

Islamic Economics

Islamic Economics

*Basic Concepts, New Thinking
and Future Directions*

Edited by

Taha Eğri and Necmettin Kızılkaya

Cambridge
Scholars
Publishing



Islamic Economics:
Basic Concepts, New Thinking and Future Directions

Edited by Taha Eğri and Necmettin Kızılkaya

This book first published 2015

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Copyright © 2015 by Taha Eğri, Necmettin Kızılkaya and contributors

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

ISBN (10): 1-4438-7456-6
ISBN (13): 978-1-4438-7456-4

CONTENTS

Foreword	vii
Acknowledgements	x
Introduction: Some Considerations on the Methodology of Islamic Economics Studies.....	1
Necmettin Kızılkaya	
Part 1: Rethinking Islamic Economics	
Revisiting the Foundational Concepts and Thoughts in Islamic Economics: Where Islamic Economics Should Originate in Terms of Theoretical Content.....	12
M. Fahim Khan	
Re-Defining Islamic Economics.....	58
Asad Zaman	
Islamic Economics and Its Future.....	77
Abul Hassan	
How Can “Islamic Economics” Be Possible?.....	102
Şennur Özdemir	
Part 2: Basic Concepts, New Thinking and Future Directions	
Human Potential, Wellbeing and Philanthropy: A Philosophico-Economic Inquiry	132
Masudul Alam Choudhury	
The Role of Fiqh in Islamic Finance	165
Abdulazeem Abozaid	

Concepts in Islamic Economics Revisited: The Case of Poverty	181
Muhammad Syukri Salleh	
Islamic Economics Assumptions Revisited: Contemplating the Concept of Scarcity.....	200
Zakaria Bin Bahari and Amir Wahbalbari	
The Political Economy of Institutionalism: A Methodological Process Premised on Islamic Texts.....	213
Lubna Sarwath	
Conclusion: Rethinking Islamic Economics.....	227
Taha Eđri	
Contributors.....	237
Index.....	242

FOREWORD

Studies in the field of Islamic economics lose their targets over time. These works conducted on Islamic economics since the 1970s have been co-opted by the existing economic system and have become limited to a large extent, as they are now only concerned with financial transactions. In fact, “Islamic economics” as a concept actually deserves to be conceptualized as an alternative economic system. However, because of the financial and commercial transactions implemented in daily economic life, it diverges from the position that deserves in the end, and the contributions it could make to economic theory are overlooked as Islamic financial instruments become widespread.

Muslim economists continue their invaluable studies on this issue despite all of these developments. It has been recognized that a permanent foundation is not likely to be established with regard to the needs of the day so long as these individual studies are not brought together. Although we encounter various conceptualizations, such as “the economy of Islam,” “the Islamic economy,” “Islamic economics,” “Islamic finance,” and so on, it has become difficult to clarify our ideas as to the aim with which these concepts are used, their points of reference, and the kind of power they have. Furthermore, in this chaos, evaluations that do not make any claim with respect to the foundation on which they are produced illustrate that the process of conceptual transformation needs to be scrutinized attentively. Except for studies on Islamic finance, we do not encounter studies that approach the issue of Islamic economics in its totality in our scientific and intellectual world. The reason is that studies in the field of Islamic finance—articles, books, symposiums and so on—are deemed to be a part of Islamic economics and to be a substitute for studies of Islamic economics. Therefore, each concept is shaped in its own depth, and thus, studies of Islamic economics remain unsatisfying.

An international workshop titled “Islamic Economics Workshop I: Basic Concepts and Ideas” was conducted to approach the historical course of the debate on Islamic economics and its current effects on our conceptual world. Valuable scholars from around the world presented papers in this workshop. This book is comprised of the papers presented in this workshop. The papers presented in the workshop were negotiated by the respective academicians and were revised and turned into articles by

the authors in consideration of the critiques and contributions made by the guests. These articles, which emphasize the concept of Islamic economics, were brought together with the aim of laying down a firm foundation for our contemporary socio-economic issues, as well as for our traditional intellectual legacy.

This book has been divided into two sections. Conceptual and methodological debates are addressed in the first section and issues concerning Islamic economics are approached in the second section. In his article, where he discusses the reasons why Islamic economics has not reached the conceptual and scientific level it should have reached, Fahim Khan claims that the most important reason for this is a lack of vision. Khan claims that Islamic economics needs to be recognized as an independent scientific discipline, and this discipline needs to be developed in terms of its own values. In his article, in which he claims that the Islamic economy needs to be redefined, Asad Zaman divides the field in question into three sections: the micro level, where the individual lives and in which the commands of Allah on economic issues are followed; the meso-middle level, which concerns the immediate community; and the macro level, which concerns the *Ummah* in general. On the other hand, Abul Hassan evaluates the studies conducted in the field of Islamic economics up to the present day and provides a discussion of the future of the discipline and what could be done methodologically in regards to the field. In the last article of the first section, Şennur Özdemir approaches the issue from a different perspective and discusses the possibilities of an Islamic economy.

In the first article in the second section, Masudul Alam Choudhury presents an analysis on human potential, welfare and philanthropy with a methodological and philosophical study. He approaches the issue through an analytical framework and discusses it within the evolutionary economic methodology in order to suggest an alternative developmental approach. Abdulazeem Abozaid deals with financial developments within the context of the relation of Islamic economics to *fiqh*, which has gained importance at this point. The role of *fiqh* in Islamic finance is discussed in the article, and it is claimed that, due to the irregularity and lack of organization in jurisprudence, controversial financial instruments have seeped into the system. Muhammad Syukri Salleh's study emphasizes the need to redefine concepts in an Islamic context and approaches and discusses the concept of poverty in this context. He claims that a redefinition of the concept of poverty would play a crucial role in the eradication of poverty. On the other hand, Zakaria bin Bahari and Amir Wahbalbari's study approaches the concept of scarcity, which was based

on classical economics, from the perspective of Islamic economics. Lubna Sarwath's study, which proposes a different approach and model, emphasizes the need for institutionalization in Islamic economics. She grounds this institutionalization, which she proposed on the basis of *tawhid*, on the idea that our preferences and material choices are shaped based on our moral consciousness.

We hope to make a contribution to the field of "Islamic economics," albeit a small one. We hope that the future studies will become diversified in such a way as to approach all aspects of economic life, both conceptually and in practice.

ACKNOWLEDGEMENTS

This book was developed out of the papers presented at the “Islamic Economics Workshop I” organized by ILKE Association for Science Culture and Education (İLKE İlim Kültür Eğitim Derneği), Scientific Research Society (İlmi Etüdler Derneği), and Turkish Entrepreneurship and Business Ethics Association (Türkiye İktisadi Girişim ve İş Ahlakı Derneği). We would like to acknowledge the valuable effort and support of the organizations and their staff.

We would like to extend our appreciation to everyone for contributing to this project and, more specifically, to the authors and reviewers that took part in the review process. Our sincere gratitude goes to the chapters’ authors who contributed their time and expertise to this book. Without their support, we would not have had a chance to complete this book.

And finally, we would like to thank the presidents of the organizing associations—Lütfi Sunar, Davut Şanver and Şükrü Alkan—for their contributions and support. Moreover, we would like to thank Süleyman Güder, Muhammed Turan Çalışkan, Senanur Avcı, Nuriye Kayar, Kubilay Zekai Eroğlu and Yusuf Enes Sezgin for their help in the preparation of this volume.

INTRODUCTION: SOME CONSIDERATIONS ON THE METHODOLOGY OF ISLAMIC ECONOMICS STUDIES

NECMETTIN KIZILKAYA

Almost all of the scholars who talk about Islamic economy and finance nowadays refer mostly to the Quran and sometimes to the Sunnah. This approach may be deemed to be accurate at first glance when the dominant discourse of our time is considered and evaluated; however, it brings up serious problems when the details are fleshed out. In this study, I will firstly point out these problems in brief and then will proceed to focus on some matters as to how the Islamic economy needs to be approached. To that end, the theoretical framework of the study will be based on Tahsin Görgün's approach to the nature and meaning of the Quran and the Sunnah (see Görgün 2013), and the Islamic economy will be evaluated on the basis of this approach.

To begin with, we need to look at the question of whether the Quran and the Sunnah are the only sources of knowledge for Muslims. This may sound meaningless to some, but for the author of this article, it is very meaningful and important for the subject to be understood. Its importance should be noticed when it is considered that there is an emphasis on the Quran and Sunnah in Islamic studies in general and in studies on the Islamic economy and finance in particular. It should also be considered that this emphasis has been repeated in similar conditions. It may be appropriate to focus on this issue with a question in mind: Is the relation between the Quran and the Sunnah and a Muslim person a relation of subject-object, or is it a relation of a different kind? It is very crucial to give an accurate answer to this question, as it will enable us to determine the reasons for the many problems encountered today.

Since the issue is the Islamic economy, a system that was once in operation and was successful to a certain extent, it is clear that there were and still are some sources that nurture this economic system. For this

reason, we need to question what the values of the Quran and the Sunnah as sources were in the classical period, as well as what they mean today. In other words, if the Islamic economy was founded on these two primary sources, and if these sources still exist, why does this field lack a theoretical framework for an Islamic economy today, and why do the attempts to propose one end up failing? The answer to this question, together with the ones posed above, lies in the fact that the Quran and the Sunnah do not hold any meaning for Islamic economists aside from their value as sources of knowledge. To put it in clearer terms, the Quran and the Sunnah are seen as objects in studies conducted on the Islamic economy, and they are referred to as sources of knowledge without any regard for the constituent roles they have played. The possibility for deriving accurate results from these studies diminishes as these two sources, which are the constituent elements of Islamic societies, are objectified within studies on the Islamic economy.

Today, the existing economic models and concepts are taken as the basis of studies on the Islamic economy, and the knowledge found in the Quran and the Sunnah is evaluated accordingly. However, the opposite was true when the Islamic economy was being successfully implemented in the past; in this situation, the knowledge in the Quran and the Sunnah would be taken as the basis, and attempts would be made to fit the existing situation into the application of this knowledge. This approach does not indicate that the existing conditions would be disregarded in the classical period; on the contrary, they would be considered at any rate. It will be better to explain this with an example: when the concept of *need* is analyzed in studies on the Islamic economy, the dominant theories in today's economy are taken into consideration, and the results obtained based on these theories are taken as the basis. Based on this process, examples of or equivalents of these results are sought out in the Quran and the Sunnah. Within this framework, human needs are deemed to be limitless, whereas the resources are taken as limited, and a theory is constructed accordingly. This approach seems to show a disregard for human beings themselves, as it assumes that the biological needs of humans are limitless and overlooks their fundamental psychological and moral properties. Furthermore, even though economics defines human needs in this way, it is known that economics and economic activities are structured mostly in a way so as to meet the needs of capital, such as profitability, growth, and competition. Certain concepts are sought out in the Quran and the Sunnah based on certain assumptions that are essentially foreign to the model of humans and society that the Quran and the Sunnah aim to establish. Since the basis on which the subject is handled is quite

foreign to these two sources, the result of this search neither matches these sources nor has a chance to work.

The same applies to such concepts as commodity, profit, consumption, income and labor. To determine the meanings of these concepts in the Quran and the Sunnah, the social reality in which these concepts are to be found needs to be analyzed in the first place. For this reason, the meaning attributed to the Quran and the Sunnah needs to be seen as having a different nature beyond their function as sources of knowledge.

There is clearly no need to explain how problematic it is to deal with these issues without any regard for, or even without any knowledge of, the classical theories (sects) which emerged within Islamic society. It is quite obvious that the interpretation of such concepts as commodity, profit and benefit based on the meanings provided in the dictionary would lead to misunderstandings, which is the reason why it is even more problematic to disregard the social reality in which these concepts are to be found. If we may put it in classical terms, it may be claimed that the words to be found in the Quran and the Sunnah possess three levels of meaning comprised of their lexical, customary and ecclesiastical (*shar'î*) meanings, and therefore the most common and biggest mistake made in studies of the modern Islamic economy is to approach the subject with an understanding different from these three meanings; namely, with the meanings that the modern economy attributes to these concepts. The economic model thus constructed is based on certain concepts that, in terms of their wording (they are allophones), are the same as the concepts in the Quran but that are very different in terms of their meaning and nature. This is the fundamental methodological problem of contemporary studies conducted on the Islamic economy. The main reason is that they provide recourse to the lexical meanings of the concepts found in the Quran and Sunnah (it is not possible to say that this is always done in proper ways, either) and disregard the customary and ecclesiastical meanings of these concepts. As a result, they overlook the social structure that gives life and soul to these concepts, making it quite difficult to consider the results of the studies thus conducted as part of the Islamic economy.

This problem applies to all of the concepts that are taken as the basis of studies conducted on today's Islamic economy. Some studies find that there are similar concepts to those found in today's economics in the Quran and the Sunnah, and although analyses are made on their lexical meanings, it would be quite difficult to claim that their ecclesiastical and customary truths were also revealed. The reason is that the social reality in which these concepts emerged needs to be considered in the first place. Although very rarely, some studies on the contemporary Islamic economy

try to establish the ecclesiastical truth; however, since they are very far away from the customary truth, they cannot properly present the meanings of the fundamental concepts in the Islamic economy. After all, instead of examining the concepts and issues presented by the existing economic system based on the Quran and the Sunnah, the studies conduct a search in the Quran for the concepts and issues imposed by the existing economic system.

As was mentioned above, the fundamental reason for this approach is the fact that the Quran and the Sunnah are regarded as sources of knowledge. This indicates that the perspective of the modern period is completely different from that of the past. In the classical period in which the Islamic economy was used as a system, the Quran and the Sunnah would be approached with the practice (*'amal*) of being regarded as central, and this would have a transformative function. As a matter of fact, when the present is compared with the classical period, it is seen that this perspective constitutes the most fundamental difference between the two periods. For this reason, as long as the communication of the Lawgiver to the Muslims remains a source of knowledge and is not turned into practice (*'amal*), it will be quite difficult to claim that the proposed, contemporary theories are theories of Islamic economy. To overcome this situation, the Quran and the Sunnah must be seen as existential sources, not merely as sources of knowledge.

Starting from this view, it needs to be said that for the Quran to have an effect on the economy as in other fields, it firstly needs to be handled beyond an approach that objectifies it. The Quran needs to be seen as the existential reason of Muslim society. To ensure its applicability in social life, the Sunnah—namely the founding role of the Prophet (pbuh)—needs to be considered. This would only be possible if one submits (*ittiba'*) to the Prophet (pbuh), which is the founding principle of Islamic society. Consequently, it is seen that the Quran and the Sunnah are inseparable, and one cannot function without the other (Görgün, 2013: 209-235). For this reason, the people who work today on theories about Islamic economy and finance have no chance to be successful, since they focus on the Quran and propose various assumptions based on certain principles mentioned in the Quran. Hence, they overlook the constitutive character of the Sunnah. In addition, it is not possible to name an economy that claims to rely on the Quran and the Sunnah and be based on them as an Islamic economy, unless the Quran is regarded as the existential reason of the Islamic society and unless submission (*ittiba'*) to the Prophet (pbuh) is regarded as the constitutive principle of this society.

Having established the position of the Quran and the Sunnah for

Islamic society and sciences in this way, we have come to the question of the method to be followed by economics as a science. First of all, it would be proper to consider the meaning of sciences in Islamic societies, how the science of economics is related to other sciences, and what this science means on its own. It is possible to claim that the various sciences which emerged throughout history—such as linguistics, *hadith*, history, Quranic exegesis (*tafsir*), Islamic jurisprudence (*fiqh*) and '*aqidah*—have been referred to as methods by Islamic society throughout its existence (Görgün 2013, 228). Economics is a science that Islamic society uses to handle economic problems and through which it tries to solve these problems (in line with the method, the framework of which was given above). For this reason, economics possesses an identity similar to the other sciences. As this is the case, we see that the science of economics is a science with specific premises, as is so with the others (these premises are the principles that emanate from the fact that Islamic society has submitted to the Sunnah). Therefore, it is possible to talk about an economic thought that has certain aspects particular to Islamic civilizations. However, this does not mean that it is a completely different science. Instead, it means that it is a discipline the distinctness of which lies in its submission (*ittiba'*) to the Sunnah and its difference from other systems.

It is clear that the Islamic economy is not a completely different economic system with all of its institutions and concepts. As people engage in various kinds of commercial relations that have been similar for the most part across all geographies and periods, it would not be accurate to claim that their difference lies in their functions. Economic systems are differentiated not on this basis but on the basis of the different properties they possess. For this reason, the fundamental properties of the Islamic economy that distinguish it from other systems constitute its authentic aspects as well. In other words, what make the Islamic economy authentic are the points on which it differs from other economic systems. For instance, the suggestion of an interest-free economic system is the most important matter in this respect. The negative impact of indeterminacy on the contract may be mentioned within this framework as well. For this reason, even though Islamic economics possesses certain aspects that are similar to other economic systems, considering its sources of inspiration and the differences it presents makes it possible to talk about the existence of a specifically Islamic economy. This brings up the question of certain concepts that are dominant in the contemporary Islamic economy.

The leading concepts that are emphasized most or mentioned frequently in contemporary studies on the Islamic economy and finance are concepts such as *maqasid* and *maslaha*, which are borrowed from *fiqh*.

In the vast majority of the studies in question, these concepts are not used properly, and the results obtained based on the meanings attributed to these concepts are not to the point as a result. The reason why these concepts are used more frequently today compared to the classical period is that they establish the grounds so that the Islamic economy, which is a part of the theoretical and practical system proposed by Islamic civilization, may be easily separated from its roots. In other words, these kinds of concepts that are emphasized more in modern times enable the scholars who are interested in the science of economics to think freely without being restricted by the methods proposed in the classical period. This is a mistake made especially by researchers who do not have any idea about the nature of the meaning these concepts possess in *usul al-fiqh*. These researchers mostly act based on the knowledge they have gained from secondary sources.

To give an example of the shift in the meaning of a concept used today, we will briefly mention the meaning attributed to the concept of *maslaha*—including the *maqasid* as well—by the classical thinkers, and we will content ourselves by saying that a comprehensive discussion of the subject will be made somewhere else. While defining *maslaha*, al-Ghazâlî (c. 505/111) mentions the lexical meaning of the concept and defines it as the case in which one affords an advantage and prevents a loss. However, he immediately claims that this kind of *maslaha* is not the same as the *maslaha* in *fiqh*, since this definition was made with respect to the purposes of the human being. Then he claims that *maslaha* means the preservation of the objectives of *Shariah*. On the other hand, the goal of *Shariah* is the preservation of the religion, lives, minds, lineage and property of the people (al- Ghazâlî 1413, 481-482). As it is seen in this example, the concepts of *maslaha*—and thus, of *maqasid*—possessed different meanings in the classical period (in which the Islamic economy enjoyed a lively field of application) from the meanings they possess today: while *maslaha* indicates the objectives of *Shariah* in one context, it encompasses the purposes of the people in the other.

As al- Ghazâlî points out, *maslaha* may be used only in lexical terms to mean the prevention of harm to gain an advantage, while this definition does not provide a framework to be referred to when the issue is Islamic sciences. For this reason, when *maslaha* is the issue in the science of *fiqh*, it does not have this meaning. As will be explained below, if *maslaha* is mentioned in the science of economics, which is a sub-branch of *fiqh*, it should not be defined based on its lexical meaning. Instead, the framework provided by the classical theory should be taken as a basis. Otherwise the result obtained will be false, since it will proceed based on a false premise.

As explained above, if the ecclesiastical and customary meanings of the concepts are not taken as a basis, and if these concepts are used only with regard to their lexical meanings, grave problems will emerge in Islamic thinking and, consequently, in various disciplines. This is one of the most prominent problems encountered by a large number of contemporary studies on Islamic economy and finance.

In addition to false meanings attributed to concepts, various methodological mistakes add intricacy to the debate. Namely, one of the most important matters that is overlooked by academic and professional studies conducted on economic practices and banking is that they do not emphasize the necessity of following a method in this field. In any study to be conducted, either in the contemporary social sciences or in the physical sciences, the approaches that provide a theoretical framework for that study are to be followed. Many scholars overlook the fact that this also applies to the Islamic sciences in similar terms. As it is seen in contemporary studies on Islam, approaches that do not employ a method and theories that are developed regarding issues in the Islamic economy based on these approaches become established rules. These rules then block the real issues or become the biggest obstacles to the adoption of the proper approach. For this reason, if an Islamic economy is at stake, it means that there are certain fundamental constants on which this discipline is based and that it is a science that needs to follow a methodology. Therefore, if studies on the Islamic economy do not follow a methodology and the issues are not studied within the framework of a specific system, it is not possible to see a considerable degree of progress, nor is it possible for the Islamic economy, despite its crucial potential, to become an economic system that may exist on its own.

How will this be possible? Whether this question may be answered depends on our ability to determine the role played by the Islamic economy up until the colonization of the Islamic world. In other words, the Islamic world possessed an established economic system of its own until it encountered the hegemonic invasion of the West, and this economic system was being successfully applied in a region in which the most important economic activities of the world were carried out. This illustrates that it is not impossible to implement an Islamic economy or the economic principles it proposes; on the contrary, it is quite possible, and this possibility has enjoyed important success in the past. For this reason, instead of focusing on such concepts as *maslaha* and *maqasid*, those who talk about the Islamic economy and finance today need to analyze the dynamics/principles of the Islamic economy (which was once successfully applied as an economic system in the past) and must develop theories

based on their analyses. Other approaches have no chance for success.

The studies done by some economic historians illustrate that the Islamic economy as a system had been applied with success.¹ Aside from these studies, it is not possible to think that the Muslims who lived in various geographic areas for many centuries did not engage in commercial activities. Thanks to the resources provided to us by historical archives, we know that Muslims engaged in intercontinental economic activities successfully. Therefore, the first thing that needs to be done through studies on the Islamic economy is to analyze the system that was applied in the past and to determine the factors that brought success to the economic system applied by Muslims. Although quite a big issue is at stake here, the right thing to do is to point out some of the reasons for this success, or more precisely, the reasons that established the ground for this success and concluded the subject.

As it is known, the Ottoman Empire survived through the economic policies it applied for some centuries, and this continued until the 19th century. The classical approach that the Ottoman Empire relied upon began to change in this century, and this change brought with it the dissolution of the Empire. The economic view of the Ottoman Empire, which was spread across wide continents, was based on three principles—*provisionism*, *fiscalism* and *traditionalism*--which were referred to as the three coordinates by the famous Ottoman economic historian Mehmet Genç (Genç 2000, 43-52). The fundamental source of the main principles of the Ottoman economy was without doubt the religion of Islam. In this context, adherence to the fundamental sources of religion, the theoretical framework of which was given above, defined the *traditionalism* of the Ottoman Empire. The economic structure of the Ottoman Empire adhered to it for quite a long time and achieved considerable success in this way. However, this situation began to change in the 19th century. It is possible to observe this change through the concept of *qadîm* (ancient). While the history of the concept of *qadîm* was not known by anyone until this century, it came to be used to mean “unknown, old-fashioned, and worn out” as of this century (Genç 2000, 92). This shows that the concept was reduced to its lexical truth and came to be perceived in this way. However, even though no serious problem seems to be at stake right now, this approach is an important sign of a change in the mentality of society.

Here, the relation of the *qadîm* with the custom is of a legal nature on the one hand and means undergoing tradition with obedience on the other. Therefore, the *qadîm* values that determine the commercial ethics and reflections correspond to the founding principles of Islamic society. On the other hand, the emphasis placed on the *cedîd* (the new) in the 19th century

when the *qadîm* came to have a negative meaning indicates that the function of these founding principles for directing the social structure had changed. Therefore, the *qadîm* came to mean “worn out,” instead of referring to that whose history is not remembered by anyone. In other words, while *qadîm* used to have a definitive place previously, as of this century, it became a word that is only looked up in the dictionary. For the most part, this is also the case for contemporary studies on the Islamic economy, most of which make various conclusions based on the lexical meanings of certain concepts.

Even though studies on treasury, tax and economics are conducted in separate works throughout Islamic history, issues related to economics in particular had been examined within the science of *fiqh* for the most part. The science of *fiqh* is a science that belongs to the Muslims due to its properties, and it is one of the most important reasons for the successful application of the economy in Islamic society. Therefore, although some of the researchers who work on the Islamic economy criticize the perspective of *fiqh*, the theoretical framework through which the Islamic economy should be approached as a discipline cannot be thought of without *fiqh*. In other words, the Islamic economy, which had been applied successfully in history, may be approached and applied as a system again only if it benefits from the theoretical framework of *fiqh*. However, this is not enough on its own; the historical practices that concretize this theoretical framework will also provide guidance to the studies on the Islamic economy to a large extent. In conclusion, the approaches of the legal (*fiqh*) sources, in which the Islamic economy developed as a discipline and found its framework of reference, need to be determined properly in the first place; then, the historical experiences need to be considered. The historical experiences that are overlooked in contemporary studies on the Islamic economy can provide very crucial clues for us to be successful today.

References

- Al-Ghazâlî, A. H. 1413. *Al-Mustasfâ min ‘ilm al-usûl*. Vol. II, ed. Hamza Ibn Zuhayr Hâfiz. Medina: Sharikat Medina al-Munawwarah.
- Genç, M. 2000. *Osmanlı İmparatorluğunda Devlet ve Ekonomi*. İstanbul: Ötüken Yayınları.
- Görgün, T. 2013. *İlâhî Sözü'nün Gücü, Varlık ve Bilgi Kaynağı olarak Kur'ân*. İstanbul: Külliyyat Yayınları.

Notes

¹ The study of Abraham Udovitch titled *Partnership and Profit in Medieval Islam* is only one of these studies.

PART 1:
RETHINKING ISLAMIC ECONOMICS

REVISITING THE FOUNDATIONAL CONCEPTS AND THOUGHTS IN ISLAMIC ECONOMICS: WHERE ISLAMIC ECONOMICS SHOULD ORIGINATE IN TERMS OF THEORETICAL CONTENT

M. FAHIM KHAN

To Be or Not to Be

This paper is based on the belief that there is sufficient basis to claim that Islamic economics needs to be solidified as an independent scientific discipline and that it needs to be discovered on its own merit.

This paper does not accept the position that **their** economics (the conventional economics) is sufficient to help us understand Islamic economics.

This belief is based on the following Quranic guidance:

“Say, ‘Who provides for you from the heavens and the earth?’ Say, ‘Allah.’ And indeed, we or you are either upon guidance or in clear error.” (The Quran, 34:20)

What We Want to See in Islamic Economics

We want to see in Islamic economics a scientific discipline that helps to understand human economic behavior using revealed knowledge about human nature and hence understand the reasons underlying such economic diseases as high incidence of poverty, high unemployment rates, extreme inequalities in the distribution of income and wealth, the rapidly deteriorating environment of the planet, etc. This is our destination, which we cannot reach by treading the path of “their” destination.

Why We Have Not Yet Reached Our Destination

Many reasons have been discussed in the past for why we have not reached our destination. I highlight the following to make my point:

Lack of vision about the destination: We all know that present-day (conventional) economics must address many deficiencies regarding the economic problems of humanity. Economics as a social science (through studying a particular aspect of human behavior) is expected to help us understand the nature of economic problems, why these problems arise, how economic agents deal with them, and what role society/economy can play in correcting distortions in the behavior of economic agents to avoid these problems. This is true for us (Muslims), and this is true for them (secular or non-Muslim persons). The starting point for developing the discipline of Islamic economics should be how we realistically perceive the economic problems that human beings (we, as well as they) are facing. Inspired by divine guidance, we have our own perceptions of the economic problems of humanity and how to deal with these problems. These perceptions should be true for **us** as well as for **them**. This in turn means there is a need to explain what our perception about the nature and scope of the discipline is. If we call our perception on economic problems and economic activity “our economics,” then we need to present a convincing argument to show that our economics will provide a better understanding of human economic behavior.

Lack of vision about methodology: There has been undue obsession about the role of *Fiqh* (jurisprudence) in developing the study of economics. Economics is the study of a particular aspect of human behavior. *Fiqh* may guide us only to the institutional framework within which an Islamic economic agent is supposed to behave. But *Fiqh* cannot give us the scientific basis to study and analyze human behavior.

Lack of awareness of developments taking place with respect to theory and practice in the area of economic activities: This lack of awareness makes efforts in the area of theory and practice of Islamic economics redundant and irrelevant not only for the scholars working in the area of conventional economics but also for the Muslims who are supposed to be the beneficiaries of the discipline of Islamic economics.

Absence of support for research: Most of the economists interested in developing Islamic economics are working in developing countries where financial constraints and lack of proper research environments do not allow for the devotion of sufficient time and effort for research. Except for a minority of Muslim economists, particularly in the Middle East, the economists in the developing world find it difficult to assign research in

Islamic economics as a top priority in their academic work. The Islamic economists in the Western world not only lack the research environment needed for research in Islamic economics, but also, their research priorities cannot coincide with their work requirements.

Absence of lifetime commitment to produce an original scientific work in Islamic economics: This absence is in fact related to the above point. The scholars have to worry first about their own subsistence and the survival of their family and their children, their retirement, etc. They have to worry about providing quality education to their children, and they need financial backup for health emergencies and diseases. While devoting all of their resources to these considerations, there is not much left in life to be devoted to research. They cannot make a lifetime commitment to research. The contemporary Western world takes care of these needs, and hence, scholars can make lifetime commitments to their missions. In the early period of Islam, too, Muslim society had some sort of institutional framework to provide such supportive environments to scholars.

Lack of a holistic approach: “Islamic economists” prefer to write on specific topics in Islamic economics rather than analyzing the whole system of beliefs, institutions and activities in the field of economics. This approach will never lead to a complete discipline to be called Islamic economics. At this point, I will further add that we need to develop an Islamic theory of economics rather than an Islamic economic theory. This is not a semantic difference. It is a very substantial and basic difference. This will be discussed in detail later in this paper.

The Subject Matter of Islamic Economics

It is too early to relate anything to Islamic economics. It would be desirable to first identify any research we do in the area of economics as “our economics” rather than instantly declare it Islamic economics. Let others call it Islamic economics, if **they** wish. For us, let it be our economics for the time being.

Also, there is no reason why we cannot keep the subject matter of economics in this transition period exactly the same as is conventionally recognized and as has been defined by their economics’ own forefathers (Adam Smith, Alfred Marshall, John Stuart Mill, et al). They called it a “science of wealth” (Smith 1776) or “[t]he practical science of production and distribution of wealth” (Mill 1848). Wealth, in these definitions of economics, means stocks of useful things or things that have value or things that are now known as “economic goods” in the same way as the *Fiqh al maal*¹ defines *maal*. The subject matter of **our** economics is also

wealth (maal). Hence, in terms of definition, we may not generate any controversy about the (conventional) economics and **our** economics at the level of definitions. The essence and identity will be directly visible when we finally reach where we want to be.

Our economics can also be defined as a study of human behavior relating to the attainment of use of material requisites of wellbeing. This, in turn, would also imply studying human behavior in achieving wellbeing in relation to scarce means, which have alternative uses. Hence, we do not have to redefine the subject matter of **our** economics.

The use of the word “wealth” in the early definitions of economics attracted a lot of criticism because of the social connotations attached to the word “wealth,” which was understood as something relating to “richness.” This criticism forced the later generation of economists to abandon the use of the word wealth and instead led them to define economics as “a study of mankind in the ordinary business of Life; it examines that part of the individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being” (Alfred Marshall 1890), or as “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses” (Lionel Robbins 1932). **Our** economics does not have to hide the real subject matter of the scientific investigation of the economic behavior of human beings, whether it is in terms of the “attainment of use of material requisites of well being” or in terms of the “relationship between ends and scarce means which have alternative uses.” In **our** framework, it can still be defined as a practical science of production, distribution and use of maal (wealth).

The real difference will lie in the details. An underlying feature in **our** economics will be an institutional framework quite different from the institutional framework implicit in the conventional definition of economics. This is an element that would make substantial difference in **our** economic analysis. Differences in behavior due to differences in institutions (Wright 1974) may require a change in the framework of analysis, too. The inclusion of institutions in economic analysis will help us later on when we analyze Islamic economics.

Another difference that lies in the details of conventional economics and **our** economics is the concept of wellbeing. While conventional economics aims at studying human behavior relating to the attainment and use of material requisites of wellbeing, and if we agree not to dispute this objective, there will still be a difference as to what the concept of wellbeing means in the two approaches. While conventional economics refers to wellbeing in terms of satisfying wants emerging from instinctive

desires, **our** economics will refer to wellbeing as arising out of fulfilling our needs. The difference between the “wants/desires” and “needs” arises from the institutional (legal and moral) framework in which an individual behaves and makes economic decisions.² It is in this context that the role of Islamic law (*Shariah*) and moral values will be introduced in the analysis of economic behavior.

In the background of this discussion on the role of institutions and the distinction in the concept of wellbeing, let us first give the definition of **our** economics to provide a comparative perspective on the nature and scope of conventional economics and **our** economics. Our economics deals with the study of that part of human behavior that relates to creation, distribution and use of wealth within the given institutional framework of a society relating to individual wellbeing and socio-economic justice. For those who do not like to use the word “wealth,” the alternative formulations of the definition could be as below:

- A study of mankind in the ordinary business of Life where it examines that part of individual and social action which is most closely connected with the attainment and use of material requisites of wellbeing while conforming to the institutional framework of the society.

Or

- It is a science that studies human behavior as a relationship between ends and scarce means, which have alternative uses in the context of individual wellbeing behaving in conformity to the legal and moral framework of the society.

It may be emphasized again that **our** economics, here, does not mean Islamic economics. Our economics is merely an alternative secular approach to economics where we use our knowledge from divine sources to develop a better and more realistic approach to analyzing human economic behavior. This approach, however, will be used later on to study economics in the Islamic system of life (in totality of the legal and ethical frameworks), which in turn may be referred to as Islamic economics.

Whether it is **our** economics now or Islamic economics later, the approach should be scientific. Like conventional economics, we need to complete positive economic analysis first and then continue to normative economics. **Our** theory of economics should be generic in nature and capable of being applied to any society in the world. This paper later suggests an alternative approach to economic analysis to achieve this objective of uniformity in analysis.

The Purpose of Developing Our Economics

At the outset, I prefer not to talk about Islamic economics, so that all our mistakes and misconceptions that we may develop in discovering our economics may not be ascribed to Islamic economics. I, therefore, prefer to see our current efforts as research in our economics. Economics, as a social science, entails studying a particular aspect of human behavior and is expected to lead to understanding the nature of economic problems, like poverty, unemployment, hunger, extreme economic inequalities, illiteracy, diseases, etc. Why these problems arise and how to deal with them at the individual level as well as at the societal level are essential questions of economics as a discipline. The starting point for developing our economics therefore would be how we perceive the economic problems with which human beings are faced. This in turn means determining our perceptions about the nature and scope of the discipline that we want to call **our** economics.

We cannot have our economics unless we have our own framework of economic analysis to allow us to understand the economic behavior of man.

Desired Features for Our Analytical Framework

Let us explore what features we would like to see in our framework of economic analysis. Below, I offer brief, salient features of our analytical framework:

- 1) **Balancing** (rather than optimizing) as a key element in human decision making in all its activities;
- 2) **Needs fulfillment** (rather than satisfaction of wants) as the main focus of economic activities. (These two elements are positive elements of human behavior on Earth. They are discussed in detail in Section 2.);
- 3) **Rushd** (the counterpart of “rationality” in a conventional framework). Our framework of economic analysis will also assume rationality on part of human beings in all their activities, including economic activity and economic decision-making. But our concept of rationality will differ from that of the concept used in conventional economics. In the context of our economics, it would mean sound-mindedness in human decision-making.³

One characteristic of a sound mindset underlying human behavior would be to ensure balanced behavior and would seek to achieve balance

in the decisions that a human makes relating to different aspects of life. It is balance that we see in the universe everywhere, and human behavior would not be an exception to this universal reality. This would be our definition of rationality. How to express this concept of reality in mathematical equations and inequalities, if required, is something we can postpone at this point.

The other characteristic of the sound mindset underlying human behavior would be to seek the fulfillment of needs rather than the satisfaction of wants and desires. Another characteristic of a sound mindset would relate to conforming to legal and moral obligations laid down explicitly or implicitly in the institutional set up of the society.

Additionally:

4. Our framework should not assume away **uncertainty**.

The details of these and other features are discussed later in this paper.

Can a Framework with Such Features Be Developed?

We are not alone in the quest for a different framework that is more realistic in its formulation and more comprehensive in scope. The initial searches have generated some successes, and useful alternative frameworks have come under discussion. But none of them have developed enough to be recognized as independent paradigms.

The conventional framework of economic analysis benefited from the science of physics and heavily depended on tools borrowed from mathematics. It is curious: Why has the science of physics been relied upon to develop their framework of economic analysis? Inspired by the scientific methods of natural sciences, economists probably were attracted to using similar methods to make economics as precise as the science of physics. Forgetting that economics studies human behavior, the economists were fascinated by the sophisticated application of scientific methods similar to those of physics for explaining human economic activity. In this way, they probably succeeded in earning economics a higher status among other social sciences. But in the process, they lost track of several economic problems that the science of economics was expected to address. Many economists are critical of depending on physics and mathematics to adopt a framework for economic analysis.⁴

Economists should have looked towards other social sciences (like sociology, psychology and anthropology), which have a long history in developing methodology for analyzing human behavior. Even among

natural sciences, biology—in dealing with the study of life (unlike physics, a science studying lifeless bodies)—seems more relevant to studying the particular behavior in human life called economic behavior.⁵ The relevance of biology for economic analysis stems from the fact that biology is concerned with characteristics, classification and the behavior of organisms. It studies how they react with each other and with changes in the natural environment.⁶

Biology provides a basis for medical science dealing with the health of the human body. It provides a framework for analyzing living bodies in order to help identify diseases and malignancies in a living body. In the context of economy, we often use the term “economic health of country/society/community.” If the framework for economic analysis is designed along the pattern of biology, it will be more relevant with respect to identifying the economic diseases of a society and how to treat them. Social sciences including the science of economics (while trying to understand human behavior) explicitly or implicitly aim at defining social problems, understanding how they occur, and understanding how they can be treated. In the context of economics, problems are defined at the macro level. Most of these macro problems exist because of problems at the micro level. The framework borrowed from the science of physics does not allow the identification of macro economic problems. Macro economic problems (like poverty, retarded growth and development, ignoring intra and intergeneration equity, etc.) have to be discussed without reference to their linkages in economic behavior at the individual economic agent level. Malfunctions at the macro level cannot be independent of malfunctions at the micro level. Economic agents must be suffering from certain imbalances that reflect the ill health of the economy at the macro level.

With this perspective, the science of economics can borrow more lessons from the science of biology, in terms of methodology, than from the science of physics. We find in biology an analytical framework called Anatomy and Physiology (A&P). This framework divides the human body into different organs. These organs are dissected for the purpose of analyzing their nature and understanding their system. This is called gross anatomy, a counterpart of macroeconomics. A microscopic study of very small structures (cells and tissues) within an organ is microscopic anatomy, a counterpart of microeconomics.

Human anatomy is something from which we can learn a lot on how to analyze economics and its components. We can visualize a certain organ system (like the digestive system) as a system of economic behavior that is integrated with other systems (like ethical systems, family and social

interrelationship, systems of legal obligations, etc.) in overall human behavior in society. Macroeconomics can be developed in a fashion similar to the gross anatomy of an organ, and microeconomics can be developed along the pattern of microscopic anatomy within an organ.

Physiology is the study of the functioning of living organisms or their parts (like tissues or cells within organisms). It is different from anatomy, which only describes the organisms and their constituent tissues or cells. Physiological processes are dynamic. Cells change their functions in response to changes in the composition of their local environment. Many physiological reactions are aimed at preserving a constant physical and chemical internal environment. This is referred to as **homeostasis**. Homeostasis refers to the ability or tendency of an organism or cell to maintain internal equilibrium by adjusting its physiological processes. It is the balanced internal environment of a living body and the automatic tendency of a family system to maintain internal stability to resist change caused by external variation. The most commonly known examples of homeostasis are the temperature and blood pressure of the body, which remain nearly constant or tend to remain constant despite changes in the organism's activity level or its surrounding conditions and environment. There are self-regulating processes in living bodies for the maintenance of homeostasis. Living bodies have built-in tendencies for self-regulating processes that seek and maintain a condition of balance or equilibrium within their internal environments, even when faced with external changes. (Many ecological, biological and social systems are found to have a system of homeostasis.)⁷

Economics can learn a lot from another feature of the science of biology. Biology analyzes the structure of a living organism at different levels, like atoms, cells, tissues and organs. At the organ level, various functions are performed, and sometimes these functions are very complex. A group of organs together makes organ systems that cooperate to accomplish a common purpose. Each organ has a different structure suited to perform its function. For example, the digestion system includes organs like the esophagus, stomach, small intestine, large intestine, etc. Each of these organs has a specific function. They all work together to keep food moving through the digestive system, breaking it down properly to absorb it into the blood and providing food for the body's cells. Different organ systems come together to constitute an organism. The different organ systems of a living organism do not work in isolation. Instead, they work together to promote the wellbeing of the entire body (Marieb 2006). Economists may do a better job if they analyze the economic system and its components by taking an approach similar to that of A&P and biology,