

"ISLAMIC ECONOMICS" – POLICY BETWEEN PRAGMATISM AND UTOPIA

by

VOLKER NIENHAUS

Department of Economic and Fiscal Policy, University of Bochum

"*Islamic Economics*" is increasingly becoming the subject of both teaching and research at universities in Muslim countries.¹ In our own country, Islamic economics has – at least among economists – received marginal attention at best. It would thus appear appropriate to give a descriptive review of the tasks and hypotheses, methods and approaches, as well as the main areas of concentration and emphases regarding this subject. These could provide the building blocks for a critical analysis in order to be able to make an interim assessment of this differentiated and rapidly developing subject. Since Islamic economics is seldom pursued as a completely "valuefree science" we can hardly afford, in view of the extensiveness and current problems of this little explored topic, to make it the object of "purely scientific" reflections which are separate from political realities and pressures and which pursue its own epistemological interests, possibly far removed from the realm of political considerations. From the perspective of economic, foreign, and development policy, the question as to the economic content of Islamic economics must clearly have priority. What is the contribution made by Islamic economics in the founding of a policy which feels itself committed to the Islamic *weltanschauung*?

It is with a view of this question that the literature on Islamic economics has been examined. In this effort, the above question has acted as a kind of filter. There are a whole series of topics which are often discussed and emphasized in Islamic economic theory but which will at best be only touched upon here.² These would include, for example, questions regarding taxation and household

Author's address: Dr. V. Nienhaus, Seminar für Wirtschafts- und Finanzpolitik, Ruhr-Universität Bochum, Postfach 10 21 48, D-4630 Bochum 1.

management, as well as an interest-free banking system. It is impossible here to include details of such topics in any one of the following four major approaches to Islamic economic theory. These approaches were compiled with a view to questions concerning economic policy and not to include, to order, and thus to compromise Islamic economic theory in its overall breadth and multiplicity. Another misunderstanding would be to believe that the present essay could offer an in-depth analysis of these four approaches. All that can be done is to point out a few central aspects which may (at a later time) give rise to a more in-depth analysis. This then gives the present essay its character of compromise. What counts initially is to outline descriptively the still largely unfamiliar subject of Islamic economics in at least a few of its contours and to clarify somewhat those areas considered to be of particular importance, thus indicating some preliminary steps for analysis which must be more deeply gone over at some future point. What is intended here is to present some initial questions rather than offer conclusive answers.

1. *Prejudices and Concepts*

There is a prevailing view (although it is only rarely verbalized) that there is no such thing as Islamic economics or an Islamic economic order since, in the final analysis, aspects have only been taken over and combined which are by no means specifically Islamic but could just as well have originated in other cultural regions.³ This position has often been assumed (much of the time by journalists) and spread without prior examination. It thus prevents a treatment of the topic on a more subject-oriented basis once it has been accepted.

1.1 "*Originality*" as a *Prerequisite*?

The thesis that there is no such thing as Islamic economics or Islamic economic systems rests on the rather arbitrary demand for obvious originality as a constitutive characteristic of this system.

- This seems arbitrary because the criterion of originality plays no part in the "authoritative" literature on the classification of economic systems. If anything, the case is the reverse. Economic systems are looked upon as combinations of a limited number of types of orders and are thus classified on the basis of those known characteristics. This is done to see, for example, if the planning and management of production is centralized or decentralized and if the system of ownership is at the private, state, or community level, etc.⁴ It is the particular combination of the manifestations of the types of orders which in each case causes us to give an existing or

aspired to economic system either a characterizing or a classifying adjective. Thus it is the general habit to speak of a “German” or “French” economic system, or – if focussing on the conceptual models which provide the background to the existing systems – to speak of the concept of a social market economy or of indicative planning. It is thus unnecessary to add to the types of orders already known an entirely new one in order to be able to speak of a special, for example, “Islamic” economic system.

- One must even go another step farther. Not only is it unnecessary to “invent” anew original characteristics of individual types of orders, it is also unnecessary to present special combinations which differ formally from already existing ones. If, for example, an economic concept were to be presented as being Islamic, but whose characteristics were similar to those manifested e.g. by the Swedish welfare state, that in itself would not be sufficient cause to categorize this concept as non-Islamic. This is so because there can be very marked differences in the rationale and vindication of this systems model which at the latest would become apparent after the Islamic system had been implemented and developed. One should not proceed from a superficial and static viewpoint but rather should attempt (as a sort of experimental thought) to grasp the dynamic aspects of the rationale for economic strategies (and thus in the final analysis the norms and values upon which any policy such as this is based). Two systems which have identical structures initially could, in the course of time, develop in entirely different directions, either because of (political) reactions to change in the environment or unanticipated behaviour on the part of the people involved.

It follows that it is not necessary for an “Islamic” economic system to create completely new realizations for certain types of orders but that it is essential that the rationale on an Islamic economic system has a convincing Islamic content.

1.2 The Islamic Component of the Rationale for the Economic System

The Islamic component is by no means as vague and diffuse as one might think at first glance. To illustrate this, one can refer to an analogous problem, the discussion of which is considerably closer to our experience. Just as Islamic economics is a topic of university research and teaching in Muslim countries, so universities (not only) in the Federal Republic of Germany offer the discipline of Christian (also ecclesiastical, catholic) social theory. This theory has at times been criticized for being Christian in character only to a limited extent, or being a “Christian” social theory only in a very broad sense. This criticism, however, was not advanced because what had been expected was a systems design which in its individual parts or in its composition was uniquely

"Christian" in the sense of a previously unknown systems designs. Rather, the criticism was levelled because one was not convinced that this theory, either in its epistemological method or in its material content, was clearly enough directed at its theological base, revelation.⁵

In regard to Islamic economics, this means that in order for a concept to be called Islamic, it must argue from an Islamic theological basis; i.e., from the Koran and the Sunna. If the system's design cannot be deduced from these two primary sources of Islamic law directly, it must nevertheless at least correspond to their contents and must be linked to them epistemologically. Consequently, it is also unnecessary for this essay to accept everything labelled "Islamic Economics" as being actually Islamic. Two preliminary examples:

- In its 27 September 1980 edition, the *Pakistan Economist* reported extensively in several essays about „Islamic Shipping“. The starting point of efforts to begin an "Islamic" shipping corporation is the recognition that not more than ten per cent of the trade between Muslim countries is transported by carriers which are owned by them. This flagrantly disproportionate situation needed to be rectified. However, even if these plans are specifically labelled "Islamic", there does not appear, even with the best of wills, to be a link between them and the Koran or the Sunna with regard to material content or epistemological method.
- Many authors take the following position in regard to the prohibition of interest specifically mentioned in the Koran. Certain axioms and higher goals concerning economic policy could be derived from the Koran and the Sunna. For example, they cite the axiom of efficient utilization of resources, which would be followed by the higher goals of growth and full employment. They claim that economic theory has shown that the abolition of interest could cause unemployment and declines in growth rates due to limitations on the capital market. This would violate the higher goals regarding the efficient utilization of resources. It is because of this, it is argued, that passing a ban on interest (in the foreseeable future) must be avoided. In this case, the connection between material content and its theological base is indisputable, but the links to epistemological methods must be called into question. A hierarchy of goals of the type alluded to, in which a ban on interest becomes secondary, cannot be derived from the Koran or the Sunna. Rather, the hierarchy of goals is typical of certain concepts of economic policy of "Western" origin. If Islam, however, is not merely to add a type of cultural/folkloristic colouring to Western concepts but is to be a *weltanschauung* in the broad sense of the word, then the fact is unavoidable that the Koran and the Sunna should be looked at not only as primary sources of law, but also of knowledge. If the prohibition of interest

in these sources is (in quality and rank) equal to other laws regulating the structure of economic life, one can only get from an order of equality to one of hierarchy and, consequently, to the rationale for overlooking the prohibition of interest in the initial phase, if one refers to empirical statements; i.e., to statements which are not finally but merely temporarily true. What this means is that a certain rank order, which should have been derived from the primary sources of knowledge, has been replaced by a different one which can only rest on secondary sources of knowledge. This could be looked at as being a problem of linkage in epistemological methodology which would require further discussion. Without such a discussion, it would be difficult to accept the pattern of argumentation and rationale used to justify certain systems and policies as Islamic.

This last objection is directed against the rather large group of authors who treat the problems of methodological and epistemological linking of economic theory and Islamic *weltanschauung* into Islamic economics rather casually or superficially. Another group which shares this unconcern are advocates of policy recommendations whose contents show no clear link to the theological basis or to the primary sources of law in Islam. Rather, they are generally concerned with lending an idea or ideology which is preferred and propagated by them for whatever reason a higher level of political clout by presenting it as being "Islamic". The term „Islamic" presently does not only have a positive value but it also has almost become a magic formula (as in our country, for example, terms such as "democratic" or "social"). Practically all political movements must use Islamic slogans because they elicit such strong responses among the populations.

1.3 Consequences of a Classification

The erosion of the term "Islamic" is in full swing in day-to-day politics. In the scientific sphere this process has not advanced far enough, however, that one should avoid the term "Islamic" entirely because it has no meaning (or because there is the possibility of arbitrary labelling). Classification of concepts as being "Islamic" clearly has tangible consequences. Concepts which are introduced under the label "Islamic" is not justified in the material sense, are at exactly the same level in terms of their epistemological methodology as all other recommendations on the same topic which do not claim the adjective "Islamic". These policy recommendations compete with one another, and the supposedly Islamic approach is to be critiqued and refuted with exactly the same (methodological) arguments and proofs as all other approaches. The case

would be different were there a truly Islamic approach since there is an epistemological difference between it and the approaches of a "secular" science.

If, in fact, a truly Islamic approach existed for the solution of a certain problem regarding the economic order, and it competed with a series of secular scientific approaches to this problem, then it would be justified to concentrate from the start on the Islamic approach as the solution to the problem and to neglect the other approaches because the Islamic solution is at an epistemologically "higher" level (if looked at from the Islamic perspective). In a case, however, where the approach labelled "Islamic" is not really Islamic, then there is no rational reason even for a politician judging from an Islamic epistemological basis to prefer *ex ante* one approach to all others thus far presented. This can considerably increase the efforts involved in searching for an appropriate solution to the problem of an Islamic System.

The latter may also be seen in reverse: As a politician one could considerably reduce the work load if one could fall back on an Islamic approach to solve a problem which may provide a certain explanation for the fact that politicians of all persuasions discover Islam to justify their ideas. This undoubtedly presents a considerable temptation for politicians to interpret what really is an Islamic approach in a "broad" fashion. It is for this reason that Islamic theoreticians should make every effort to arrive at a formulation of and gain public acceptance for very stringent methodological standards which will allow for an objective evaluation of the Islamic content of any concept so as to prevent purely discretionary decisions which often border on arbitrariness. Admittedly, there is little room for optimism in this regard: It is easy to label the process of working out these standards as a sterile exercise, or even as a destructive harping on principles, while the theoretician who offers pragmatic solutions gains attention and respect much more easily.

In conclusion, the following should be noted. It is thoroughly disputable that all which is labelled "Islamic economics" really deserves the adjective "Islamic". Any critique, however, should not start from the premise that it lacks originality, but rather from one of using the criteria of content and methodology. In no case, however, should such a critique of Islamic content have the effect of excluding *a priori* certain approaches which are found in the literature and are labelled "Islamic economics" by their defenders. At the present time, when Islamic economics is still a largely virgin territory, such an exclusion could have disastrous consequences for analyses of economic policy because the risk tied to the *ex-ante* exclusion of approaches is inestimably high: Who is to say that it will not be those approaches which were eliminated due to a lack of originality or methodological unclarity which will gain political weight in the Muslim world above all others?

2. *Typical Approaches of Islamic Economics*

Islamic economic theory probably still has its expansion phase ahead of it. There are numerous indications that research in this area has intensified greatly since the mid-seventies, even if this has not as yet manifested itself in the number of publications which are known or available in our country.

(a) If one had to look to a significant event as the starting point for the rapid progress of Islamic economics, one would have to acknowledge the "First International Conference on Islamic Economics" which took place at Mecca in February 1976. A selection of the over thirty papers was published in the middle of 1980, roughly four and one half years after the conference took place.⁵ Additional conferences and seminars followed, the results of which, however, have only been published to a lesser extent. The contributions to two conferences which had as their themes the position of the Muslim world in the future international economic order are now available. The first conference, "The Muslim World and the Future Economic Order," was sponsored by the Islamic Council of Europe and took place in London in July 1977. The second conference, "Islam and the New International Economic Order: The Social Dimension" was sponsored by the International Institute for Labour Studies of the ILO and took place in Geneva in January 1980.⁷

The contributions to these conferences form the present picture of Islamic economics and are also at the core of the discussion that follows here. There are visible changes in emphasis and questions as well as in the analytical methods employed compared to the older literature.⁸ However, there is also a continuation of traditional reasoning. Even in the collected works appearing today, representatives who dominated Islamic economics in the late forties and early fifties are still able to participate.

In this regard, therefore, a concentration on the more recent publications does not represent an arbitrarily abbreviated perspective. In another respect, however, it does present such an abbreviated perspective because there is a tendency in most of the above-mentioned essays to give a rather "conservative" interpretation to Islam which, although it seems to be the leading one today, is by no means the only one. It would thus be particularly unacceptable, in view of the methodological problems alluded to above, to exclude approaches which have been labelled "Islamic socialism" and "liberal Islam" and which are considered part of "modern" Islam.

(b) The differentiation between a "conservative" or, more precisely, "fundamentalist" Islam and "modernistic" interpretations has been introduced, but it is of little use in working out typical approaches of Islamic economics. Establishing typologies has the purpose, on the one hand, of bringing (descriptively) a certain order to an otherwise confusing multiplicity of opposing

contributions and, on the other, of pointing to (analytically) determined problems which grow out of the combination of certain characteristics and which apply to all contributions of this type in similar ways.

The characteristics to be included in the group grow out of the way in which the question itself is formulated. In the present case, the determining question is what a contribution can do for the formulation and establishment of an "Islamic" economic policy. It thus seems appropriate to check individual contributions for their

- Islamic, and
- theoretical (economic) content

and to collect them into groups which differ from one another in regard to these characteristics. If one proceeds on that basis, four typical approaches of Islamic economics emerge:

- The contributions of the first approach rest primarily on theoretical economic methods and models, but without any specifically Islamic content. A policy which is based on this approach might certainly be successful in developing solutions for specific and concrete problems, but it would not be backed by a comprehensive and consistent "Islamic" concept. At best, it offers designs formulated for specific programmes which represent only component parts of an overall system and thus can scarcely be called a concept. Measured in those terms, the policy would remain "pragmatic" and this approach will thus be labelled as such.
- By contrast, the second approach has an indisputable Islamic content but its theoretical content is nil. "Orthodox" legal scholars try for as comprehensive as possible a collection of quotes from the Koran and the Sunna which contain statements on economic life. They thus develop an Islamic economic ethic. What is lacking, however, is an analytical linking of normative to positive knowledge, without which one cannot speak of an economic policy concept or a (realistic) system design. Corresponding to the typical method of operation of these legal scholars, this approach shall be called "recitative."
- The third approach could be seen as a continuation of the recitative one. One picks up the largely unconnected and parallel statements on economic ethics, supplements them as necessary, and builds them into a comprehensive "Islamic system" which describes a social ideal characterized by economic and social harmony. The ideal society, however, presupposes an ideal human being whose main characteristic is selfless-altruistic behaviour. Just like the preceding one, this approach offers little content as to economic theory since the theory, as a rule, starts from the premise of

selfish-individualistic behaviour. Any economic policy which takes this model of harmony as its guide is oriented toward a utopia. Thus, the adjective "utopian" to characterize this approach seems appropriate.

- The fourth approach is potentially Islamic as well as potentially full of theoretical content. The contributions brought together in this approach differ from the predominant theory in that they offer varying interpretations of the theological base on important individual questions, such as, for example, the appropriate system of ownership in Islam. They differ as well in their methodology (for example, differentiation of the Koranic rules into eternal moral principles and those rules which depend on space and time and thus are changeable). It would have to be determined on an individual basis as to what extent this position can, or could become, recognized as Islamic. These "modernistic" Islamic ideas certainly leave room for meaningful statements regarding economic theory and policies. It is doubtful, however, if the (methodological) opportunity for linking the normative and positive knowledge in the economic sphere was actually realized, since the authors only paid relatively peripheral attention to the overall system. Since it is, after all, on principle possible to adapt knowledge of economic theory to an argument which is based on the Koran and the Sunna and to integrate them into a complete idea and draft of an economic order, the term "adaptive" will be used for this approach.

The following will demonstrate by way of examples and documentation from the literature the approaches which, up to now, have been distinguished only abstractly.

2.1 The Pragmatic Approach. Economic Cooperation and Integration of Muslim Countries

Aside from a discussion about the introduction of Islamic taxes in Pakistan, essays which are part of the pragmatic approach are oriented not to domestic but to international economic concerns and aim at a greater cooperation between Muslim countries. Recommendations for economic policy are sometimes very concrete. For example, demands made at the conference in London concerning "The Muslim World and the Future Economic Order" included the following:

- the creation of a clearing house for economic information from the Muslim world, of organizations for technical norms and standardization, of Islamic chambers of industry and commerce with a common umbrella organization, as well as of an institution for export credit guarantees;
- the foundation of an Islamic institute for research and education or a

Muslim foundation for the promotion of education, science, and technology leading to a reduction in technological dependence;

- the construction of an Islamic organization to bring about an increase in food production, to build an Islamic food reserve, and to develop a general plan for agricultural economies in Muslim countries;
- the establishment of an Islamic reserve fund for investment financing, an Islamic solidarity fund for increases in welfare in individual Muslim countries as well as for a more equitable distribution between them (as a supplement to the already operational Islamic Development Bank), an Islamic development fund, and the creation of a comprehensive multinational development programme.

Besides these individual and *ad hoc* measures along institutional lines, stronger programme demands have also been raised. These include:

- the establishment of a Muslim Common Market in order to intensify trade between Muslim countries;
- the creation of an Islamic monetary fund, behind which lies the long-term goal of a Muslim currency zone – that is, a dinar bloc similar to the dollar or sterling bloc.

The Geneva conference on "Islam and a New International Economic Order" of January 1980 did not add to these recommendations. The London demands received a particularly strong political emphasis in that they, to a large degree, became part of the *Universal Islamic Declaration* passed by a conference of the Islamic Council of Europe in April 1980.⁹ This declaration came about because of prodding on the part of the Muslim minorities in the "diaspora" in the West and should be understood as a clear position of conservative Islam on the problems of today's world.

The specific recommendations and programme demands of the London Conference are not original creations. Rather, they stem from the ideas – already discussed by Muslim authors in earlier times¹⁰ – generally submitted by the Third World in respect to questions concerning a New International Economic Order. In the position papers of the Third World (especially of the so-called "Group of 77") and the resolutions of the United Nations General Assembly, one could find models or forerunners of all of the demands made at the London Conference – albeit without the word "Islamic".

This is not meant critically and deprecatingly, but is only meant to point out that behind a position characterized as "Islamic" may stand a theoretical development model which one could characterize as "collective self-reliance". Concerning this, controversial viewpoints exist in development theory which will, however, not be discussed here. How convincing the largely automatic

transfer of this model is for Muslim countries, just as older Muslim literature presented the models of the British Commonwealth or the European Economic Community as valuable examples for emulation, will also not be addressed here.

What should perhaps be of greater interest is the question as to whether the meshing of these theoretical ideas with the theological basis of Islam has been successful. To this one should clearly respond negatively. It is true that the cooperation or even integration sought among Muslim countries is justified by references emphasized in the Koran and Sunna to the unity and community of all Muslim believers. However, the exactly opposite interpretation of these notions of unity could be made. For both the Koran and Sunna, the Islamic world is one unit with one (central) political leadership using the same legal structure, etc. The idea that there could be several "sovereign" Islamic states with their own policies and legal systems is alien to the early Islam to which references are now again being made. None of the suggestions for an improvement in cooperation, even the programme for an economic and monetary union (which, in view of present realities in Muslim countries looks to the indefinite future) anticipate the total merging of existing states into one unitary "Greater Islamic State." In fact, these suggestions certainly recognize the existence of several independent states. It would lead to too great a conjecture in this essay to ask if, and to what extent, such a unitary Islamic state could be "federal" and could either grant or leave with individual regions a certain amount of autonomy.

There is much to say for the idea of a state in which the unity and community of all believers would be realized. At least it is not a matter of course that the notion of unity is claimed for concepts emanating from a large number of individual sovereign states without additional justifications or reflections for these concepts (which do not wish to eliminate these sovereign states). As long as these gaps continue to exist in the rationale for policy recommendations, the Islamic content of a pragmatic approach is highly doubtful and it can be argued that its adherents are guided not by Islamic laws but rather by that which is economically feasible and politically (maximally) workable — precisely in the sense of "secular" concepts of development and countervailing power.

2.2 The Recitative Approach: Policies in Accordance with Islamic Commands

The recitative efforts of "orthodox" legal scholars result in a more or less complete and ordered collection of statements from the Koran and the Sunna on economic ethics.¹¹ Wherever the Koran and the Sunna contain sufficiently concrete directives for action, these must be followed by the state and the

believers as closely to the letter as possible and not according to modern opinions concerning a "contemporary" (re-)interpretation, for example. Concrete instructions and commands exist in the primary sources on such questions as inheritance rights, taxation, and the ban on the charging of interest.

The *Universal Islamic Declaration* contains the most important fundamentals of economic ethics. These can be grouped into three categories:

a) The teachings on property. "Islam emphasises that man has been created as Allah's vicegerent, and all that exists is there for him to harness." This, however, does not mean that each individual can dispose of his own worldly properties according to his own judgments since not he, but Allah, is the absolute and final owner of all of the goods. Man, as His representative, merely has the right to use them. It is undisputed that individuals may satisfy their legitimate needs with properly acquired property. What is a matter of dispute, however, is whether individuals may also acquire ("conditional") property in the means of production and have total power as to its disposition. While representatives of an "Islamic socialism" argue against private property in the means of production, this concept is accepted by an overwhelming majority of Muslims. However, they also recognize a type of social responsibility regarding property which plays a part in questions as to how property is acquired and, even more specifically, in the way in which the property is used.

b) The teachings concerning the acquisition of earthly belongings. Sources of wealth must lie primarily in one's own efforts (work). "Wealth must be acquired through effort and by lawful means". This acquisition may not (only) take place for its own sake and for the maximum satisfaction of one's own needs; rather, it must be guided by a sense of social obligation and solidarity. "Development is an essential requirement, a participation in economic activity is obligatory on every Muslim. He must labour hard, and always seek to produce more than is necessary for his personal needs, because then alone would he be able to participate in the process of Zakat and to contribute to the well-being of others."

It is also often for "social" reasons that certain types of employment or sources of income such as lending of money with interest, gambling, hoarding, and speculative businesses, are forbidden. It is indisputed that all of these activities were "unsocial" and morally repugnant during the time of the Prophet in so far as in practice they brought advantages only to one party which came about through the exploitation of an emergency situation on the part of another. Liberal modernists of today doubt, however, if these antisocial effects still occur under present conditions or whether the commandments of the Koran mentioned above (especially the prohibition of interest) need a reinterpretation.

c) The teachings on the use of earthly belongings. This is the maxim: All

material goods which are available to either individuals or the community of faithful “must always be put to optimum use; no one has the right to hoard them or to keep them idle, or to squander them to use them for wanton display, be it the individual, the community or the state”. Commandments of this type refer primarily to goods for individual purposes and can be combined into an admonition to moderation. Besides this there are a number of regulations concerning the use of goods or wealth for social purposes. “Establishment of justice on earth is one of the basic objectives for which Allah sent His prophets and His guidance. All human beings have rights upon all that Allah has provided, and as such Allah’s bounties are to be shared equitably. The poor and the needy have the right to share in the wealth of the rich”. It is from these two complementary principles of a just distribution of wealth and a guaranteed right of participation in the wealth of the community that more concrete commands for individual and state action are derived, to which the *Declaration* only alludes but does not elaborate in detail. These are:

- “When personal wealth has satisfied the legitimate needs of its owner, the surplus is required to satisfy the needs of others.”¹²
- “The principles of equality and brotherhood require the just sharing of resources in prosperity as well as in adversity”.

The so-called alms tax (*zakat*), the giving of the surplus, and the bequeathing in accordance with the inheritance shares as outlined in the Koran are “some of the means for the equitable distribution of wealth and resources in society”. What is remarkable here is the high degree of (sometimes almost verbatim) agreement between these maxims and early Christian economic ethics, which had reached their zenith approximately two hundred years earlier and were widely dispersed in the eastern Mediterranean and Africa.¹³ In regard to the theoretical content of Islamic teaching, Schumpeter’s assessment of the economic teachings of the early fathers of the church is fully appropriate. Schumpeter felt that “it is obvious that there would be no point in looking for ‘economics’ in the sacred writings themselves. The opinions on economic subjects that we might find . . . are ideal imperatives that form part of a general scheme of life and express this general scheme and nothing else, least of all scientific propositions.” The Christian teachers “preached against wanton luxury and irresponsible wealth, they enjoined charity and restraint in the use of worldly goods, but they did not analyze at all”.¹⁴

This is not contradicted in the recitative approach of Islamic economic theory, but, if anything, is confirmed by these pseudo-theoretical attempts to prove “scientifically” the superiority of some of the directives for action taken from the Koran and the Sunna (for example, those in connection with the ban on interest¹⁵). From the perspective of economic theory some of these lines of

argumentation are almost grotesque. They should also run into heavy criticism, however, in an Islamic interpretation of the recitative approach. Islam is to be understood as the complete, perfect, infallible, and final guidance by Allah. Consequently, following the commandments secures well-being for the community of the faithful, not just in the life beyond but already in this world. It is precisely because man's rational ability is limited that he must trust to His wisdom and care and submit himself to the orders of Allah which were issued for the best of man. Viewed from this perspective it would naturally be nonsensical, in terms of epistemological method, to attempt to prove the superiority of divine guidance with just that same limited human rationality. An additional and subordinate point of criticism is that this superiority is claimed for the commands as a whole; thus to prove the superiority of specific components of the overall design neither makes sense nor must it even be possible.

From a recitative point of view, an Islamic state would be achieved at the point at which the totality of regulations and commandments from the Koran and Sunna had been implemented and their observance safeguarded by the state through enforcement of obedience to these laws. It is expected from individuals in their relationship to state and society only that they act lawfully. To do so, it is not necessary for them to develop a "specifically Muslim" mode of behaviour and morality because the state (just as in every other system) will persecute violations of the law. Faithful compliance with the law is thus in the interest of everyone who wishes to avoid state sanctions – regardless of whether he approves of the "Muslim spirit" of the law and feels moral ties and obligations to it which would be desirable, of course), or whether he does not even understand it and perhaps rejects it.¹⁶

2.3 *The Utopian Approach: Islamic Rationality*

In exact opposition, in the utopian approach it is not the institutions which lead to the Islamic state or to Islamic society, but rather it is individual acting in the spirit of Islam guided by an "Islamic rationality".¹⁷ Social reforms cannot be externally imposed by a few people but rather can only come about through an internal change of man, through moral renewal; it is only the internalization of the right morality which can repress the evil in the minds of people. There is no doubt that what matters is not institutions but a new type of human being.¹⁸

The thoughts and actions of this human being are not determined by materialism and selfishness but rather are motivated by faith in God and the spirit of brotherhood. The *Universal Islamic Declaration* expresses this in a relatively subdued fashion: "The Islamic economic system is based on social

justice, equity, moderation and balanced relationships. It is a universal system embodying eternal values which safeguard man's rights while constantly reminding him of his obligations to himself and to society." It is particularly the "obligations to society" which deserve closer attention and which point to the specifics of the utopian approach.

The following sentences from the "Declaration" have a key position in this: "All resources available to man in general and to the Ummah in particular, must always be put to optimum use". "Wealth should be justly distributed. When personal wealth has satisfied the legitimate needs of its owner, the surplus is required to satisfy the needs of others". Using the surplus in such a way is a moral duty of each individual, which may possibly be supplemented by government-imposed duties (such as *zakat*) but certainly cannot be replaced by it.¹⁹

This moral obligation for the "social" use of surplus demonstrates most clearly what is meant by god-fearing and brotherly actions. This type of activity which is characteristic of the utopian approach and is, in fact, called for by it as a norm could be labelled as "altruistic" (in contrast to "individualistic") in economic terminology. If the goal is the material well-being of individuals and this merely depends on each individual's supply of goods and services, one could speak of "individualism". If, by contrast, the supply situation of others is a determining factor in one's own well-being, one could speak of "altruism".

The contrast to Western notions regarding motives and norms for action is obvious. A "theory of altruistic economics" cannot rest on any empirical knowledge since it is indisputable that the current practices of Muslims do not correspond to the ideal to which they aspire. Thus, questions of altruistic economic systems cannot be addressed by a large part of present economic theory since, to begin with, its arguments rest on empirical evidence. However, even a simple adoption of non-empirical conventional economic theories is almost impossible. Currently dominant theories (of economic and political relevance) are all based on the supposition of a substantial rationality which could be labelled, in view of such goals as "profit" or "income", materialistic and individualistic. This type of substantial rationality is rejected by the representatives of the utopian approach, however, who demand replacement by an "Islamic rationality".

What is lacking in the utopian approach to the development of an Islamic economic system is a "(systems) theory of altruistic economy (and society)" which would address the central questions of each economic system regarding the allocation, efficiency, distribution, growth, and system stability appropriately, i. e. on the basis of individual altruistic behaviour in compliance with the established norms. Western economics contains only a few and partial

approaches that deal with questions of altruism. No such contribution has as yet emerged on the part of Muslim scholars.

Whoever does not believe in the possibility of creating a "new man" and is willing to accept materialism and self-interest as long as institutions for the peaceful resolution of conflicts exist (such as the market, for example), nevertheless may thoroughly agree with Islamic economic ethics as a reprimand to and incentive for the individual, but will view as a real danger the transition to policies which follow the utopian approach. Without adequate theory it is to be feared that "false" policies can cause enormous economic losses. Worse, however, is the fact that there is no point of reference for a system-immanent scientific critique of practical policies which follow the utopian approach, even if the policies become repressive and resort to discriminating and coercive measures. As long as no theory exists, any type of policy can claim to contribute to the erection of an Islamic system and any criticisms (even justified ones) can be rejected as un-Islamic and a result of alien and reprehensible values.

2.4 The Adaptive Approach: Islamic Modernisms

Representatives of the adaptive approach make efforts to link Western theories or ideologies with the Islamic economic ethic.

- "Islamic socialism" and
- "liberal Islam"

are the two most important expressions of Islamic modernism in which this linkage is attempted.²⁰ What is clear, however, is that the direction of adaptation is practically the opposite of what it ought to be; i.e., in ambiguous cases, Islamic theory is adapted to the Western ideology or methodology.

a) Islamic socialism.²¹ Even if Islamic socialism may carry remarkable weight in practical politics, it is rather unsatisfactory in terms of the questions discussed in this essay.

- If the Islamic content should be limited to justifying positions advanced in ambiguous passages in the Koran and Sunna (such as on the question of property, for example), then Islamic socialism would also have to accept that methodology of Islamic interpretation formulated more precisely by representatives of liberal Islam and discussed in that context below.
- There must be considerable doubts as to whether "Islamic" means much more than "utopian socialism", as the contributions keep circling around the designs of ideal societies and of aspired-to goals. However, practically no one deals with the "theoretical foundation." This is a grave omission in

view of the constant efforts made by socialist countries to develop further their socialist planning theory and strategies which are constantly confronted with scientific criticisms and practical problems.

“Islamic socialism” is first and foremost socialist. The fact that there are large areas of agreement between it and the recitative approach – for example, as regarding central precepts such as the law of inheritance, taxation, ban on interest – still by no means makes it Islamic. On the contrary, one may fully accept a system of inheritance and taxation as socialist which, among other things, aids in the reduction of the concentration of wealth. The same applies to the acceptance of the ban on interest since, according to socialist value theory, only labour creates value, while interest payments to the capital owner are not backed up by labour. The only point of controversy is thus the question of property and to answer this question in the socialist sense, Islam is reinterpreted accordingly. Thus much speaks for the fact that “Islamic socialism” is neither Islamic nor does it have a theoretical content worth mentioning. This does not mean that it does not possess the power to mobilize politically.

b) Liberal Islam.²² While the pragmatic approach makes do without resorting to the Koran, the recitative approach starts from a traditional interpretation of it. This interpretation is also taken over in principle by the utopian approach, and the socialist variant of the adaptive approach has adjusted the Koran to Western ideology. “Liberal Islam”, by contrast, has set itself the task of independently reinterpreting Islam.

It claims that the task at hand is to ascertain what Islam wants to say to the Muslims of today. To prevent arbitrary interpretations, established procedures are strictly followed and the recommendation is for an historico-sociological analysis:

- With the aid of an historical perspective efforts are made to understand the Koran in such a fashion as it was understood by the Arabs at the time of the Prophet so as to find a basis for the interpretation from a modern perspective and for an adjustment to the modern world. In so doing, one primarily utilizes methods of comparative religion.
- It is hoped that these studies permit one to differentiate between the commandments and prescriptions of the Koran and the goals to which they are directed. These goals, however, must always be seen against the background of socio-economic conditions at the time of the Prophet.

The regulations in the Koran and Shari‘a are checked to see whether they contain a legal or an ethical command. No doubts are raised about the eternal validity of Koranic ethics and morality. What is doubted, however, is that

concrete legal instructions are also irrevocable. What is recommended instead is that a concrete instruction be checked to ascertain the extent to which it deviates from pre-Islamic practices; why and with what results the Prophet attempted a reform. This is followed by a review of the interpretation of this rule by the Islamic legal schools and a comparison of the present situation with the command in the Koran in order to recognize the possibility for reforms necessary today.

An economic example of the application of this method of "liberal Islam" can be found in the treatment of the ban on interest.²³ One can state in very abbreviated form that Muhammed spoke out against what today would be called usury and the exploitation of the misery of the economically weak. The interest of today's decisive production credits has nothing in common with usury at the time of the Prophet. Thus it is claimed that the ban on interest or usury made by Muhammed does not apply to them.

Liberal Islam has nothing to offer so far for economic policy (especially for system policy), since its representatives are still striving for the shaping and recognition of their method and deal little with its economic application. This, indeed, is the critical point, since if one were to accept the method, an "Islamic economic policy" could, without hesitation, have recourse to the entire positive knowledge of "Western" economic theory and could bring it into its service.

The methodology of liberal Islam or of the modernist interpretation of Islam generally leads to a differentiation of the religious body and to a rank ordering between statements with a normative-theological basis. It does so not by using sentences from this basis itself but rather by applying positive knowledge from primary legal and epistemological sources.

In material terms this can lead to the reduction of a comprehensive *weltanschauung* to a social-reformist movement. In methodological terms, it points to the conflict of epistemological theory discussed above. Furthermore, the so-called "theoretical error" seems to have been committed by reaching an inadmissible conclusion from ascertaining *what is* (the reforms of Muhammed) on the basis of history, comparative religion, and sociology, in relation to what *ought to be* (reforms necessary today). Even if one wanted to overlook these doubts, open questions would remain. What would have to be done, for example, if the analysis of the Koran and Sunna showed a group of goals which were all aspired to simultaneously and were realizable at the time of the Prophet but which today (because of changed socio-economic conditions) are in conflict with one another? Overall the modernistic approach is also not very convincing and its Islamic content is subject to many grave doubts.

3. Conclusion

In the final analysis, none of the four approaches of Islamic economics introduced in this essay is convincing. In all cases, there is a lack of Islamic and/or theoretical content. To date, Islamic economics has contributed precious little to an "Islamic economic policy". As long as there is no crucial change in this situation, a policy which wishes to be Islamic can only choose between utopia and pragmatism.

What the discussion of the present approaches has done is to point to the unsatisfactory state of Islamic economics. It did not, however, discover a compelling reason why this should be irrevocable. Quite the contrary, a few insights might even be gained from the above inventory toward the development of a convincing approach.

Since the approach should be Islamic it would have to make as the starting point or point of reference economic ethics. Having done so, however, it should neither get stuck at the recitative level, nor limit its view to only one specific model from the beginning. This could be attained by not starting with a discussion about content but rather about methods, as is done in the adaptive approach. Perhaps a look at the development of Christian social theory would be helpful, since it appears there that one has found a way to answer the question as to the link between epistemological method and material content for theological and theoretical, normative and positive knowledge, and of primary and secondary sources of knowledge. In terms of the fundamental economic ethic and the confrontation with a "secular" science which has been developed independently from theology, both are definitely in comparable situations. To prevent a misunderstanding, the following should still be stated. If Christian social theory reaches the conclusion that there is no clearly definable "Christian economic order" but that Christian doctrine is compatible with a multiplicity of concrete systems (as long as they meet certain minimum conditions), then this should not *ex ante* be analogous to Islamic economic theory. For that, the differences in regard to theological base, especially in the concretization of rules and commands for action, are too great. A reference to Christian social theory should thus only point to relevant ways of posing questions and not anticipate the answers.

NOTES

¹ See AHMAD, K.: Introduction, in: AHMAD, K. (Ed.): Studies in Islamic Economics, Leicester 1980, XIII – XXIII, here fn. 10, p. XVIII/XXIII.

² A rather comprehensive presentation of those topics which found extensive attention of Muslim economists is given in NIENHAUS, V.: Islam und

moderne Wirtschaft – Einführung in Positionen, Probleme und Perspektiven, Graz/Vienna/Cologne 1982; for a survey essay with numerous bibliographical data see NIENHAUS, V.: Islamische Ökonomik – Entwicklungen, Inhalte und Probleme, in: Zeitschrift für Wirtschaftspolitik, Vol. 30, 1981, pp. 245 – 300.

³ See, for example, KHALID, K.: Die politische Rolle des Islam im Vorderen Orient, Hamburg 1978, pp. 131, 136; BATAH, F.: Beziehungen zwischen Religion, Wirtschaft und Gesellschaft, erörtert am Beispiel Ägypten, dissertation, Mainz 1976, pp. 159 ff., 164.

⁴ See, for example, THIEME, H.J.: Wirtschaftssysteme, in: BENDER, D. et al: Vahlens Kompendium der Wirtschaftstheorie und Wirtschaftspolitik, Volume I, Munich 1980, pp. 1-47, here p. 10; HENSEL, K.P.: Grundformen der Wirtschaftsordnung, second edition, Munich 1974, p. 19 ff.

⁵ See WEBER, W.: Kirchliche Soziallehre, in: NEUHÄUSLER, E. and GOSSMANN, E. (Eds.): Was ist Theologie? Munich 1967, pp. 244-265, reprinted in WEBER, W.: Person in Gesellschaft – Aufsätze und Vorträge, Munich/Paderborn/Vienna 1978, pp. 15-37, here p. 26 f.

⁶ See AHMAD, K., Studies in Islamic Economics, *op. cit.*

⁷ See ISLAMIC COUNCIL OF EUROPE (Ed.): The Muslim World and the Future Economic Order, London 1979; INTERNATIONAL INSTITUTE FOR LABOUR STUDIES (Ed.), Islam and a New International Economic Order – The Social Dimension, Geneva 1980.

⁸ Literature on Islamic economics was collected bibliographically (until 1975), ordered by topic, and summarized by SIDDIQUI, M.N.: Muslim Economic Thinking – A Survey of Contemporary Literature, in AHMAD, K.: Studies in Islamic Economics, *op. cit.*, pp. 191-315; additional and more present titles can be found in NIENHAUS, V.: Literature on Islamic Economics in English and German, Cologne 1982.

⁹ See ISLAMIC COUNCIL OF EUROPE (Ed.): Universal Islamic Declaration, London 1980.

¹⁰ See, for example, HAMIDULLAH, M.: A Suggestion for an Interest-Free Islamic Monetary Fund, in: The Islamic Review, Vol. 43, 1955 June, pp. 11-12; WORLD MUSLIM CONGRESS (Ed.): Studies on Commonwealth of Muslim Countries, Karachi, n.d. (1964?); KHAN, M.A., (Ed.): International Islamic Conference, Vol. I, English Papers, Islamabad 1970; MUSLEHUDDIN, M.: Commonwealth of Muslim Countries and the Muslim World Bank, in: The Criterion, Vol. 5, 1970 Nov./Dec., pp. 74-94, 102.

¹¹ At the London conference, the Grand Imam and Rector of the Cairo Al-Azhar University, Shaikh Abdul Haleem Mahmoud, presented such a lecture.

¹² This norm is of central importance in the following utopian approach.

¹³ See NIENHAUS, V.: Katholische Sozial- und islamische Wirtschaftslehre – Gemeinsamkeiten, Unterschiede, Gegensätze, Cologne 1981.

¹⁴ SCHUMPETER, J. A.: History of Economic Analysis, London 1954, p. 71.

¹⁵ See, for example, SIDDIQUI, M. N.: The Economic Enterprise in Islam, Lahore 1972; SHAIKH MAHMUD AHMAD: Man and Money, in: Islamic Studies, Vol 9, 1970, pp. 217-244.

¹⁶ It is in this sense that the explanations of Shaikh Abdul Haleem Mahmoud on the "purification" of wealth could be understood. See, for example, his essay in ISLAMIC COUNCIL OF EUROPE (Ed.): The Muslim World, *op. cit.*, pp. 37-39.

¹⁷ This expression can be found in SIDDIQUI, M. N.: *The Economic Enterprise*, *op. cit.*, p. 90.

¹⁸ For this, see, for example, ISLAMIC COUNCIL OF EUROPE (Ed.): *The Muslim World*, *op. cit.*, the explanations by AHMAD, K. (pp. 144, 146) and ISHAQUE, K. M. (p. 98 f.); also SIDDIQUI, M. N.: *The Economic Enterprise*, *op. cit.*, p. 87, as well as CHAPRA, M. U.: *The Economic System of Islam*, Karachi 1971, pp. 51, 68.

¹⁹ See, for example, RAHMAN, A.: *Economic Doctrines of Islam*, Vol. II, Lahore 1975, p. 77.

²⁰ On the topic of modernism see, for example, AHMAD, A.: *Islamic Modernism in India and Pakistan 1857-1964*, London/Bombay/Karachi 1967; SIDDIQUI, M.: *General Characteristics of Muslim Modernism*, in: *Islamic Studies*, Vol. 9, 1970, pp. 33-68; KHALID, D. H.: *The Problem of Defining Islam and Modern Accentuations*, in: *Islamic Studies*, Vol. 16, 1977, pp. 217-281.

²¹ See the summaries for example in GARDNER, G.H. and HANNA, S. A.: *Islamic Socialism*, in: *The Muslim World*, Vol. 56, 1966, pp. 71-86; JAWED, N. A.: *Islamic Socialism – An Ideological Trend in Pakistan in the 1960s*, in: *The Muslim World*, Vol. 65, 1975, pp. 196-215; GSTREIN, H.: *Marx oder Mohammed? Arabischer Sozialismus und islamische Erneuerung*, Freiburg/Würzburg 1979.

²² This term can be found in FYZEE, A. A. A.: *The Reinterpretation of Islam*, in: *The Islamic Review*, Vol. 48, 1960, Jan., pp. 11-17, here p. 16; this essay is also included in FYZEE, A. A. A.: *A Modern Approach to Islam*, Bombay 1963; see also RAHMAN, F.: *Islamic Modernism – Its Scope, Method, and Alternatives*, in: *International Journal of Middle Eastern Studies*, Vol. 1, 1970, pp. 317-333.

²³ See RAHMAN, F.: *Riba and Interest*, in: *Islamic Studies*, Vol. 3, 1964, pp. 1-43.

SEPARATE PRINT

ECONOMICS

A BIENNIAL COLLECTION
OF RECENT GERMAN CONTRIBUTIONS TO
THE FIELD OF ECONOMIC SCIENCE

VOLUME 25

Edited in Conjunction with
Numerous Members of German Universities
and Research Institutions by the
Institute for Scientific Co-operation, Tübingen

1982