products” for the (Islamic) banking and finance industry, without adequately attending to the foundational elements crucial for the development of (any) science, has had dire consequences not only for Islamic economics but even for its surrogate, Islamic finance. In this regard then, there is agreement that adequate intellectual resources have not been dedicated to address key issues required for the maturing of the discipline.

Not surprisingly though, the path to be pursued to achieve this is also wrought with serious differences among the Islamic economists. The discipline is still torn between those who wish to adopt the current framework of western Classical-Neoclassical-Keynesian economics and its body of concepts and methodologies and those who call for a new formulation of the discipline *de novo*. A detailed exposition of the many individual variations within this broad spectrum is beyond the compass of this paper but one may easily discern persistent themes that tend to weave into three distinct approaches.

One group of (Islamic) economists argues that whilst the Islamic economic *system* would be different in some ways at least to its counterparts in the West, Islam does not have a distinct (set of) economic theory (theories). According to this view, Islamic economics should continue to remain within the purview of mainstream neoclassical economics since the latter could be easily adapted to accommodate the values and principles of Islam. Some go so far as to suggest that neoclassical economics and Islam share certain common principles, values and assertions (Limam, 2004). Al-Jarhi (2004) therefore, sees no need to develop any unique theory of Islamic economics and contends that the (only) difference between Islamic and conventional economics is in (some) institutional arrangements. Similarly, for Kahf (2004) and Zarqa (2004), the same methodology “using the same tools of conventional economics” may be adopted for Islamic economics.³² From the views expressed by these economists, it appears that they are eager to embrace, by and large, underpinnings of neoclassical economics, yet differentiate an Islamic version of it through minor modifications and inserting some Islamic values into its theory. But if this amalgam generates a form of caring, democratic kind of welfare economics, then as Sardar (1988, p. 203) quips “why bother with Islamic economics when Adam Smith will do?”.

Other leading proponents and pioneers of Islamic economics such as Siddiqi, Mannan, Chapra and Ahmad, as it appears from their more recent views and

³¹For a description on the waning interest in Islamic economics in favour of Islamic finance and the “hijacking” of the former by the latter, see Haneef (2009, p. 3).

³²Curiously enough, more recently, Kahf and Zarqa seem to have moved their ideological positions in this regard closer to mainstream economics compared to their previous works. See for example Zarqa (1992).

writings (see Hussein, 2004), have become increasingly reluctant to unconditionally endorse some of the pivotal postulates of Classical/neoclassical economics. Whilst they acknowledge some role for the core concepts and principles of self-interest, scarcity, competition, maximisation, etc. in Islamic economic theory building, they are at pains to emphasise that these should be redefined or reconceptualised to be compatible with Islam and/or counterbalanced with other Islamic values and beliefs such as altruism, cooperation, etcetera. The idea then, is to move from mainstream economics as the base or reference point, both in terms of content and methodology, and then to search within Islam for parallel concepts and ideas relevant to economics. In this way, they hope that Islamic economics could formulate its theory that will give it its distinctive character.

Notwithstanding some of the more fundamental difficulties with this approach, which will be elaborated upon below, one immediate point deserves mention. This kind of polemic parallelism with the mainstream will only serve to further entrench Islamic economics within the dominant paradigm. As Tag el-Din (2004, p. 13) observes, "It is, indeed, a self-defeating exercise . . . impair(ing) the internal logical consistency of the alternative . . . and giv(ing) way for greater dependence on the discipline being criticized." Furthermore, searching for Islamic economics through the prism of conventional economics 'locks' the former within the dialectic of the latter. Because the main frame of reference is already predetermined by Western economics, all subsequent discourse can only occur in relation to it. This is exactly what characterises almost all of the literature on Islamic economics to date, repeatedly demonstrated in this paper. This arbitrary and mechanical 'Islamisation' of economics or its sister disciplines in the Islamization of Knowledge (IOK) agenda will all end up with the same fate: becoming a patchwork and poor imitation of that which it wishes to supplant. Islamic banking and finance, in its current form, epitomises this outcome.

It is partly because of the above that there is a growing chorus of Islamic intellectuals and scholars cum economists, including al-Attas, Nasr, Sardar, Choudhury, and Zaman, who are vehemently opposed to developing Islamic economics as an offshoot of mainstream economics, rejecting altogether this (traditional) paradigmatic classification of this new area of study. It is because of this primary reason, they aver, that Islamic economics has lost its purpose. Like the critics of Islamic economics, these proponents are acutely aware and concede that Islamic economists, in the main, have slavishly enslaved themselves to both the theoretical content and methodology of mainstream economics. In the words of Nasr (1991:388), the theoretical core of Islamic economics has "failed to escape the centripetal pull of Western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace." Their position is unequivocal: until and unless Muslim scholars are willing to cast off the cloak of neoclassical/Keynesian economics beneath which is concealed a set of implicit but interlinked values serving a distinct agenda, a point emphasised even by Western scholars (see Heilbroner, 1988; Schumpeter, 1949; Myrdal, 1958), the mantra of either Islamic economic theory or of an Islamic economic system will continue to remain an unfulfilled dream.

Why are there such strong sentiments then, in favour of treating Islamic economics separately from competing paradigms? Neoclassical economics, as it so often parades itself is, as indicated above, not value-free. Its ontological framework is underpinned by Darwinism and Bentham's hedonism, and in adopting the unrealistic ideal world of perfect competition, its focus is exclusively on an abstract "economic man" who lacks social, ethical and political dimensions (Hosseini, 1990). By imitating Newtonian mechanics and anchoring its epistemological roots in methodological individualism and Rationalism, it assumes that the behaviour of this simplistic "economic man" is driven only by self interest and conflict and that he is not a creature motivated towards any action due to habit, culture or norm. To this end, every effort has been made to eviscerate economics of its moral dimensions. Consequently also, its more recent methodology has largely imitated the traditional reductionist approach of the natural sciences. Furthermore, in striving for sophistication and empirical evidence for its postulates, its increasingly extensive use of mathematical tools and econometric techniques have rendered it impervious to the very elements of human nature that gives the field of economics its legitimacy as a social science.

The Islamic faith, on the other hand has a *weltanschauung* which is distinct from that upon which neoclassical economics is predicated. It places at its core the overarching and deeply-embedded reality of the Unity of God, The Most High, and His Divine Will. The *raison d'être* of humankind's creation is the recognition, realisation and actualising of this Unity in the various socio-politico-economic contexts that humans find themselves in. They are guided to this fulfilment through the agency of Prophethood and Revelation that God, The Most High had sent from time to time to the different nations of the world. Although the satisfaction of man's sensual needs are explicitly recognised and acknowledged, these are never to be regarded as exclusive or as ends in themselves. In fact, rather, it is through the purposeful use of the bounties of God, The Most High that humankind achieves the higher aims and objectives for which they were created.

If, indeed, the worldview of Islamic economics as briefly elaborated above, is different to that of mainstream economics, can it be epistemologically sound to assume that the theory and methodology of both would therefore necessarily concur or at least be compatible? Many Islamic economists, especially the likes of Choudhury, Nasr, Zaman and Haneef, including some Western observers such as Nienhaus and Sauer, are convinced that they do not. And that is why they contend that as long as Islamic economics does not exorcise itself of the Western and foreign moorings in which it has been entrenched, it will dejectedly fail to achieve its objectives. This point is also alluded to by some of its most hostile critics when they demonstrate that, based on its current framework, there is nothing so unique about Islamic economics for its proponents to lay claim to it as a distinct alternative.

How then, on this last account, should this intellectual quest for a genuine and original Islamic economics conceived *de novo*, proceed? What might some of the guiding principles be for what Davies (1991, p. 235), refers to as a "civilizational project of rethinking"? Over the recent decades, much

has been documented in this regard by many leading scholars.³³ Clearly, the point of departure has to be Islam itself, whereby the most fundamental axioms and postulates, concepts and categories are derived from the original sources without being prejudiced by what may or may not already be considered as incontrovertible in current economic discourse. In this way, an authentic ontological and epistemological framework, premised on *Tawhid* (Unity of God and the world-systems³⁴), could be constructed, forming the basis for further investigation. Given the multi-faceted and multi-disciplinary character of this process, a general systems approach is indispensable whereby variables, instruments and institutions are then integrated and endogenised through circular causation. But their implications for economic issues have to be crystallised to render them meaningful and relevant for policy. In undertaking this kind of an elaborate exercise, it is doubtful, therefore, whether the strict demarcation between the academic disciplines can be still rigidly maintained. Interestingly enough, a new meta-discipline of human behaviour may well emerge, integrating and synthesizing several of the social science disciplines.

Charting an independently conceived programme of economics within this sort of multi-disciplinary mode of inquiry does not mean that Islamic economics would cease to “communicate” or lose altogether its common language with its counterparts in the rest of the world. Nor does it imply that modern Western scholarship has nothing at all to offer to the Islamic sciences. The historical and practical realities of human existence commonly shared by both civilisations, especially over the past twelve hundred years bears ample testimony to the close nexus of relationships that has and will continue to exist between them, in itself, a most interesting area of study.³⁵ At the same time, the trenchant paradigmatic differences between the two cannot be ignored and wished away to acquiesce to any demands for political correctness. Consequently, the approach and extent to which integration occurs will have to be wisely considered and the pathway to it carefully navigated.³⁶ But as Tag el-Din (2004, p. 13) reminds us, “Independently drawn lines are more likely to intersect than parallel ones. Similarly, independently developed systems tend to share more in common between themselves than the highly dependent ones.”

5 Conclusion

This paper set out to explore the notion of an Islamic economics as it has unfolded in the literature over the last century. The motivation for it was well-intentioned and its need is now, more than ever before, almost universally

³³For some references, see the works of al-Attas al Fārūqī, Choudhury and Nasr, (referred to earlier). Also Iqbal (1982).

³⁴See specifically, Choudhury (2004).

³⁵One may easily recall here, for example, the mutual impact of the Greek/Latin and Islamic sciences on each other particularly during the Middle Ages.

³⁶The historical experience and the lessons learnt from the encounter between Greek philosophy and classical Muslim scholarship in other areas of study could indeed serve as an important source of guidelines in this regard.

accepted. But knowledge cultivation and a project as ambitious as that of developing a distinctive discipline cannot spontaneously arise in a vacuum. It responds to, and is affected and impelled by, the intellectual and socio-political milieu within which it is located. Consequently, Islamic economics arose and morphed into some of the characterisations observed, largely because of the challenges that were faced by Muslim communities and their intellectuals in different parts of the world.

But the Islamic spirit evoked from even a disinterested reading of the Quraan is not simply reactive. Its élan is provocative, proactive, challenging and intensely inspirational towards intellectual reflection and leadership. On this score, Islamic economics has been shown to be severely wanting. Despite the efforts of the Islamic economists to reformulate an admix of economic concepts and ideas reflecting their discipline, their efforts have not borne the fruits that its pioneers envisaged. Apart from the several contradictions and internal inconsistencies noted and explicated in this paper, research in the field has, not surprisingly, reached an impasse. Some of the reasons for this state of affairs have been outlined. But what is most significant is that the Islamic economists themselves have acknowledged that something is seriously amiss. Accordingly, there has been a call for deep introspection on their part and for a renewed, concerted effort by all stakeholders to develop the discipline if it is to play any meaningful role in the future.

The common thread that one clearly discerns from most of the scholarly critique is the impression that Islamic economics does indeed have the potential to make a valuable contribution to the science of economics. But in order for it to do so, its protagonists firstly need to expand its narrow conceptualisation of it being just interest-free economics. More importantly, they must transcend its current phase of exercises in apologetics and develop for it a character of its own.

To begin with, Islamic Economists need to clearly elaborate on how its philosophy and the worldview (*weltanschauung*) emanating therefrom mesh and correlate with economics. Given the primacy of man's relationship with God, it needs to be demonstrated how this relationship shapes the individual and collective psyches of adherents to the Islamic faith and its consequent impact on economic behaviour and outcomes.

Next, but equally importantly, the epistemological framework of the discipline needs to be clearly articulated. The different modes of enquiry and investigation that are admissible as sources of knowledge, the relative importance and limitations (if any) of each, and the intellectual tools required to adopt them in an integrated manner has to be affirmed and clarified. In this regard, Islamic scholars have recourse to the most outstanding works of early epistemologists, such as al-Ghazali, ibn-Sina and ibn-Rushd,³⁷ and to the writings of contemporary scholars such as Choudhury and al-Attas, among others.

Lastly, given the pivotal role that morals and ethics play in the Islamic scheme, Islamic economists have justifiably emphasised the normative nature of

³⁷Better known as Algazel, Avicenna and Averroes, respectively, in the West.

Islamic economics. But with regard to its positivistic contribution they have only paid relatively peripheral attention, though the Islamic sources are rich in this content as well. More seriously, however, even with regard to the values and principles implied by its normative content, these have not been interpreted by the Islamic economists from the perspective of a transcendent/divine norm or ideal, as ought to have been the case, but rather from a humanistic perspective. It is therefore vital to delineate and redefine, if necessary, these ideals ontologically from its divine sources and expound on how one expects to see them manifested in an Islamic society, and further, to identify how they interact and integrate with its positivist content.

To encapsulate then: Islamic economics needs a conceptual framework formulated on the basis of its worldview; and then, to develop its content and form on its *own* terms and using its *own* distinct categories, if necessary. As (Pfeifer, 1997) remarks, if the discipline is able to resolve its theoretical and practical difficulties, it could then justifiably take its place alongside Western capitalism and its offshoots, with a distinctiveness of its own.

Most importantly, the more than one billion Muslims throughout the world have every legitimate right to live by their convictions in the totality of Islam. They eagerly look up to their scholars and intellectuals for guidance on how to give expression to this yearning within themselves. Equally, given the severe crises bedevilling modern economics (Blaug, 1980), there is much that Islamic economics, comprehensively conceived, can offer even to its ideological counterparts. But the critical question is: are the Islamic economists up to the gravity of the task to respond to the challenges of this century and to lead the way forward? They have no option but to; after all, this is what their religion unequivocally demands of them.

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