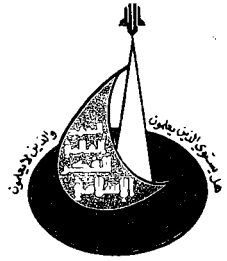


THE INTERNATIONAL INSTITUTE
OF ISLAMIC THOUGHT



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ISLAMIZATION OF KNOWLEDGE (17)

CONTRIBUTION OF ISLAMIC THOUGHT TO MODERN ECONOMICS

**Proceedings of the economics seminar held
jointly by al Azhar University and the International
Institute of Islamic Thought (Cairo, 1988/1409)**

V. II (English)

Edited by Misbah Oreibi

The Editor

Misbah Oreibi



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Islamization of Knowledge (17)

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Introduction

Misbah Oreibi

This book contains papers presented at the Conference on the Contribution of Islamic Thought to Modern Economics held in Cairo, Egypt, on 25-28 Muḥarram, 1409 A.H./ 6-9 September, 1988 A.C. sponsored by Salih Kamil Center for Islamic Commercial Research and Studies at al Azhar University and the International Institute of Islamic Thought.

Islamic economics is not entirely a new subject; it has been developed as an integral part of the wider subject of Islamic jurisprudence (fiqh), and is as old as the Islamic way of life. Fiqh *al mu'āmalāt* branch of Islamic jurisprudence covered different aspects of economic activities such as market organization, sale contracts, financial dealings, types of company structures in production and consumer protection. Gradually, international trade became an important economic sector that required tariff estimation and collection, organized transport facilities and trained personnel.

The economic life of the early Muslim community grew in complexity with the expansion of Islam into most parts of the world and international trade played an important role in this expansion. In the process of Islamic expansion new peoples accepted Islam and new territories and countries became part of the caliphate (khilāfah). Muslims encountered new and complex methods of production, new technology, and a wider range of products and crops. The free exchange of goods and the free movement of people within the Muslim state enhanced the well-being of its citizens, increased its financial resources thereby allowing it to extend welfare services to all its citizens, irrespective of their belief, race, or background. Even when the unity of the caliphate was no longer sustainable, the free exchange of goods and capital and the free movement of people continued to be the rule rather than the exception.

Islamic scholars studied economic exchange in the light of the Holy Qur'an and the Sunnah, and established basic principles for the protection of consumers, workers, merchants, and financiers. Ijtihad (opinion) was used to develop further al *mu'āmalāt* for smoother economic exchange whenever that was needed. For example, the *salām* sale contract (a contract allowing full payment in advance) was introduced to meet the special needs of agricultural producers.

However, the development of Islamic economics like all other intellectual activities came to a halt with the disintegration of the khilāfah and the decline of Islamic civilization. The rising powers of the European nation states, who occupied the Muslim lands, imposed their own social and economic systems. The newly imposed way of life was buttressed by secular education. Islamic education was confined to traditional *madāris* (religious schools), depriving the Muslim community of its most valuable and dynamic support to revitalize itself.

Islamic awakening needed a new economic doctrine, efficient and morally superior to the secular economic doctrines dominating the modern world. A few Muslim economists championed the reintroduction of Islamic economic doctrine. They held conferences, seminars and workshops. They published papers and books that attracted the attention of economists, students and learned circles in the Muslim world as well as in Western countries.

This conference is part of the intense on going efforts to reintroduce Islamic economics on more firm theoretical grounds. Parallel to this theoretical effort, some Muslim businessmen put into practice the concept of Islamic banking, creating interest-free banks. In spite of the difficulties engendered by the international financial system, and the rather negative attitude of governments in the Muslim world, Islamic banking proved to be successful. The venture of interest-free banking has confirmed moral principles as a base for successful financial intermediation. Demand for the services of interest-free banking has expanded in the last decade. Islamic banks are now handling over 80 billion US dollars.

Muslim economists who studied modern economics and mastered the tools of economic analysis, turned to researching Islamic

economics not only to prove the feasibility of an interest-free economic system, but also to prove its fundamental moral and spiritual superiority. At the center of the economic model, Islam replaces the selfish and greedy individual with the individual shaped by strong moral and spiritual values. A Muslim, as an economic agent, is not the classic economic man—an agent of greed and selfishness. Although, in a Muslim society, greedy and selfish individuals do exist, they are the exception rather than the norm.

The papers included in this volume are part of the ongoing effort to reintroduce Islamic economics using modern analytical tools. The first two papers are concerned with teaching Islamic economic programs. The first one by Iqbal and the second one by Khan discuss in detail the existing Islamic economic programs and introduce new ideas and concepts to improve on its teaching and research.

Iqbal compares different existing curricula for teaching Islamic economics in four well-known Islamic educational institutions. He carefully considers the objectives of teaching Islamic economics, highlighting the balance in the existing programs between the traditional shari'ah contents with those of modern economics. Detailed information on the existing programs is presented in an appendix, where comparison can easily be made.

Khan's paper covers extensive ground and points in the direction of further research. His handling of the microeconomics program for the undergraduate level is complete and profound. Microeconomics lies at the center of economic analysis. We are now considering the micro-foundations of macroeconomics. A well designed program of microeconomics is vital to any teaching program. Khan's methodology, prerequisites, coverage, and duration of Islamic economics courses, digs deeply into the epistemological foundations of Islamic economics, discussing the concept of ownership in Islam, the theory of demand, work and leisure, and intertemporal choices. In each of these basic topics, he explores new grounds and points to new directions for further research. He goes into detailed discussions of the theories of production, distribution, costs, and the firm in a comprehensive teaching program of Islamic economics that he suggests for undergraduates in an Islamic university.

The third paper, by Chapra, is centered around economic development strategy. He explores the differences between what he calls the imported development strategy and the Islamic development strategy. Imported strategies have been tried in Muslim countries and have failed to achieve serious economic progress, whether they were capitalist or socialist. The spectacular failures of the imported strategies were due to the fact that they were not in harmony with the system of values and the spiritual aspirations of Muslim societies. The value system of western development strategies is in conflict with the value reference of Islamic countries, so the institutional setup erected by the colonial powers in the Muslim countries represent a superstructure not related to the values and morality of Islam. Despite intensive government efforts and foreign aid, development efforts simply have been in vain.

As an alternative, Chapra develops an Islamic development strategy based on the *maqāṣid* (objectives) of the shari'ah. Equity and efficiency are the focus of the Islamic development strategy. While efficiency is at the core of the secular capitalist economic system that dominates the international arena, it has all but neglected equity. The socialist system, on the other hand, has stressed equity but has failed to realize it and at the same time has lost track of efficiency.

The Islamic development strategy embraces the two concepts of equity and efficiency as vital components. Economic policies are needed to achieve equity and efficiency in the Islamic development strategy as required by the shari'ah. Special attention should be directed to encourage small enterprises, financial intermediation, the human factor, and the reduction of wealth concentration. The role of government is emphasized and governments are urged to take the necessary steps to restructure the Muslim countries' economics to ascertain a positive outcome from the development strategy.

Chapra's paper is a serious contribution to development economics from an Islamic perspective, and will constitute an indispensable reading for the students of economic development.

The fourth paper, by Mirakhor and Zaidi, is critical to the development of Islamic economics. Economic policies and, in particular, monetary policies have been controversial. It has been said that in an

Islamic economic system there is no way to assure the success of economic policies, fiscal or monetary, in the absence of the rate of interest. The question is how to counter economic instability and promote growth where the interest rate is no longer at the disposal of the government and the central bank?

The inability of the government to set rate of return in the PLS system does not exclude the effectiveness of monetary policy in an open economy. This is the basic thrust of the analysis of the Mirakhor and Zaidi paper. They affirm using the supply of credit and money, in general, to successfully implement the required monetary policies to stabilize the economy and promote its growth. The model presents a valuable advance in the development of theoretical analysis in Islamic economics.

It is proved that a banking system free of interest, and using *muḍārabah* (partnership between one who has capital and one who has expertise) and *mushārah* (joint venture, partnership in which the participants contribute both capital and expertise), can be the basis of a monetary policy that fixes the rate of return on capital and enhances saving and investment.

Included in this volume are extensive discussions and comments by economists whose interest in Islamic economics is well known, and who make valuable contributions to the debate.

Finally, there is an extensive bibliography of references and published materials on development in the Islamic perspective by Muḥyiddin Aṭīyah that makes this volume a necessary companion for students and researchers in the subject. We hope that this book will also be used by students and teachers in Islamic universities, and by students and teachers in secular centers of education as a reference to raise the awareness of the emergence of the new paradigm.

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