

## Islamizing Economics

*Muhammad Najatullah Siddiqi*

Since the Islamization of economics is already in progress, I prefer first to describe it as it is actually taking place. I will then suggest some priorities for future work with a view to speeding up the process.

The starting point of this process of Islamization is the mind of the economist who is aware of Islam or of the concerned Muslim who is also an economist. Neither can escape the realization that Islam is relevant to economics. This realization is not based only on what the Qur'an *prescribes* in economic matters: moderation in consumption, spending in the cause of Allāh, prohibition of interest, etc. It is also underscored by the way the Qur'an *describes* good life and approved behavior, contrasting it with bad life and undesirable behavior. Men's attitudes toward property, work, trade, saving, spending and so on may differ, and these attitudes have different consequences for the individual as well as for society. Man is certain to be concerned about these consequences and hence the need to analyze, describe, and prescribe. Thus a concerned Muslim economist is drawn to the study of motivation, behavior, institutional arrangements, and policies. His analysis is objective, but the perspective set by moral and social concerns is never lost. His policy prescriptions are directed toward goals whose desirability is based on revealed guidance, but the need for being realistic and for correct analysis of the existing situation is never forgotten. The professional economist who is aware of Islamic perceptions is also able to launch similar ventures even though they are purely "scientific," that is, devoid of the moral concern of a committed Muslim. In a mixed world of concerned Muslim economists and economists who are aware of Islam but not committed to it, Islamic economics is able to draw on the labors of both.

This process has been going on for some time. It is time to ask what has been its outcome to date. Has it resulted in the discovery of some new truths? Could it succeed in adding new dimensions to man's understanding of his economy? Has it enabled him to arrive at new ways of making Islamic economics more conducive to human welfare?

It can be argued that the Islamization process has drawn attention to behavior patterns and institutional arrangements resulting from the Islamic nature of the individual and society. The realization that these patterns may be more relevant to an Islamic as well as an Islamizing people than those incorporated into modern economics has diverted some energies to their study. New tools are being designed to analyze an Islamic economy and to help it achieve its policy ends. It will be useful to report briefly what has been achieved in this regard. We will then address ourselves to the question of how to proceed further in this venture.

### **Behavioral and Institutional Setting**

Islamic economists have noted a number of behavioral characteristics specific to Islamic individuals. These are:

1. Economic agents care for others and serve social objectives in all economic activities such as consumption and saving, investment and production, employment and work.
2. The social objectives recognized and served by economic agents are (a) fulfillment of basic needs of all human beings, (b) balance and equity in the distribution of income and wealth, (c) stability, and (d) economic development.
3. Economic agents are motivated by self-interest and personal gain within the framework of social objectives and care for others.
4. Individuals exercise moderation in consumption and abstain from wasteful and luxurious living.
5. Individuals are inclined toward cooperation and mutual consultation with a view to realizing social objectives. This is especially relevant to the relation between labor and management, consumer and producer, and government and business.
6. The individual income-earner's decision to save is closely linked with his decision to invest.

Islamic economists have also identified the institutional arrangements unique to the Islamic system. These are:

1. Replacement of interest by profit sharing. (Of the several consequences of this departure from the capitalist system, the one to be noted, is that reward for financial investment is determined in the real market rather than in the money market.)

2. Creation of money through a process of investment (rather than through a process of lending, as in a capitalist system), effecting a firm linkage between the expansion of the money supply and the expansion of production.
3. Social institutions, especially the state, play an active role in the economic process in order to ensure the realization of the social objectives.
4. *Zakāh* serves as an effective instrument of transferring some resources from the rich to the poor, thus contributing to the realization of the social objectives.
5. A minimum level of income is guaranteed to all members of society who are, however, expected to work for it, to the extent that they are able.

What is the source of this knowledge? Did Islamic economists discover these behavior patterns and institutional arrangements through empirical studies? No. They discovered these characteristics in the Islamic society as envisioned by the Qur'ān and Sunnah. The source of their knowledge is, first, ideational not empirical. It is the Islamic description of, and prescription for, the good life. There is also a secondary source, that of Islamic history, especially in its authentic period, namely, the first forty years. The history of this early period of Islam confirms these findings. Though the later periods waver, they too confirm the long-term trends. Contemporary Muslim societies are no exception. Despite the strong influence of materialism, it is more instructive to understand contemporary Muslim economic behavior and institutions as deviations from these norms rather than as expressions of conventional economics. Even though the existing institutional arrangements in Muslim societies are very different from those in the early period of Islam, the latter remain the proper points of reference for an Islamizing people.

## Tools and Instruments

Do Islamic economists find the existing kit of tools sufficient for the study of the new scenario presented by the characteristically Islāmic institutions and behavior patterns? Not quite. For one thing, there are new rates and ratios which to play. There is the array of the *zakāh* rates applicable to various kinds of assets. Then there are the profit-sharing ratios among the savers, the financial intermediaries, and the entrepreneur-producers. There are new instruments of central bank policy to control the supply of money and channel investible

funds in desired directions. There are the refinance ratio and the lending ratio\*:

There is the minimum level of consumption to be guaranteed to all. Then there is the whole range of qualitative arguments to be introduced into the various functions in order to capture the social objectives. The conventional kit of tools is fine so far as geometry and algebra are concerned. But these tools are being increasingly harnessed to unravel the mysteries of phenomena unknown in the world of conventional economics. This has become more noticeable in the writings of the last few years. We have macro-models of consumption, income determination, and income distribution incorporating care for others with a utility function to be maximized; while *zakāh* and profit-sharing influence the decisions to save and to invest, the demand for money and the distribution of income. We have studies on monetary and fiscal policies incorporating new instruments of control and new ways of effecting transfers from the rich to the poor. Guarantee of a minimum level of income and moderation in consumption have also been incorporated into a macro-model of the economy. At the micro-economic level, multiplicity of objectives on the part of producers is being explored with a view to discovering what happens if the firm cares not only for profits but also for creating and maintaining job opportunities and ensuring adequate supplies of essential goods and services, for example. The impact of a cooperative spirit and mutual consultation on worker-employer and consumer-producer relationships is also being explored.

### Drawing upon the Legacy

The study of *fiqh* by professional economists is proving to be productive. One recent example is a reclassification of factors of production on the basis of how workers are rewarded in accordance with Islamic law, namely, whether they are paid contractual wages or whether they share in the profits, and may thus be liable to losses. This classification places wage labor, land, buildings, and machinery in one group. Financial capital, the entrepreneur, and land and physical capital whose owners wish to supply them on a profit-sharing basis rather than for hire are placed in the other group. This classification is more relevant to a study of income distribution than the conventional classification into land, labor, capital, and enterprise, which focuses on production. There is a general awareness now, on the part of Islamic economists, that the details of *fiqh* literature are a must in taking a stand on such issues

---

\*The lending ratio refers to the percentage of demand deposits the commercial banks in an Islamic system will be obliged to lend short-term, free of interest. The refinance ratio refers to the percentage of these interest-free loans that the commercial banks will be eligible to borrow from the central bank, free of interest.

as the stock and commodity exchanges, speculation and forward sales, and so forth.

Islamic economists often find themselves in a position in which they first have to listen to businessmen, bankers, and men of affairs and then have to discuss the problems posed by them with *Shari'ah* scholars with a view to advising the former. This can best be explained by the example of *murabahah*, which is a contract between A and B stating that B will buy a certain commodity for A, which A will purchase from B on deferred payment with a mark-up on the purchase price of B. The jurist bases his opinion on juridical texts relating to similar propositions. But the economist analyzes the issue in terms of its behavioral and institutional implications and its impact on the economic system as a whole. The businessmen's convenience as well as the society's overall interest both are involved. The point at issue is whether the contract is in harmony with the abolition of interest in letter as well as in spirit. The economist's analysis can help bridge the gap between conflicting juridical verdicts on the matter.

Other developments are also likely to contribute to the process of Islamization of economics. Dozens of doctoral theses are being written on subjects relating to Islamic economics. Those done in Western universities are mostly supervised by non-Muslim professors. The most popular subject has been Islamic banking, but economic thought and economic development have also been chosen in some cases. The interaction between professional notions and Islamic concepts during the process of writing these theses is likely to be productive. Those under preparation in the colleges of *Shari'ah* of various Islamic universities tend to focus on subjects of Islamic economics involving details of *fiqh*. There is some effort to provide the student with the supervision of a *Shari'ah* scholar as well as an economist. Here again the interaction between the student and the two supervisors is opening up new possibilities. The unique nature of Islamic economics, which must draw upon *Shari'ah* studies as well as economics, makes these experiments worthy of attention.

The teaching of Islamic economics in some colleges of *Shari'ah* at the bachelor's as well as the master's level is also bringing expertise in *Shari'ah* and economics closer together for both students and teachers. These programs provide an environment in which a synthesis between the Islamic legacy and modern knowledge in the field of economics may take place. The teaching of economics at modern universities in the Muslim world has not gone beyond a course on the economic system of Islam, the rest of the courses being taught along conventional lines. But even this preliminary step has opened a window through which a new awareness may enter that Islam is relevant for economics. The need for introducing Islamic concepts and values into the other economics courses is generally recognized but adequate literature for either teachers or students is not available. Some literature is being produced

by the research centers and institutes serving Islamic economics, but it is not designed for the classroom. Sooner or later the university departments themselves have to take the initiative for meeting this need, in which task the research institutions may actively collaborate.

Practical steps toward the Islamization of the economy recently taken in some Muslim countries have provided the greatest impetus to Islamic economics. The main areas of action so far have been the collection and disbursement of *zakāt* and the elimination of interest. Islamic economics has now become the concern of all: bankers, economists, businessmen, and even foreign investors are paying attention to it. Legislatures and ministries of finance, planning, commerce, etc. in some Muslim countries are dealing with issues necessitating the consultation of literature on Islamic economics. There is now some interaction among administrators, *Shari'ah* scholars, and economists in the wake of these new steps, which augurs well for the progress of Islamic economics.

The one issue all Muslim countries face is that of economic development. Islamic economics is appearing on the scene when imported strategies for development, whether capitalist or socialist, have failed. If Islamic economists have something to say on this subject they will get a hearing. Islamic economics also has the advantage of being the only indigenous school of economics in the Third World. Before the emergence of Islamic economics the Third World societies were obliged to opt for either socialist or capitalist economics, Muslim societies being no exception. For the first time, the Third World in general and the Islamic countries in particular are being introduced to a new approach to their economic problems, rooted in the ideas and cultural heritage of their own people. Given clarity of vision on the part of the spokesmen of this new approach, there is every chance of its being given a fair trial. But the sponsors of the new approach will have to be more specific and come forward with greater details.

## Program for the Future

### *Inter-disciplinary Studies*

There is a need to study the behavioral assumptions of Islamic economics, adopting an interdisciplinary approach. The assumption that men care for others, that they are not motivated by self-interest alone, is basic to Islamic economics. It is this assumption that distinguishes Islamic economics from Western economics. Next in importance is the assumption that education can sustain and promote altruistic behavior, that it can make men work for the social good even if it involves some sacrifices of personal gain. The economist needs the insights of psychology and sociology and those of history and an-

thropology for a proper study of these assumptions. Such a study may also define the limits within which the principle of care for others may operate. It is the balance between the two apparently conflicting principles of self-interest and altruism that supports the edifice of Islāmic economics, with its clear recognition of private ownership and its overriding emphasis on public purpose. An interdisciplinary approach is needed to spell out the implications of conflict and point to the ways in which conflict situations may be resolved. There is an abundance of *fiqh* literature relevant to this issue.

### Empirical Studies

Empirical studies on the effects of *zakāt* collection and disbursement and the abolition of interest are now possible to the extent that these steps are being taken in some countries. Hypotheses relating to the impact of *zakāt* and the replacement of interest by profit-sharing, which have been presented in the literature so far, need to be put to the test. Even hypotheses relating to the behavior of the producer under the influence of Islamic teachings may be tested in selected regions.

The possibility of empirical studies underlines the need for more specific and narrowly focused hypotheses. Those we find in the literature relating to consumption, work, and so on, are couched in general terms.

### Interaction with Shari'ah Scholars and Economists

Further progress of Islamic economics calls for closer cooperation between Islamic economists and *Shari'ah* scholars, on the one hand, and between Islamic economists and their colleagues, especially the non-Muslims among them. The way in which a *faqih* arrives at *hukm* or policy prescription (in matters not directly covered by the texts of the Qur'ān and Sunnah) and the way in which an economist does so have a great deal in common. Both are trying to promote the social good and resolve any conflict between private interest and public interest. But each does it in his own way. The jurist often quotes authorities more than reporting arguments or stating his reasons. The economist is trained to deal with reasons in an analytical manner. Interaction with the economist is likely to force the jurist to go back to first principles more often than he has lately been accustomed to. The jurist, however, has a broader perspective on the objectives of the *Shari'ah* in relation to economic transactions, with which the economist's narrowly focused training never provides him. Any policy prescriptions coming from the economists need to be reexamined in a broader perspective. The economist should not, however,

accept the juristic verdicts passively. Rather, he should understand the jurist's methodology, assimilate his perspective, and reexamine the issue. Only this kind of close interaction, centered on specific issues such as rent, profit-sharing, or *zakāh* on industrial assets, is likely to yield a body of *ahkām* or policy prescriptions more responsive to the needs of society and in consonance with the objectives of the *Shari'ah*.

Interaction with the profession of economics is needed to ensure rigor in analysis and relevance to the international economic situation. Islamic economics is not meant to be specific to Muslim countries. Its appeal is universal. Let its descriptions and prescriptions be examined closely by men of robust common sense in comparison and contrast with that with which they themselves are familiar. They may judge Islamic economics on the twin criteria of logical consistency and practical efficacy in the light of their own understanding of the economic situation. Since these criteria also constitute the points of reference for Islāmic economists, along with the objectives of the *Shari'ah* which is their unique point of reference, they definitely stand to gain by this interaction. It is also a necessary exercise for gaining universal acceptability for Islamic economics. The objectives of the *Shari'ah* are none other than the repositories of what is good for man. Professional economists cannot but appreciate that Islamic economics is seeking to ensure through reason, aided by divine guidance, some of the very ends they are seeking to secure through reason alone.

### **Putting Ideas to Practice**

Islamic economics has recently attracted the attention of the rulers of some Muslim countries who want advice on development strategies, financial management, and welfare programs. This is a welcome development as it makes fresh demands on this nascent discipline and obliges it to move from the general to the specific and from the academic to the practical and the operational. Islamic economists need to make their own analysis of the existing conditions in the countries in which they operate before they can translate their models of banking and finance, fiscal policy and distribution, into operational programs in specific countries. So far this has not been a strong point of Islamic economics. The research institutions serving Islamic economics should pay special attention to this aspect of their work.

### **Teaching Programs**

The classroom and the faculty lounge have been the cradle of academic disciplines, but Islamic economics has yet to find its proper place in these

areas. A concerted effort on the part of its sponsors can easily win ground, as their case is strong. No department of economics anywhere can afford to ignore it altogether. Colleges and universities in the Muslim world can be persuaded to accord it a much better treatment. But the lack of suitable teaching materials and the difficulties in gaining access to what is already available are frustrating indeed. Better arrangements of distribution of the available literature and a planned effort to prepare suitable reading materials, including textbooks, should receive top priority.

## Conclusion

The crucial factors in implementing this program are leadership and organization. The idea of Islamic economics has proved its vitality by making significant progress so far with little institutional support. But the demands addressed to it now are too large to be met without adequate institutional arrangements. Some of the vast intellectual resources of the *ummah* have to be mobilized through specialized centers of learning to meet these challenges. Fortunately, some institutions are already prepared to do just that. It remains to be seen whether they have the kind of leadership and organization needed to bring it off.