

Islamic Economics: A Note on Methodology*

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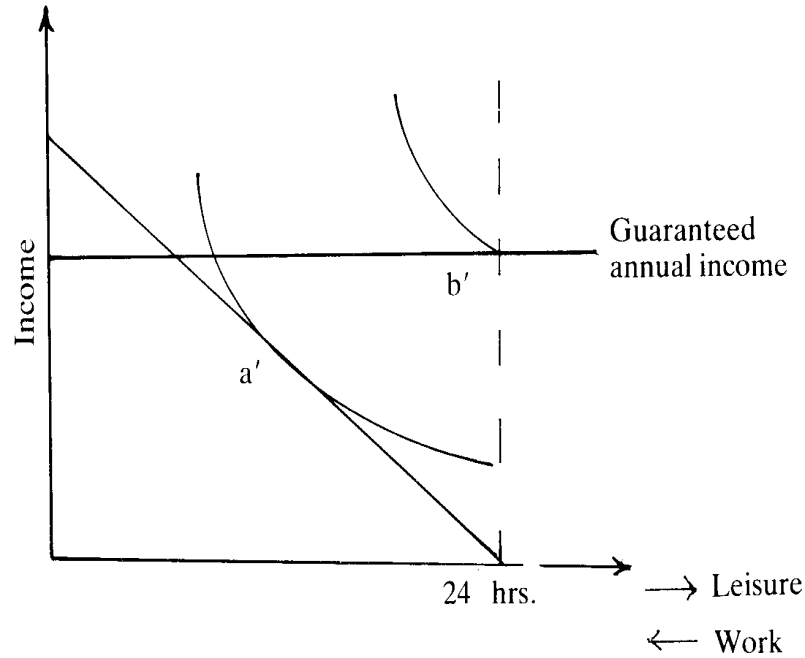
The main distinction between the predominantly secular-oriented societies from the more Islamically inclined is eschatological. Faith and the ever prevailing consciousness of the Hereafter could change social behaviour. Certainly, the distinctions commonly drawn in Islamic economics literature between the "valueless" secular society and the Islamic one would suggest fundamentally different premises underlying social analysis.

These premises are the behavioral postulates underlying the construct of neo-classical analysis. Much of Islamic economic analysis is undertaken using neo-classical tools; while at the same time these same social analysts question the relevance of neo-classical economics. The tools are founded on certain axioms, and therefore, using the tools binds an analyst, willingly or otherwise, to a particular world-view. Consider for the moment the demand curve, one of the most potent tool in economic analysis.

Whether or not this curve slopes down is a testable hypothesis. Underlying this hypothesis are behavioral postulates such as rationality and non-satiation which are rejected if the hypothesis fails to be confirmed by empirical testing. However rationality and non-satiation in themselves embody a view of how society functions. This view can therefore only be rejected, given this methodological framework, by a scientific testing of hypotheses that are generated by theories. Of course the hallmark of a theory is that it generates testable hypotheses. The above point can be illustrated an example. Using the familiar neo classical construct of labor-leisure choice, the graph below illustrates the behaviour of a "rational" individual due to the provision of a guaranteed annual income.

If leisure is assumed to be positively valued, and local non-satiation indicates that more leisure is preferred to less, then the rational individual will in this example do no work. This would follow because the initial point of welfare maximisation would be at point a' . With the introduction of a guaranteed annual income, the individual would be better off at b' by doing no work and getting a positive amount of income. From an Islamic point of view this clearly would not be ethical behaviour. Nonetheless one could test the Islamicity of a society by testing the hypothesis drawn from neo-classical analysis, whose premises are those of a materialistic and secular-oriented society. In the above example, a rejection of the hypothesis would indicate Islamic behaviour.

* The neo-classical view on methodology is based on the exposition in Eugene Silberberg's *Micro-Economics: A Mathematical Approach*, 1978.



This may be considered one way of examining the interface of economic analysis with the emphasis given to spiritual and moral factors in Islamic economics. Thus it may be a rational means of determining the progress in Islamisation of a society that has chosen to make such a transition. It is not sufficient to assume - as seems to be often implicitly done - that because Islam lays stress on specified normative behaviour, social behaviour will automatically conform accordingly. When empirical verification establishes that the neo-classical analytical apparatus can be discarded or radically modified, a day for rejoicing may have arrived, for average behaviour may be reflecting the existence of a truly moral and selfless society.

Where then does Islamic economics stand? For me what is different about it is the emphasis and not the theory since no new theory (based on an axiomatic framework) that generates testable hypothesis has been put forward. Islamic economists do function within the existing neo classical paradigm but the difference lies in their concern with social justice and the institutional reform they recommend (e.g. eliminating *riba*) for attaining this goal. Islamic economists, concerned with a transition to an Islamic system can - until a new paradigm is developed - use the tools of the existing paradigm to analyse the needed institutional change.

The two ingredients in attaining an Islamic system are motivated individuals with a mandate for change from the community, and the consequent institutional reform. The elements in reproducing such a society also would be this institutional reform, and individuals with an ethical and moral bent. I feel that Islamic economists lay too much stress on the latter.

The Holy Qur'an has recognised human proclivity to greed and niggardliness (the basis of the non-satiation postulate in neo-classical economics). In fact, it has stressed that the individual has the potential to attain the "highest of the high" and yet sink to the "lowest of the low". My own view is that this is likely to always be true in every community. It appears unrealistic to me to think that a community of saints can be attained. If such were the case, it would be possible for example to say that hoarding and luxury consumption can not be problems since they have been forbidden by Islam. Nor can one rely on the state to eradicate all problems, since choices left to individuals by Allah cannot be taken over by the state. Thus when referring to the task of Islamic economics, my emphasis would be on an analysis of community mandated institutional reforms to be brought about to allow a true Muslim to choose to live in accordance with his beliefs within the matrix of a just society.