

Islamic Economics: The State of the Art

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Introduction

The present paper is intended to achieve three objectives: 1.) To discuss in board terms, the issues and methodology of Islamic economics as it exists today; 2.) To point out deficiencies in the contemporary literature on Islamic economics and 3.) To suggest a plan for further research.

Before proceeding, three explanations seem appropriate. First, although the tradition of writing on economic issues can be traced back to the second century of Islam, the present study focuses on the literature produced during the last fifty years. Second, this chapter is not a survey of the literature and hence does not summarize different shades of opinion on each subject. Such useful surveys have been carried out by others, most prominently by Muhammad Najatullah Siddiqi.¹ Instead, I will emphasize the questions not faced by Muslim economists. In doing so, I have made an effort to develop a general approach for further research. Third, I have no pretensions of knowing more than the scholars on whose writings I shall be commenting. In fact, I am indebted to all these writers on Islamic economics. Without their valuable contributions I could not have written this chapter. My comments are intended to enhance the work of Islamization of economics further and not to belittle the work done so far.

Main Currents

The discussion on main currents of Islamic economics involves the identification of the background of contributors and an overview of the subjects

of study. There are three categories of scholars who have contributed toward Islamic economics: *'ulamā*, modernists, and Western-educated economists. The *'ulamā* have been torch-bearers of the subject. They have done pioneering work to instill an awareness among the Muslim elite that Islamic economic teachings are comprehensive and offer a suitable solution to the economic problems of man. Their main emphasis has been on delineating the economic teachings of Islam in contemporary terms. They have adopted an orthodox approach that traces all the teachings back to their sources. The modernists, on the other hand, have been mainly engaged in reinterpreting the primary sources and adjusting the orthodox line of arguments to contemporary situations. Here, one finds significant departures from the orthodox position. Because of the common man, the modernists have not been able to receive popular support for their views. The third category of scholars, Western-educated economists, have recently shown remarkable enthusiasm for developing Islamic economics. They have the expertise in economic analysis. Based on what the *'ulamā* enunciate as basic economic teachings of Islam, Muslim economists have started to develop economic analyses. Efforts in model-building and generalization have also begun. Western-educated economists hold a bright promise for the future of Islamic economics. But most of them do not have direct access to the primary sources of Islam. A more useful contribution may be made by them as soon as this deficiency is overcome.

A survey of the literature reveals that the development of Islamic economics has been lopsided. Some areas, such as interest, interest-free banking, *zakāh*, land tenure, and public finance, have attracted more attention from scholars than others. Scholars have paid only scant attention to other subjects. Some questions have not been addressed at all. They are the gaps of Islamic economics.

Methodology

We discern a variety of approaches in the methodology of Islamic economics. The *'ulamā* have been, mainly, restating the position of the *Sharī'ah* on various questions. Their explanations contain an implicit awareness of the social reality but their emphasis has been on the legality of each situation. In their writings, juridical content is predominant. In a strict sense their contributions may not be classified as economics, but in the context of Islamic economics their writings form the core of the subject. They have provided a strong toehold for the development of the subject.

The writings of both modernists and Western-educated Muslim economists are mainly *conceptual* and not *theoretical*. They are conceptual because they provide an elaboration or analysis of the basic principles of Islamic economic teachings. They are not theoretical because they do not take into account real-

life situations. A theory is generally considered to be a non-falsifiable abstraction of complex real-life situations to explain certain phenomena and to forecast future behavior of the variables involved. The literature on Islamic economics, as it exists today, explains or analyzes the teachings of Islam. It is not related to real-life situations. That is what makes it conceptual and not theoretical. To illustrate, the idea that the Islāmic law of inheritance leads to a greater distribution of wealth is conceptually sound and understandable. But a theory propounding the same conclusion would require study of a real-life situation in a time-space framework. Before such a theory is generalized for other, similar situations it has to be tested against empirical evidence and modified, if necessary. As long as an idea is not based on the observation and analysis of real-life situations it remains a concept that may appear to be logical intuitively. The literature on Islamic economics is conceptual and not theoretical in this sense.

At this point it seems pertinent to quote Abdul Mannān on the secularization of Islamic economics: "The tendency to test each and everything with limited human knowledge and bias may destroy the basic foundations of Islamic economics."²

Abdul Mannān fears that economists, to remedy the lack of empiricism in Islamic economics, will now "test each and everything." This can never be done. The fundamental framework and the axioms of Islamic economics have been derived from divine sources, and there is no question of their being tested empirically. But behind the shield of divine axioms are hidden hundreds of ideas derived from these axioms. Empirical evidence is required to verify these ideas, which themselves are not divine. They have only been conceived within the divine framework. Escape from empirical validity of these ideas would weaken the foundations of Islamic economics and might not let it transcend juridical restatements.

CONTRIBUTORS	AREA OF STUDY	METHODOLOGY
' <i>Ulāmā</i>	Economic Teachings of Islam as in Primary Sources	Re-stating <i>Shari'ah</i> Position; Legal Jargon
Modernists	Re-interpreting Primary Sources	Conceptual and Not Theoretical; Legal Jargon
Economists	Economic Analysis Based on Economic Teachings of Islam	Conceptual and Not Theoretical; Economic Jargon

Another escape from empirical testing lies in the statement that Islamic economics is a "perceived reality of the future."³ A large part of the literature on Islamic economics deals with the *ideal* Islamic society—a goal toward which the Muslim *ummah* should move. To the extent that this approach sets up the objectives and brings to light the extent of departure from the ideology, it is a valuable contribution. But it does not provide Islamic economics with a theory. The approach remains conceptual.

In sum, what the *'ulamā* have stated in theological jargon, Muslim economists have restated in economic jargon. They have tried to explain how Islamic teachings may be applied to a modern society. On its own it is no mean task. They have gone a long way toward soliciting support from the Muslim elite for the economic concepts of Islam. But stripped of its economic jargon, the basic approach remains the same as that of the *'ulamā*. This is not to belittle the contribution of Muslim economists. Their work has provided a sound footing for further research. Without this basic work, the contribution of the *'ulamā* would have remained unheeded. But they have tackled the subject at no higher plane than that of the *'ulamā*. If the work of the *'ulamā* was not helpful to solving the economic malaise of the *ummah*, neither is the work of the Muslim economists.

To our mind this is a premature effort. Muslim economists should not worry about the recognition of Islamic economics. If they are able to offer adequate solutions to the economic problems of man, recognition will come by itself. Islamic economists need to work without any artificial attempt to integrate Western techniques of analysis. Once real-life situations permit empirical studies and theoretical formulations, they may, as a natural course of action, adopt mathematical tools. At the present stage of evolution, Western methods create a displacement of goals and are not imperative for discussing the concepts of Islamic economics.

Critical Analysis of the Main Themes

We shall now analyze the main themes of Islāmic economics. The objective is to show the gaps and deficiencies of the existing literature and to prepare a plan for future action.

Ribā

Ribā has been one of the most extensively discussed subjects in Islāmic economics. Its earlier discussions revolved around juridical clarifications. Later, the modernists tried to argue that Qur'ānic *ribā* does not cover interest charg-

ed by banks. But the writings of the *‘ulamā* and Muslim economists and the deliberations of successive seminars and conferences have clarified the ambiguity. There is a consensus now that *ribā* covers all types of interest.

The discussion of *ribā* has almost always implicitly assumed that the abolition of interest is a legal issue. Except for N. H. Naqvi's *Ethics and Economics*,⁴ there is hardly any explicit awareness of the economic roots of interest. Mere legal prohibition of interest may not effectively eliminate interest from the economy. Even if it is legally banned, it may continue to exist in disguised forms until an economic mechanism is discovered to make it redundant. To our knowledge (and Allah knows best), this area of inquiry is still waiting for someone's efforts. The literature so far produced has not yet examined all the varieties of explicit and disguised forms of *ribā* prevalent in various business transactions. A first step should be an investigation into these forms before a theory for its effective elimination from the economy can be formulated.

Discussions of *ribā* often encompass its dysfunctional role. For example, it is argued that *ribā* is responsible for unemployment, inflation, trade cycles, stagflation, and concentration of wealth. The arguments for these issues are mostly intuitive and deductive. Hardly any material cites real-life data in support of these conclusions. Although *ribā* is a fact of life and real-life data are abundantly available, Muslim economists have not utilized them. This is not to argue that their conclusions are invalid, for such an argument would, again, be intuitive. The point is that they need to be substantiated.

Another blank area is the absence of a critique of the theory of interest. Muslim economists have not faced it squarely. The critique needs to be developed in a Western as well as an Islamic framework.

Islamic Banking

Islamic banking also has attracted the attention of Muslim scholars. From the crude conjectures on alternatives to modern banking to sophisticated models, the literature in the area is perhaps the richest. The establishment of a number of Islamic banks has led the discussion further.

The research on Islamic banking has mainly concentrated on the types of transactions Islamic banks are permitted to do. This is a legitimate prerequisite for any Islamic bank. But the economic consequences of the forms of transactions adopted by Islamic banks have not yet received adequate attention. In other words, the focus has been on juridical rather than on economic issues.

All the conceptual models of Islamic banking (with the exception of the one presented by Bāqar al-Ṣadr⁵) have been presented in an ideal Islamic set-

ting. Consequently they do not take into account the interaction and competition with conventional banks with which Islamic banks in a contemporary situation have to deal. The model of Bāqar al-Ṣadr is an attempt to devise a juridical mechanism for an Islamic bank in a present-day not-fully-Islamic society. But now that Islamic banks are functioning without waiting for the eventual emergence of the ideal Islamic society, it is time to evaluate the impact of competition from conventional banks on Islamic banks.

The most widely accepted alternative for Islamic banking is profit-sharing (this is not to discount the other methods suggested by Muslim scholars). But the literature does not fully explore the limitations of profit-sharing for the financial system. For example, profit-sharing cannot be an adequate basis for financing short-term loans or the development of infra-structure and small businesses. The amount of financing for the above purposes is significant enough to curtail the utility of profit-sharing as an alternative for banking. This, obviously, points toward the need for a more comprehensive basis for financing. Shaikh Maḥmud Aḥmad's idea of the time-multiple-counter-loan has the potential of becoming a basis for the credit system.⁶ Unfortunately Muslim scholars have not yet given it serious thought.

The limitations of profit-sharing as an alternative to interest is also evident from the practice of Islamic banks. Islamic banks have only minimally engaged in partnerships with profit-sharing. A larger part of their profit comes from installment sales, leasing, guaranteed mark-ups, and foreign exchange transactions. Their preference for these types of transactions stems from the higher risk involved in profit-sharing, the prevalence of dishonest business practices, the problem of controlling managing partners, and the absence of sound management practices among clients.⁷

The situation not only speaks for limitation of profit-sharing as an alternative to interest but also points toward the trap into which Islamic banks are most likely to fall. The legality of installment sales, leasing, and mark-ups is not beyond doubt. Interest seems to have sneaked into them in a disguised form. The literature on Islamic banking does not take full cognizance of this departure from ideology. It does not explore thoroughly the ways in which interest may creep back into the economy. In other words, the prophetic wisdom to prohibit *ribā al faḍl* as a preventive measure has not been extended to its logical end.

Another blank area is the evaluation of Islamic banks in operation. A system of continuous appraisal of the functioning of Islamic banks needs to be introduced. The focus of evaluation, however, should be adherence to the *Sharīah* and the achievement of stated objectives.

Zakāh

Zakāh is another area in which Muslim scholars have shown substantial interest. Since *zakāh* is an article of faith as well as a unique measure to fight poverty, it has attracted the attention of Muslim scholars. Most of the literature on *zakāh* deals with legal and administrative matters. The economic implications of *zakāh* discussed by Muslim economists are intuitively appealing and logically sound. But these deductions are no more than romantic assertions. For example, it is often argued that *zakāh* will lead to a redistribution of wealth. But there are no clear answers to the following questions:

- What is the state of distribution of wealth in Muslim economies at present?
- How many Muslims are paying *zakāh* on their own without government enforcement?
- What would be the probable level of evasion, once *zakāh* law is enforced by the state?
- What is the impact of *zakāh* in countries where it is in force at the state level?
- What is the extent of poverty and to what extent can *zakāh* be helpful in alleviating it?
- How far are the growth-and-distribution arguments in favor of *zakāh* compatible with other?
- How does *zakāh* affect work incentives?

Although most of the literature on *zakāh* deals with juridical issues, many of these still need to be resolved. As long as it is not clear which types of property are subject to *zakāh* and at what rates, it is dangerous to accept the economic implications of *zakāh* discussed in the literature.

Literature on *ushr* is scanty. Most writers treat *ushr* and *zakāh* as being identical. Separate discussion of *ushr* in the context of rural economies of the Muslim world is rare. Like the literature on *zakāh*, discussions on *ushr* are not related to the mass poverty existing in the Muslim countries. Policy issues justifying *ushr* and romanticizing its impact have already been discussed.

Public Finance

Discussions of public finance in Islam are mainly inspired by earlier works on *kharāj*. Most of the literature enumerates the various forms of revenue in early Islamic societies. Little attention is paid to the change that has taken

place during the last thousand years or more. Some writers have deduced the principle of taxation in Islam. Most of the discussions have a legal slant. Like the rest of the literature on economics, they are devoid of any real-life content. For example, there is no discussion on the contemporary situation of taxation. How would the Islamic taxes fit into the secular taxes? What would be the economic impact of Islamic taxation? There is almost no analysis of the existing taxation from an Islamic point of view. Until real-life conditions are integrated into the ideological postulates, little will be achieved by present discussions.

Land Tenure

The Muslim economies are suffering from gross social injustice. The rural sectors have a devastatingly exploitative land tenure system. The studies on the land tenure system of Islam deal mainly with:

- The legal position of different contracts of land tenure;
- The legal status of different types of land;
- The taxes leviable on land;
- A general plea for a more just system;
- General, ad hoc, reformatory measures.

Most issues that have attracted the attention of scholars have not been fully resolved. The question of land tenure has been dealt with in isolation of the economy as a whole. Egalitarian recommendations have been made by social reformers who have not analyzed the economic implications of their suggestions.

A lot of useful work on the rural economies of the Muslim world has been done by international agencies and independent development economists. These studies cannot be utilized as such because they have been carried out in the analytical framework of Western economics. But parts of these studies may be used with benefit to construct a theoretical model for the improvement of Muslim rural economies in the Islamic framework. The major thrust of future research in this area should be toward acquiring an awareness of the real-life conditions of the Muslim world. This may give a starting point for transforming these economies into the just economic order of Islam.

Although the literature on land tenure systems is mainly historical, it does not trace the development in the contemporary era. It would be of vital significance if the land tenure systems of Muslim economies were traced historically to the present era. This process may provide us with a cutoff point

at which the colonial powers replaced the Islamic land tenure system with a secular land tenure system. This may help us to understand the historical process of social injustice and may also give us insights into how to undo it. This would be a tremendous task but would put the whole question of social justice in proper perspective.

Labor

The literature on labor is scanty. It is mainly inspired by Western movements for greater labor rights. Muslim scholars have tried to adjust and reinterpret their basic sources to look more progressive. But questions of fundamental significance have been left out of the discussion. Recommendations for a just wage, profit-sharing, better working conditions, benevolence toward employees, interest-free loans, etc., have been made quite frequently. But no attempt has been made to treat these concerns in an overall economic model. Capitalist economies have recently adopted many improvements in the condition of workers. It has been fully appreciated that the organization of the production sector on the basis of an employer-employee relationship is characteristic of capitalism. The Islamic teachings of *ukhuwwah*, *shūra*, *ta'āwun*, *ihsān*, and so on, do not fit into this model. They present various inherent contradictions. The maximization of profit, which is the objective of an employer, is achieved by equalizing marginal productivity of employees with a marginal wage rate. The employer-employee relationship makes maximization of profit possible, but in an Islamic setting where the above values have to be practiced, the employer-employee relationship cannot be sustained. The firm organized on the basis of an employer-employee relationship cannot function profitably if the employer has to practice the above values of Islam. We need to think of some alternative basis for organizing economic activity in the production sector.

Even if we grant that there is no contradiction between Islamic values and an employer-employee organization of the production sector, the literature does not face all the logical questions. For example, how shall wages be determined without becoming trapped in the neoclassical doctrine of marginal productivity? How to reconcile the right to strike and lock-out with Islamic values of *ukhuwwah*, *shūrā*, *ihsān*? These and similar questions have not been addressed by Muslim economists.

Consumption

Muslim scholars have written very little on consumer behavior. In fact, except for Anas Zarqa's⁸ and Mundhir Kahf's⁹ papers, analytical literature on

consumer behavior does not exist. Among the *'ulamā*, Maudoodī and some others have talked of consumer behavior in purely mechanistic terms. The summary of their ideas is that Islam prescribes simple living and shuns a luxurious lifestyle. Then they list a few items of luxury have been specifically prohibited in the Qur'ān or *Sunnah*.

Anas Zarqa's paper reports on valuable research and introduces original insights. But while discussing consumer behavior he has taken into account the behavior of an individual Muslim. Thus, unwittingly, he has isolated the individual from his family. Mundhir Kahf has studied the consumption behavior of a household. In an Islamic society, the institution of the family is very strong. Islam has supported the concept of the extended family where all members are dependent on each other for their material and emotional needs. Consumer behavior in Islam is not that of an individual. The family is the basic unit of consumption. Consumption decisions are taken in a family setting. A realistic consumption model in the Islamic framework cannot be conceived in isolation of the family. The practical model of consumption behavior may be much more complex than the addition of a variable in the capitalistic model.

The concept of the extended family introduces a number of economies. If people live under one roof and eat from the same kitchen they may spend much less as compared to multiple units living separately as independent families. This also affects the demand pattern for housing, furniture, and other household durables in the economy. In a consumption model, all these factors may change the conclusion significantly.

If we continue to adopt Western analytical methods, with its implicit assumptions, and add a variable here and there, we may end up with a capitalist consumer behavior model couched in Islamic terms. We must visualize the situation as a whole. Piecemeal integration of capitalism into Islam may do more harm than good.

Law of Inheritance

There are frequent references in the literature on the redistributive aspects of the Islamic law of inheritance. But the discussion has barely proceeded further. Although the impact of the law of inheritance on distribution is intuitively clear, there is no real-life study to substantiate it. We do not know whether the law of inheritance is in force anywhere or not. Nor do we know the major consequences of its non-practice. Questions of logistics to apply the law effectively also need to be studied.

Islam has granted a definite share in inheritance to women. Based on a two-to-one share between male and female, we may say that one-third of

the entire wealth of an economy is to be owned by women. But there is a strong prejudice against the social and economic roles of women. The share of women in an inheritance becomes meaningful only when their right to employ their share is accepted. Despite all the lip-service to the rights of women, this prejudice has gone a long way toward effectively depriving women from their share in the wealth. Practically, most of the wealth that the law of inheritance transfers to women is transferred back to men on one pretext or another. This raises serious issues of social significance. But for economists, the matter of importance is to reconsider the oft-applauded redistribution role of the law of inheritance. Until the law of inheritance is conceived in a non-contradictory social setting, the redistributive effects of the law of inheritance must be accepted with serious reservations.

Economic Development

Islamic literature on economic development has a strong capitalist bias. Despite all the qualifications that Muslim economists have been adding to the Western models, they have not been able to transcend the Western approach to economic development. Most of them have argued that Islam stands for material prosperity, entrepreneurship, full employment, economic stability, and just distribution in the value frame of Islam. In addition to the fact that these various objectives involve tradeoffs with one another, they present definite contradictions with the Islamic emphasis on simple living, life in the hereafter, and the insignificance of this life. Muslim scholars have been busy stretching and reinterpreting the primary sources of Islam to show that Islam upholds material prosperity. These attempts have safely left out of consideration the life in the hereafter, a simple lifestyle, sacrifice for others, and the emphasis on *'ibādah*. Instead, even the meaning of *'ibādah* has been extended to include struggle for material prosperity.

This is not to argue that Islam stands for poverty. The point is that in their enthusiasm to alleviate poverty, Muslim scholars have drifted too much toward the material side of life. Thus the balance dictated by Islam has been disturbed. A clearer definition of the concepts and objectives of economic activity in Islam needs to be developed. This will obviously require a study of the logistics of development in Muslim economies. The work done by Western economists has a lot of useful material but it needs to be reviewed in the light of Islamic teachings. A study of real-life conditions of Muslim countries is needed in an Islamic framework to devise a suitable strategy for development.

Although there is no explicit study to recommend greater foreign aid from the Western countries, there seems to be an implicit consensus among Muslim

economists about the positive role of foreign aid in the development process. This inference is based on the total silence of Muslim economists about the dysfunctional role of foreign aid. Foreign aid in the present era has been a major instrument in chaining Muslim economies to a vicious cycle of dependence and underdevelopment. While defining the concept of economic development in Islam, general statements on self-reliance have no doubt been made. But the extent to which foreign aid has paralyzed Muslim economies and how to get rid of it have not been seriously discussed. This obviously calls for a fresh approach to economic development.

Basic Principles

A large part of the literature on Islamic economics deals with basic principles. But in most cases the style is rhetorical and the ideas are simplistic. Although the literature is full of references to primary sources, it is astonishing to note that the literature lacks a comprehensive discussion of the basic beliefs and values. A large part of the Qur'ān and *ahādīth* deals with *Tawhīd*, *Risālah*, *Ākhirah* and such values as *'adl*, *ihsān shukr*, *taqwā*, *ta'āwun*, *infāq*, *Ithār*, and *šila raḥm*. These subjects are repeated again to strengthen human faith in the type of personality that Allāh wants. These general principles of intellect and human nature are the source of all Islamic law.

It is astonishing to see that Muslim economists have paid only scant attention to such a vast portion of the Qur'ān and the *Sunnah*. They have failed to determine precise meanings of these concepts, explore the relationship of these beliefs and values with the economic theory of Islam, or try to structure a design for the Islamic economy that can be deduced from these basic and general principles.

The discussion of these principles is peripheral and even implicit. The *ulamā* wrote on these issues in theological jargon. But the tradition has not been continued by the economists. The economists started wrestling with formalization of secondary and tertiary principles. Thus they missed the vision of the society that Islam wants to develop. Instead they took up certain segments of Islamic law and started struggling with their formulation of the Islamic economics an appearance of a science and to make it acceptable to the Western world. The original emphasis to find solutions to the economic problems of man was displaced by attempts to win laurels from the West.

Cooperation among Muslim Economies

There is not much in the literature on economic cooperation among Muslim countries. On the political level, however, the Muslim elite has been

raising the issue. Proposals emulating the British Commonwealth or the European Community have been made. The theoretical rationale for such proposals emanates from the Qur'anic emphasis on the unity of the *ummah*. Except for the reference to the brotherhood of all Muslims, the literature in this area has hardly any other ideological or Islamic content. No serious effort has been made so far to assess the real-life situation, and to explore the possibilities of cooperation. Typically, proposals of greater economic cooperation among Muslim states do not take into account:

1. That different Muslim states are being governed by elite groups whose vested interests diverge from Islamic teachings. For these elite groups, economic cooperation for ideological reasons is hardly an issue. Any proposal of cooperation that ignores this reality cannot be taken more seriously than a mere expression of fond hopes.
2. That Muslim countries have trade relations with non-Muslim countries. These relations have led to bilateral commitments that may be detrimental to the idea of a Muslim Commonwealth. The literature often ignores this conflict and does not take into account the resistance that individual countries may put up to defend their existing trade patterns.
3. That any cooperation among Muslim countries can be meaningful only if it has an ideological content. If the people of the Muslim countries do not practice Islam, they cannot be expected to uphold any move for cooperation on ideological grounds. The cooperation would dwindle down to purely economic or material considerations. The literature turns a blind eye to the hard fact that the level of individual adherence to Islam among Muslims is quite low and that until an effort to strengthen the faith and practice of Islam is made the cooperation movement will not bear fruit. At best it might be a secular or material cooperation but in no case would it be "Islamic" as professed in the literature.

Main Achievements

The above discussion may create an impression of the insignificance of Islamic economics. During the last decade Islamic economics has covered considerable ground. Before we proceed with our analysis, it seems proper to take stock of what has been achieved so far:

1. There is a general realization among Muslim economists that Islamic economics needs to be developed as an independent branch of knowledge. There is a broad agreement that Western economics is not universal and contains a high content of Western values incompatible with Islamic values.
2. Since most of the literature has been produced in the framework of an ideal Islamic state, it has brought to light the extent of departure from the ideology in contemporary Muslim societies.
3. Some of the contentious issues have been resolved by a general consensus. For example, it is now generally agreed that *ribā* covers all forms of interest. The early controversy raised by modernists that *ribā* does not cover commercial interest has died down.
4. Certain areas of inquiry have received more attention from Muslim economists than others. Literature in these areas comes up to the generally accepted standard of research in the social sciences. For example, literature on the monetary and fiscal economics of Islam is of a high quality.
5. A number of research institutions are devoting their resources on research in Islamic economics. At least one research journal has begun publication.
6. Islamic economics is being taught as a subject at a number of Muslim universities.

General Theory of Islamic Economy

Islamic economics is often criticized for lack of a general theory of the Islamic economy.¹⁹ It is even dismissed as utopian and non-operational. Is this criticism fair?

A general theory of an economy can emerge from the study of real-life conditions. Theory, as discussed earlier, is an abstraction of a complex reality. It is intended to explain, analyze, and predict the behavior of real-life variables. But there is not one truly Islamic society in the world. How can a general theory be developed about a nonexistent society? This is precisely the reason that Islamic economics, at present, is merely a statement of the *Sharī'ah* position on economic issues.

In this situation it seems unfair to demand a general theory of Islamic economy. At best the Muslim economists may be expected to formulate a general theory of *transition* to an Islamic economy. But a theory of transition

is a complex matter because Muslim economies, at present, differ widely in their resource endowment, adherence to ideology, and social infrastructure. As a result, there does not exist any generally accepted theory of change. The Islamic movement in different countries has advocated different theses, and there exists a wide controversy on the most suitable path of change. In our opinion, the evolution of a generally accepted route to Islamization would require the concerted efforts of scholars of different disciplines. What is the role of Muslim economists in this context? Should they sit back and wait for the opportune moment when a generally accepted theory of change emerges? We think Muslim economists have both a responsibility and the capability to break the ice and take the necessary initiative.

We believe that a theory of transition to an Islamic economy, much less a general theory of Islamic economy, cannot emerge from the level of discussion and the methodology of research now in vogue. To set the stage for a theory of transition, considerable preliminary research will have to be done. We think that the following points lead in that direction:

1. Real-life social and economic conditions of Muslim countries must be studied in a series of research projects conceived in a master plan. The focus of these studies should be the relationship of these conditions with non-adherence to Islamic ideology. Development economists have done much research on the real-life conditions of the Third World, including Muslim countries, but their work is both inadequate and irrelevant to our purpose. It is inadequate because it is not related to the Islamic framework. It is irrelevant because it has used Western analytical tools which are often value-loaded and may not be suitable for the purpose. Therefore, new research designs have to be conceived that take into account the real-life conditions of the Muslim countries.
2. Another series of research projects should examine critically the socio-economic policies of Muslim countries from *Sharī'ah* point of view. The impact of these policies on the process of change can provide valuable insights.
3. There is a need to examine social, cultural, and educational institutions and their impact on economic situations. Again, they require a critical look from an Islamic point of view.
4. Wide-ranging studies in behavior patterns of the Muslim population and their probable response to the teachings of Islam needs to be assessed. This would help modify the utopian approach toward Islamic economies.

Basic research organized on this pattern and conceived in a broad and coordinated plan would provide some understanding of the existing situation. The research should not only be conceptual but should also involve field work. Modern logistics and technology may be commissioned to help the researchers. We believe that a fundamental awareness of the existing conditions is mandatory for any general theory of change. This awareness cannot come by mere conceptual conjectures. We have got to go to the grass-roots.

We believe (and Allah knows best) that a generally accepted theory of transition to an Islamic economy is a prerequisite to a general theory of Islamic economy. The general theory of Islamic economy would be an explanation and analysis of the Islamic economy as and when it comes into being. To ask for a general theory of a nonexistent economy is to demand the impossible. Attempts to produce such a theory cannot be more than intellectual gratification for the Muslim scholars.

Plan for Research

A five-year plan for research in Islamic economics may be developed along the following broad lines. The research may proceed in two distinct directions: basic research and applied research.

Basic Research

The objective of basic research is to provide basic paraphernalia for further and applied research. To make a beginning the following areas are suggested.

(A) Economic Concepts of the Qur'ān

There is a need to cast a fresh look at the text of the Qur'ān to seek guidance about economic matters. The early works on Qur'ānic exegesis need to be researched thoroughly to understand the historical continuity of interpretation. The material on economic concepts of the Qur'ān is widely scattered in these works. A representative sample of exegetic works of each century may be drawn and the relevant material sifted. This may be supplemented by critical notes in the light of contemporary situations. The primary objective is to make available in a usable form the legacy of earlier scholars and to relate it to the present-day situation.

(B) Economic Teachings of the Prophet (ṢAAS)

The *ḥadīth* sources of Islamic economics are scattered in a large number of books. It is not possible to make ready use of these *aḥādīth*. The major books of *aḥādīth* need to be studied and the material relating to economic matters classified. The selected material may contain short explanatory notes wherever necessary.¹¹

(C) Fiqh

There is a vast *fiqh* literature, but most of it was written many centuries ago. The jurists propounded various legal theories in the light of the social realities of their respective times. A series of research projects should (1) select the material relevant to economic matters, (2) analyze and understand the temporal context of various legal theories, (3) identify the areas where *ijtihād* is needed, and (4) seek *ijtihād* of competent scholars in these areas.

(D) Economic History of the Muslim People

There is an enormous gap in the Islamic history about the economic conditions and policies of the Muslim people. The Muslims ruled over vast territories for over a thousand years. An economically weak people could not have sustained this rule for such a long time. But no readily usable documentation of the economic history of the Muslim people is available. In a series of research projects this history needs to be placed on record.

(E) Readings in Islamic Economics

A series of selected readings on Islamic economics needs to be published to consolidate the work published in various journals and languages. This not only would provide a basis for further research but would also save the future researcher the trouble of searching for this scattered material.

(F) A Dictionary of Islamic Economics

A research project to compile a dictionary of terms of Islamic economics needs to be planned. The objective should be to provide a source book for terms used in the literature and to provide authentic meanings. Confusion about the meanings of basic concepts could thus be dispelled.

(G) Textbooks

A number of textbooks for different levels and in different languages needs to be prepared. The objective should be to synthesize generally accepted ideas for classroom use. These textbooks should also point out areas for further research to initiate a spirit of inquiry among students.

(H) Applied Research

A master plan should be made for applied research in different areas. The objective should be to attain a deep understanding of the real-life situation in Muslim countries. Different fields of study should be delineated as part of a unified plan. This should involve the participation of specialists in other areas as well. Once real-life data are collected, the following questions should define the objectives of each study:

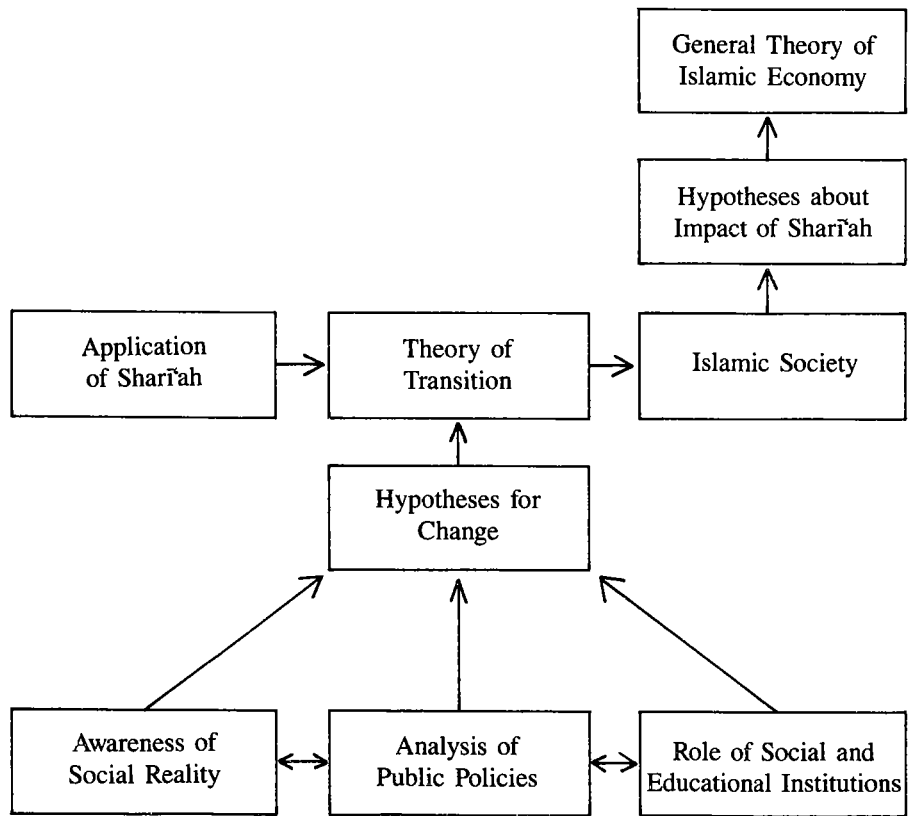
1. To what extent is the existing situation the result of a departure from Islamic teachings at the individual or systemic level?
2. What policy measures may lead the initiation of a process of change?
3. What should be the priorities in such a situation?
4. What are the expected costs of such a strategy, both financial and other?
5. What would be the time-span for change?
6. What are the prerequisites for this change?

As a result of such studies in the Muslim world, a theory of change may emerge. This theory in turn may lead to a strategy for change and set the stage for a general theory of Islamic economy.

Conclusion

Islamic economics until now has been a restatement of the *Sharī'ah* position on various economic issues. So far every analysis has been of a utopian nature. If Islamic economics is not to wither away as an intellectual luxury, it must address itself to the real-life conditions of the Muslim *ummah*. It must provide tools for solving the economic problems in the light of Islam. It must transcend and soar from the utopian ground in which it is embedded. In this lies the challenge for Muslim economists.

Toward a General Theory of Islamic Economy



NOTES

- ¹ Siddiqi, Muhammed Najatullah, *Contemporary Literature on Islamic Economics*. Leicester: The Islamic Foundation, 1978, 68 pp.
- ² Mannan, Muhammed Abdul, "Islamic Economics as a Social Science: Some Methodological Issues," *Journal of Research in Islamic Economics*, (1:1) Summer 1983, p. 56.
- ³ Ibid, p. 59
- ⁴ Leicester: The Islamic Foundation, 1981.
- ⁵ *Islami Bank* (Urdu Trans:) Sargodha: Maktaba Asghariyya, n.d.
- ⁶ "Banking in Islam," *Muslimnews International*, (8:1) June 1969 pp. 5-11.
- ⁷ Nienhaus, V., "Monetary, Social and International Economics: some Thoughts on the Islamic View," *Economics*, Tubingen, Vol. 28, 1983, p. 79.
- ⁸ "Islamic Economics: An approach to Human Welfare" in *Studies in Islamic Economics*, Leicester: The Islamic Foundation, 1980 pp. 3-19.
- ⁹ "Contribution to the Theory of Consumer Behaviour in the Islamic Society," in *ibid*, pp. 18-37.
- ¹⁰ For example, Nienhaus, V., "Islamic Economics—Policy between Pragmatism and Utopia," *Economics* Vol. 25, 1982, pp. 80-100.
- ¹¹ This writer has completed one such study. It is in the process of publication.