

NATURE AND SIGNIFICANCE OF ISLAMIC ECONOMICS

BY DR. M. UMER CHAPRA

Introduction

The first question that arises in the mind is whether it is necessary to have a new discipline in Economics when Conventional Economics is already there as a well-developed and sophisticated discipline. The question acquires particular significance because the subject matter of both disciplines is the same: allocation and distribution of scarce resources among infinite claims on them.

The very fact that the resources are scarce compared with the claims on them raises the three well-known questions of what to produce with these resources, how to produce them, and whose claims to satisfy. The answers to these questions will naturally depend on the vision and worldview of a society. If both the vision and the worldview are significantly different, then the disciplines will also be significantly different.

The Vision and the Worldview

As far as the vision is concerned, there appears to be little difference because all societies wish to promote the well-being of their members. However, there are significant differences in the concept of well-being, which may be defined in a purely materialist or hedonist sense or in a humanitarian and spiritual sense. It is here that the worldview of a society plays an important role.

If well-being is defined in a purely materialist and hedonist sense, then everyone will be free to serve his or her self-interest by maximizing wealth and want satisfaction. Social interest will then receive attention only to the extent to which it gets served indirectly in the process of serving self-interest. Value judgments will not be allowed because these serve as a constraint on individual freedom. Individual

tastes and preferences will play an unchallenged role in determining the allocation and distribution of resources. Non-material needs like peace of mind, inner happiness, socio-economic justice, and family and social solidarity will automatically get less attention because these require value judgments and are, besides, not measurable like material goods and services.

However, if well-being is defined in a humanitarian and spiritual sense then social interest and non-material needs will also receive emphasis. This will require not only certain moral constraints on the serving of self-interest but also some motivating mechanism to ensure that people voluntarily make the sacrifice that the faithful observance of such constraints implies. It will also be necessary to create an enabling environment through socio-economic and political restructuring.

Fortunately, Conventional Economics is not totally materialist and hedonist because of the influence of religious values. However, its secular bias does not allow an explicit role for moral values in the analysis of allocation and distribution of resources. Moreover, Conventional Economics is not directly concerned with what ought to be, or the allocation and distribution that is in harmony with the well-being of all people because this involves value judgments. It is concerned only with the analysis of what actually exists. Bringing about a change in the behaviour and tastes and preferences of individuals to realize the society's vision is also not a part of its intellectual framework. This is what makes a great difference in the approaches of the two disciplines.

Is Science possible within a religious worldview?

The injection of a humanitarian and religious paradigm in Islamic Economics raises the question of whether this will allow it to be a science. This question acquires particular significance because science tries to establish cause and effect relationships

between different variables in the form of, if A, then B. These remain hypotheses until they are tested by means of experiment or statistical analysis. In a religious paradigm, some of these hypotheses, though not all, will be derived from revelation. This should not be a problem because Islamic Economics depends on both revelation and reason to establish the cause and effect relationships. The Qur'an is positively oriented towards a scientific approach to problems. "Go out into the world and see what was the result of those who violated these truths (al-Qur'an, 2:136 and 6:11). It urges us to test even the Qur'anic hypotheses through observation and experimentation even though it is the belief of a Muslim that the Qur'anic hypotheses are laws that can never be falsified. It is this attitude of the Qur'an towards observation and experimentation which enabled Muslims to be pioneers of science and technology for a long period of almost six centuries from the middle of the 8th to the middle of the 14th centuries.

Some Qur'an Hypotheses

The Qur'an has itself specified a number of cause and effect relationships and it does not prevent Muslims from verifying or falsifying these relationships, logically or empirically. Three examples of such relationships are:

(i) وقد خاب من حمل ظلما

Whoever commits injustice (A) He faces ruin (B)

(ii) إن تتصروا الله ينصركم

If you help God (A), God will help you (B).

(iii) ومن أعرض عن ذكرى فإن له معيشة ضنكا

Whoever turns away from My message (A) he will have a difficult life (B)

The first hypothesis rules out the possibility of development without justice. Any society where there is no justice is bound to remain backward. This idea became

reflected in the writings of all Muslim scholars throughout Islamic history, including Ibn Taymiyyah and Ibn Khaldun. In contrast with this, Conventional Economics recognized the role of justice in development after a long period of flirtation with injustice.

The second hypothesis emphasizes the fulfillment of our obligations towards not just ourselves but also other human beings, animals, birds, insects, and the environment, which affects the lives of all living creatures. It is only by fulfilling our obligations towards other creatures that, according to some *ahadith*, we can help God whose ultimate objective is to ensure the well-being (فلاح) of the whole of mankind by promoting justice and development in the world.

We can see here that the Qur'an has moved away from the excessive emphasis of Conventional Economics on the serving of self-interest. If Christian values had not toned down the value neutrality of Conventional Economics to a certain extent, then Conventional Economics would have been excessively social Darwinist and would have led to uncaring societies. The proof of this is that even a rich society like the US has been unable to fulfill the essential needs of all its citizens even though it has at its disposal all the resources to do so.

Is the Market the only place where human beings interact?

It is of course easy to talk of justice and the well-being of all. The question is how can these be realized? There must be an effective mechanism for this purpose. If market forces could themselves do this, it would be easy and nothing else would be needed. However, while market forces can help raise efficiency through competition and thereby serve social interest to a certain extent, there are so many clandestine ways of cheating and curbing competition that they cannot ensure justice and well-being.

It is necessary to induce people to make a sacrifice for the well-being of others. This is what makes it necessary to inject a moral dimension into Economics. It is moral values that provide the rules of behaviour needed to keep under control the individual urge to be selfish. This is where the third Qur'anic hypothesis given above is crucial. God has provided these values to all mankind through His Prophets at different times in history to ensure the well-being of all. If we do not abide by these values, then we may be unable to fulfill even all the necessary material needs of mankind, leave alone the non-material needs, because all of these are interdependent. If one is ignored, the others will also ultimately suffer.

This will make it clear that the cause and effect relationships in the Qur'an, of which the above *ayahs* are only some examples, are addressed towards the promotion of justice, generally well-being, family and social solidarity, and development, and not just the serving of self-interest, maximization of wealth and the satisfaction of unlimited wants.

The Qur'an is not, and cannot be, the only source of testable hypotheses in Islamic Economics. There can be several other sources like the *hadith*, *fiqh*, historical records, experience of other countries, economic literature, and personal observations. All the hypotheses derived in this manner can and should be tested both logically and also through experiment or statistical analysis to the extent to which this is possible.

Conventional Economics concentrates primarily on the market, which is not the only place where human beings interact. If this had been the case and our behaviour had been immune from being affected by other institutions, then our concentration on the market alone could have been understandable. However, there are a number of institutions other than the market where people interact and these affect human behaviour as well as the allocation and distribution of resources. All of

these cannot, and do not, operate on the basis of just self-interest. Some of these other institutions are the family, the society and the government. Their importance is accepted by all, irrespective of whether they are secularists or morally-oriented. All these institutions are interrelated and even if one of them does not operate effectively, all others will suffer.

For example, human beings constitute the most important input of the market, the society and the government, and the source of this input is the family. The human input will be right only if the family operates effectively and remains integrated. This will happen only if there is love and affection between husband and wife. Love and affection increases if the husband and wife are willing to make a great deal of mutual sacrifice for each other's happiness and comfort. It is moral values which can motivate them to make such sacrifices. Conventional Economics, which has placed undue emphasis on the serving of self-interest, has no room in its analysis for such sacrifice. Hence the disintegration of families is taking place rapidly in a number of countries devoted to the materialist culture.

If families disintegrate, children are unable to get the kind of upbringing that they need. Numerous studies have shown that children raised in broken families are less successful on average than children raised in families where they get the love and care of both biological parents. Since human beings are the brick and mortar of all human institutions, including the family, the market, the society and the government, nothing may work effectively if the quality of human beings deteriorates. Any society which tries to be value neutral and ignores moral values will ultimately see its decline and downfall through a decline in the quality of human beings in spite of economic strength and military supremacy. This is why all the Prophets of God gave primary

attention to the reform of human beings and the institutions that affect them. The family is undoubtedly one of the most crucial of these institutions.

Likewise, the society and the government also have important roles to play in economics. Social solidarity is indispensable because it helps maintain social order and reduce crime and anomie. Social solidarity may be difficult to realize if people do not take care of the vulnerable, do not fulfil their contracts faithfully, and resort to unfair means of earning. Here again moral values are important. The government has also to play an important role in ensuring justice, punishing socially harmful behaviour and doing what the market, the family and the society cannot do.

Mechanisms for Allocation and Distribution

If well-being is defined in a humanitarian and spiritual sense and if all human institutions play an important role in its realization then the interdependent role of all cannot be neglected. It is necessary to take into account moral, psychological, social, political and historical factors, all of which are interlinked and affect human beings in an interdependent manner. The realization of overall well-being would then be possible if economic analysis skillfully weaves together all these institutions through the interplay of three important mechanisms. These are: (i) filtering, (ii) motivation, and (iii) socio-economic and political restructuring. Just as it is possible to define well-being in a number of ways, it is also possible to have different filtering, motivation, and socio-economic and political restructuring.

Firstly, all the different claims on limited resources need to be passed through the moral filter *before* they get expressed in the market place through the price filter. While the price filter alone can establish equilibrium between demand and supply, *any and every* equilibrium established in this way need not necessarily be in harmony

with the humanitarian goals. However, if the price filter is complemented by the moral filter, the resultant equilibrium could be expected to be in conformity with such goals.

Secondly, if coercion is ruled out, then there must be some way of motivating individuals to use resources in a way that does not frustrate the realization of humanitarian goals. The serving of one's self-interest may not by itself be able to safeguard social interest. A sense of moral urge to fulfill one's social obligations is important for this purpose. Such moral urge may be difficult to create without the concept of accountability before God on the Day of Judgment. Reward and punishment in the Hereafter have to be an important source of motivation. This does not prevent an individual from serving his or her self-interest in this world. It rather gives a long-run perspective to self-interest. While we *may* be able to serve our self-interest in this world by being selfish, we cannot serve it in the Hereafter except by fulfilling our social obligations.

It, however, needs to be borne in mind that everyone may not be particular about fulfilling his or her moral obligations. Therefore, this-worldly incentives and deterrents are also necessary. The society must look down upon those who earn by wrongful means and use resources wastefully or indulge in conspicuous consumption. They should not be able to get the prestige that they aspire by resorting to such behaviour.

The Government would also have to play an important role in discouraging socially harmful behaviour. It doesn't necessarily have to use force for this purpose. There are a number of ways by which it can accomplish its goals, including education and taxation. They would, however, fail to play their roles unless they are accountable

before the people. For this purpose Islam has instituted its own system of *khilafah* and *shura*, which is very close to democracy. Unless all the three mechanisms, which link the market with the family, the society and the government, play their interdependent role effectively, it may not be possible to realize the humanitarian goals of society.

Ibn Khaldun (d. 1406), who is rightly considered to be the father of modern sociology and economics, built a model which took into account the interrelated roles of morals, society, politics, economics, demography and history in human development. His model did not, unfortunately, get developed further because Muslim decline had already started before him and, as he rightly observed, science does not generally develop when a society is in the process of decline.

The Modern Revival of Islamic Economics

There has been a resurgence of Islamic Economics after the Second World War when Muslim countries started gaining independence from foreign domination. This has set in motion the revival of Islam which has given boost to the resurgence of Islamic social sciences. Among the first things to be modified or rejected have been the three pillars of Conventional Economics. These are the concepts of: (i) Rational economic man, (ii) Positivism, and (iii) Laissez faire.

Rationality in Conventional Economics is confined to just the serving of self-interest while it should be perfectly rational for a person to be concerned not just with his self-interest but also with the effect of his behaviour on other human beings, animals, birds, insects, and the environment. Likewise, why should positivism be equated with the unrestrained freedom of an individual to serve his self-interest? The identification of both rationality and positivism by Conventional Economics with the pursuit of self-interest and unrestrained freedom to do so are in conflict with the

realization of humanitarian goals, which require certain constraints on human behaviour.

Pareto optimum does not, therefore, fit within the framework of Islamic Economics because of its unrealistic condition that no one should be made worse off in the process of making someone better off. This negates the role of sacrifice in the realization of humanitarian goals. While it would be desirable to make everyone better off without making anyone worse off, it is not always possible to do so. It is sometimes necessary to make the rich forego their luxuries to ensure the need fulfillment of the poor. It is the moral obligation of the rich to be prepared to make such a sacrifice, and it is moral values which can help motivate them to do so.

Moral values may not, however, be always effective unless the Government also plays an effective role. The Qur'an can ask people to be honest and to help others and not hurt them. But it cannot ensure such behavior on its own. The Prophet (pbuh), therefore, rightly said that: "God restrains through the sultan what he does not restrain through the Qur'an" (إن الله ليزع بالسلطان ما لا يزع بالقرآن). The government, therefore, has a crucial role to play in the realization of humanitarian goals. It is *not necessary* for it to own businesses for this purpose. Most of the past Muslim scholars opposed this. There are a number of ways by which it can play its role effectively without using force or collectivizing and unduly restricting individual freedom.

Unfortunately, Ibn Khaldun's multi-dimensional, circular causation and dynamic model has not yet become fully incorporated into the discussions of Islamic Economics. However, there does seem to be a move in this direction. Maximum development so far has been in the area of Islamic finance which gives the false impression that this is all that Islamic Economics has to offer. However, other areas of

Islamic Economics are also developing, but rather slowly. The least developed area is microeconomics, which is the most important because it would show the kind of individual behaviour that is needed to realize the Islamic vision. It is also necessary to show how such behaviour may be inculcated without the use of force in a Muslim society where a number of vices have become locked-in over the centuries of decline through the operation of path dependence and self-reinforcing mechanisms. Moreover, Islamic teachings have not yet become fully reflected in policy proposals for the solution of a number of problems faced by Muslim countries, like poverty and unemployment.

Education has to play an important role in this process. Unfortunately, the prevailing educational system is not helpful in inculcating in students the kind of character that Islam envisages. Families also have an important role to play in the proper upbringing of children. However, because women have been kept uneducated in violation of the teachings of Islam, mothers have been unable to play an effective their role in the proper upbringing of their children.

Conclusion

In short, Islamic Economics takes an integrated view of life in which all the different factors - moral, psychological, social, political and historical - are interrelated and affect each other. It is a mistake to take only economic variables into account to analyze the economic performance of a society. The economic variables are so closely affected by other variables that ignoring them leads the scholar to a dead-end. It is also a mistake to consider the serving of self-interest as the only motivating force in human society. If this were the case, social interest would be served only in the process of serving self-interest. This would not be enough because self-interest and social interest are in conflict in several situations. It is, therefore, necessary to have some other motivating mechanism for this purpose. This may be difficult to achieve without injecting a moral dimension in Economics.