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Essays in Islamic Economic Analysis

Genuine Publications, New Delhi, 1991, 246 p.

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This book combines an interesting blend of well-written articles covering various theoretical and practical issues in Islamic economics. It has emanated from a seminar jointly sponsored by The International Institute of Islamic Thought (Washington) and Economic Discipline Council (USA).

Out of its total number of ten articles, seven relate to economic methodology and interest-free finance. The remaining three articles relate to miscellaneous topics *i.e.*, income determination, financial accounting and insurance. Hence, our brief review shall focus on these three broad classes. At the end we provide brief concluding remarks about the main ideas in the book.

I. Economic Methodology

The book presents three papers adopting similar methodological outlooks towards Islamic economics in the sense of emphasizing disparity with Western economic methodology. In his paper "Islamic Economic Methodology", **Mohammad Anwar** emphasizes need "to eliminate reliance on Western methodology . . . and devise unanimously accepted criteria to judge the Islamicity of economic theories," (p. 14). The author describes what he believes as the Islamic economic methodology needed to guide the process of developing economic theories conforming with the Islamic doctrine. Although in the author's opinion the resultant *Islamic* theories are testable in the light of empirical evidence, yet he avoids using the term "rejection" when empirical facts fail to support the theories. Alternatively, he suggests that reality should be corrected to conform with the theories. Along the same line **Asad Zaman** argues that "what is normally considered 'positive economics' is loaded with value judgements

which are antithetical to Islam...” (p. 37). In his paper “Towards foundation for an Islamic Theory of Consumer Behaviour”, Asad Zaman, proceeds with a critique of the generally accepted Friedmanian methodology of positive economics on grounds that the process of abstracting complex reality is value-laden, but the critique seem to oversimplify Friedman methodology. Then he proposes basic ingredients of a consumer theory to circumvent the “selfishness” norm in Western methodology, developing it further into an axiomatic model for preferences. Asad Zaman strongly expresses dissatisfaction with current micro-economic theory, describing it as a *dead-end* for both Muslims and Non-Muslims, and believing that “salvation lies along the directions indicated” in his paper. The third paper by **Qasem Hamouri** is an unfinished work which attempts to integrate Islamic teachings with economic analysis in order to formulate the concept of *rational* behaviour.

II. Interest-Free Finance

The (43 page) paper by **Zaidi Sattar** titled "Interest-free Banking, Profit-sharing and the Islamic Macro-economic system" brings forth the interactions between money, spending, output and profit rate for an Islamic economic system. Using Keynesian tools the author highlighted the close interdependence of monetary/fiscal policy instruments in the Islamic interest-free system. “The consequences of Islamic Banking in a Macro-Economic framework,” by **Nadir Habibi** is primarily interested in three main queries: (a) Effect of interest rate elimination on real investment and output (b) Monetary and fiscal policy without government borrowing (c) Comparison of policy multipliers between conventional and Islamic systems. Regarding the first query, the author attains a negative effect on investment as a result of interest rate elimination, but an indeterminate effect on real output. However, he also attains the finding that a pure increase in money supply under the Islamic regime would produce a determinate increase in real output whereas its effect is indeterminate in the conventional regime. The latter is attributed to the existence of interest-based bond market, a result which is even more pronounced in the context of “pure money finance fiscal policy.” The paper in general reflects high level of mathematical rigour. Finally, the paper by **John Harrington** on “The Islamization of Banking in Pakistan”, moves towards practical life to demonstrate the salient features of the Pakistani Islamic banking experience. However, the paper is mainly descriptive showing too little concern about performance evaluation.

III. Miscellaneous Issues

A joint paper by **Sayed Iqbal Ibrahim and Saif Al-Asaly** titled “A model of Income distribution in an Interest-free Economy, adopts the traditional Keynesian IS-LM framework. On this basis various policy implications have been drawn. It concludes that an interest-free Islamic economy will have greater stability and probably less susceptible to cyclical ups and downs. **Raqibuz Zaman** addresses the issue of insurance in his paper “Some Issues in Risk Management and Insurance in a Non-Muslim country.” As the title implies, the author considers the pressing need of Muslims living in Non-Muslim countries to insure their properties or lives against catastrophic losses. The paper demonstrates welfare functions of insurance, the case of

life insurance in Islam, and finally proposes a scheme of risk management in the process of 'Islamizing' insurance. The paper offers interesting ideas that are worth considering in any future research related to insurance in Islamic perspective.

Within this group of miscellaneous papers, a rather sketchy paper by **Ahmed Moustafa Abo-Hebeish** addresses the issue of Islamic rules in Business Administration with special emphasis on financial accounting. The writer expresses his belief that the term 'Islamic' is conferrable to any economic organization if it applies Islamic rules in all aspects of its operation: *i.e.*, accounting system, cost system, management policies, personnel management . . . etc. Seemingly, the paper is essentially an excerpt from a deeper research based on review and examination of financial accounting theories in USA in the light of Islamic Laws, but, as it appears, much of its consistency is lost by an attempt to provide sketchy representation of its main features.

IV. Concluding Remarks

The results obtained by **Nadir Habibi** about the consequences of Islamic banking in a macro-economic framework are specially thought-provoking, hence deserve more research to ascertain or re-attack the interesting questions raised by the paper.

On the other hand the somewhat passionate reactions of some Muslim economists against the neo-classical (*i.e.*, Western) economic methodology, as exemplified by three papers in the present book, need to be considerably cooled down by a more realistic reflection on the matter. For even the Holy Qur'an frequently recognizes "selfishness" as a human trait *e.g.*, "*Souls are predisposed with greed*" (verse. 128, Surra. III). Also it is easy to see how *Shariah* economic rules (*i.e.*, policies), derived from Qur'an and Sunna, clearly imply underlying 'economic theories' in the very neo-classical sense (*e.g.*, prohibition of *riba al-Fadl*). Indeed we believe, if a value-free positive discipline does not already exist, it is imperative on Muslims economists to create one. We have elsewhere expressed the viewpoint that Islamic economics is indeed a system of policy economics and not one on economic theory, meaning that it is a rival of conventional policy rather than positive economics.⁽¹⁾ Hence, our attack on the "selfishness" norm must be directed towards practical policy (as the Holy Qur'an effectively does) rather than towards positive economics. The latter, is needed to highlight desire for change rather than to mask unpleasant realities of life. It appears to us that what is lacking in the conventional policy setup (which focuses exclusively on *production function norms*) are the utility function norms which embody desirable utility structures that are needed to attain the economic welfare goals. Thus, we believe on methodological grounds that it is more viable to represent Islamic economics as a better balanced system of economic policy as opposed to conventional policy, rather than getting unnecessarily lost in a mess of isolated high-brow moral philosophical theorization.

(1) (Seif el Din, 1997)