

Developing Inclusive and Sustainable  
Economic and Financial Systems

# *Islamic Economics: Theory, Policy and Social Justice*

Volume 2



## *Editorial Board*

*Dr. Hatem A. El-Karanshawy*

*Dr. Azmi Omar*

*Dr. Tariqullah Khan*

*Dr. Salman Syed Ali*

*Dr. Hylmun Izhar*

*Wijdan Tariq*

*Karim Ginena*

*Bahnaz Al Quradaghi*

SELECTED PAPERS PRESENTED TO THE 8<sup>TH</sup> AND 9<sup>TH</sup> INTERNATIONAL CONFERENCE  
ON ISLAMIC ECONOMICS AND FINANCE

جامعة حمد بن خليفة  
HAMAD BIN KHALIFA UNIVERSITY



كلية الدراسات الإسلامية في قطر  
QATAR FACULTY OF ISLAMIC STUDIES



---

# Islamic economics: Still in search of an identity

**Abdulkader Cassim Mahomedya**

Lecturer, School of Economics and Finance, University of KwaZulu-Natal, Private Bag 54001, Durban, KwaZulu-Natal, Rep. of South Africa, e-mail: mahomedya@ukzn.ac.za

**Abstract** - The last few decades have seen a phenomenal growth of the emerging discipline of Islamic Economics and Finance. In this paper I trace the origins and birth of this nascent science, examining the various factors that gave impetus to its emergence and development. I contrast the different characterisations of the discipline as it has developed within the broader socio-political context and the reasons thereof. Despite the concerted efforts of the proponents of Islamic economics to shape for their discipline a distinctive paradigm they have had little success in doing so beyond arguing that it is underpinned by a strong moral ethic. By and large, its epistemological roots have remained firmly within the framework of Rationalism and methodological individualism and, consequently, it has not been able to shed itself of its neoclassical moorings, the very paradigm it originally set out to replace. I illustrate several of the contradictions apparent in the discipline as hitherto enunciated, and I critically analyse the reasons for some of these shortcomings. Finally, I conclude by arguing that if Islamic economics is to fulfil its *raison d'être*, its proponents must resolve its theoretical and practical difficulties by clearly expounding on its *weltanschauung* and develop its content and form appropriate to this worldview.

*Keywords:* Islamic economic thought, economic history

## 1. Introduction – The birth of the discipline

Muslim communities residing in the Middle East, North Africa and large parts of Asia had for several centuries attempted to pattern their lives according to the principles, values and norms of Islamic civilisation. Consequently, a number of Muslim scholars had documented several monumental works dating as far back as the 8th century (e.g. Abu Yusuf (d. 798)<sup>1</sup>, Ibn Hazm (d. 1064)<sup>2</sup>, al-Ghazali (d. 1111)<sup>3</sup>, Ibn Taymiyya (d.1328)<sup>4</sup>, Ibn Khaldun (d. 1406)<sup>5</sup>, etc))<sup>6</sup> regarding the theory and practice of economics in Muslim societies. Almost all of these scholars, however, were not economic specialists as we understand the profession today, and accordingly, their works had analysed and examined economic issues from a multidisciplinary socio-political perspective. Until the beginning of the twentieth century much of this discourse incorporated various moral, social, and political factors, and there was not any particular emphasis on the economic variables that are of interest in the contemporary world. Consequently then, the field was never conceived as an isolated phenomenon and Islamic Economics remained primarily an integral part of the unified social and moral philosophy of Islam until the Second World War.

It has only been from the middle of the last century that scholars have begun to consider and analyse the emerging

*discipline* of Islamic Economics with greater scrutiny. There were two interrelated developments that played a significant contributory role in the characterisation of the subject as a dedicated science: one socio-political and the other, epistemological.

With the colonial invasions of Muslim lands, many of the institutions<sup>7</sup> that formed an integral part of Muslim society were obliterated and supplanted with foreign ones that were alien and inimical to the culture of Islam. Subsequent to the political independence<sup>8</sup> of most Muslim countries after the War, social reformers realised the urgent need to revive and restore these Islamic institutions.<sup>9</sup> Their aspirations received a further boost from the general resurgence and activism that swept across the Muslim world, especially during the 1970s. There were strong calls by the intelligentsia of these countries for their economies to be restructured in the light of Islamic teachings (Behdad, 1994; Hefner, 2006). Given the competing forces for change that inevitably characterises any post-liberation period, it became imperative for Islamic scholars to clearly outline their vision of the kind of economic order that they hoped to establish.

On the intellectual front, Muslim social scientists were too keenly aware of the impact that secularism and its natural

Cite this chapter as: Mahomedya A C (2015). Islamic economics: Still in search of an identity. In H A El-Karanshawya et al. (Eds.), *Islamic economic: Theory, policy and social justice*. Doha, Qatar: Bloomsbury Qatar Foundation

corollary – the compartmentalisation of knowledge – has had on the social sciences in the Western world. They were convinced that any such dichotomy between the secular and sacred sciences in the Islamic scheme is untenable. Over the last four decades there has accordingly been a concerted effort to unify the body of all knowledge, a process which has become known in Islamic academic circles as the “Islamisation of Knowledge/Science.” Islamising economics was thus an extension of this intellectual movement and is in fact considered to be one of its most important pillars (Haneef, 2007, Hefner, 2006). In a sense, then, it might also be seen as an important test case of this ambitious project. Chiefly among the proponents of this movement are the likes of Nasr (1968), al-Attas (1978, 1995), al-Faruqi (1982) and Choudhury (1990, 1995, 2006).

Against this background, key figures in the Islamic revivalist movement of the last century such as Sayyid Qutb of Egypt, Sayyid Mawdudi of Pakistan and Baqir al-Sadr in Iraq set the tone and popularised the idea through their writings<sup>10</sup> that Islam prescribes its own distinctive economic ideology. The impetus was thenceforth provided for scholars from across a broad spectrum of economists (both Western and Muslim), socio-political activists, Orientalists and (Islamic) legal experts to examine and analyse this somewhat newly delineated field of study. Since then, thousands of books, journal articles and pamphlets in many languages have been published in an attempt to establish the separate identity of the subject.

In addition, numerous Islamic economics conferences in various parts of the world have been hosted and a number of institutions such as the International Institute of Islamic Economics (Pakistan), the Centre of Research in Islamic Economics (Saudi Arabia), the International Institute of Islamic Thought (USA), and more recently, the Markfield Institute of Higher Education (UK) have been established to support the growth and advancement of this field. The stated commitment by the Islamic Development Bank based in Saudi Arabia to fund projects based on Islamic (finance) principles also played a pivotal role in giving life to some of the ideas espoused by Islamic economists. As a further expression of this drive, the Islamic Finance (and banking) industry has expanded at a rapid rate, extending its range of “Shariah-compliant” services across the globe.<sup>11</sup> It is from all of these developments that the nascent field of Islamic Economics as a dedicated social science has begun to grow and attract a great deal of attention in both Muslim and non-Muslim<sup>12</sup> countries.

But has this concerted effort on so many fronts produced the kind of enterprise that its proponents had envisioned? Of more recent particularly, the realisation has dawned among the various participants in this project that its objectives have hardly been achieved, both with respect to its intellectual development and its realisation in practice. The Islamic economists have had little success in articulating a sound and coherent theoretical paradigm for the discipline, let alone in demonstrating how it would find practical expression in the real economy. This paper traces out the various strands of the growth in the idea of an economics that is Islamic and the contradictions arising therefrom, and it then analyses the reasons for this apparent lack of coherence in the way in which the science has been cultivated.

## 2. State of the art

### *Islamic economics as a socio-political ideal*

It is important to note at the outset that Islamic economics as a specialised field of study emerged at a time when conventional economics was the dominant paradigm in economic thinking in most parts of the world. As a new science in the making, and one that explicitly aimed at establishing a superior or at least a viable alternative vis-à-vis the subject matter, value-orientation, methodology, objectives and outcomes to that espoused by the Western world, much of its discourse has been located within the jargon and dialectic of the mainstream neo-classical paradigm. Partly as a result, there have been several pathways along which much of the literature on the character of Islamic economics has manifested itself. The specific orientation of the contributors to the field would thus also have been reflective of, and influenced by, their fields of specialisation, their expertise in its related sciences, their personal biases and ideological predispositions and quite decisively, the cultural and political milieu in which they lived. This phenomenon of the influence of the ideological element is, however, not unique to Islamic economics. Schumpeter (1949) demonstrates quite cogently why and how it conditions scientific thought even in the cases of logic, mathematics and physics and more so in the social sciences. Myrdal (1958) underscores even more emphatically the inevitability of value impregnation in scientific analysis.

At the politico-ideological level, a sizeable amount of effort, at the initial stages at least, has been dedicated to comparing the principles and practices of Islam vis-à-vis capitalism, communism and/or any political economy that may be drawn up as a result of the marriage of the two. In other words, Islamic economics is presented as a Third-Worldist ideology which is defined in terms of Capitalism and Communism, and also as that which the two Western ideologies are not (Nasr, 1989). The central thrust in most of these writings (Khan, 1951; al-Sadr, 1961; Ahmad, 1970; Siddiqi, 1975; al-Qadhafi, 1975; al-Faisal, 1986; Taleghani, 1982) was firstly, to denounce what they consider to be the inherent weaknesses of other economic orders and then to demonstrate why Islam is diametrically opposed to them. For example, it is asserted that both capitalism and communism are almost entirely hedonistic and materialistic in their outlook whereas Islam has a transcendental orientation. Similarly, capitalism, despite guaranteeing constitutional liberty for individuals, is condemned for its ruthlessness and exploitation (through, e.g., the institution of interest) whilst communism, regardless of its pietistical claims to a just and equal society, is singled out for violating man’s basic freedoms.

Inevitably then, many of these writers, by concerning themselves primarily with refuting secular Western ideologies, described Islamic economics in terms of what *it is not*, rather than developing any positive content for it (Phillip, 1990). Notwithstanding this criticism, Islamic economists, then and even now, viewed this approach as critically important; given that the global political landscape of the post-colonial period was characterised by the competing economic paradigms of Capitalism in the west and Communism in the east, the Muslim world largely saw itself sandwiched both physically and ideologically between the two. Consequently, these works played a crucial role in two respects. It “weaned away the Muslim

masses from the lure of socialism and capitalism” and at the same time, it “restored confidence in their elite that their economic problems could be solved within the framework of Islamic teachings” (Siddiqi, 2004:10).

The second pathway along which Islamic economics has evolved, though in some respects paradoxical to the works mentioned above, is an attempt by some scholars to adopt an apparently more conciliatory approach to some of the values and practices of capitalism and/or socialism. On the one hand, some of these writers (Rodinson, 1966; Labib, 1969; Hosseini, 1988; al-Lababidi, 1980; Abdul-Rauf, 1984) assert that because Islam promotes (free) trade, guarantees the right to private enterprise/ownership, allows the reaping of profit in business transactions, etc., it shares a strong affinity with capitalism. Contra indicatively, there are others (Lewis, 1954; Abd-al-Hakim, 1953, Siba'i, 1960; Shariati, 1980) who argue, according to their understanding, that Islam justly represents the ideals of socialism in both theory and practice. This is so because, they claim, Islam aims towards the creation of an egalitarian and classless society, eschews the accumulation of wealth and instills in its adherents a strong sense of compassion, mercy and care for others.

The preceding analysis is not to suggest in anyway that these socio-economists were willing to unequivocally endorse the form of laissez-faire, unbridled 19 century capitalism, or conversely, the extreme variants of Marxism. In the case of the latter group for example, apart from Lewis (1954) who portrayed a close nexus between Islam and communism, all the others are avowedly anticommunists/anti-Marxists.<sup>13</sup> Consequently, it is not unusual for these scholars who have a predilection for the principles/ideals of either of these systems to designate their variation of it as either *Islamic Capitalism* or *Islamic Socialism*, respectively, to distinguish it from its non-Islamic varieties.<sup>14</sup>

### ***Islamic economics as a ‘science’***

The third track along which Islamic economics has developed is the endeavour undertaken by its proponents to establish and anchor the discipline as a modern science by attempting to use primarily the methodology and tools of analysis employed in conventional economics. This literature is far more extensive and analytically rigorous than the preceding two categories. Given this orientation, it is not surprising that many of these writings have largely been produced by western trained (Muslim) economists or their counterparts who have received a similar education in their home country institutions, and to a lesser extent, Islamic jurists/legal experts (e.g., Usmani, 2000). These works can be classified more generally into those that deal with (Islamic) economics as a science and those that fall under the rubric of Islamic finance/banking, with the preponderance of literature being in the latter class. Some of the more renowned contributors in this group are the likes of Mannan (1970), Naqvi (1977, 1981), Siddiqi (1970, 2004, 2008), Chapra (1979, 1992, 1996, 2000; 2002), Bani-Sadr (1982), Ahmad (1978, 1980) and Choudhury (1986, 1993, 1995, 2006, 2008).

The key focus of most of this discourse is to demonstrate that a *homo Islamicus*, as part of an Islamic economy would behave differently to that of his (neoclassical) counterpart,

*homo economicus*. A society populated with *homo Islamicus* participants would act both individually and collectively within the framework of certain ethico-politico-legal norms, e.g., justice, benevolence, self-sacrifice, etc. Such behaviour, it is argued, would lead to economic outcomes that are just, equitable and optimal.<sup>15</sup> So in contrast to neoclassical economics which is rooted in positivistic theory, the emphasis in most works in Islamic economics is on the normative: a thesis on the expected or preferred behaviour of human beings in their individual and/or collective capacities.

These professionally trained (Islamic) economists generally do not deny the postulates of scarcity, self interest, optimisation or even rationality. Rather, they argue that because Islam has a transcendental orientation, *homo Islamicus* is also motivated and/or can be constrained by other factors and hence his self interest and private gain would be tempered by, and subjected to, higher and nobler objectives. It is thus clear why Nasr (1989) has interpreted this approach as an attempt by these scholars to engage neoclassical economic thought in a dialogue and to imbue into Western materialism a sense of the sacred.

The above exposition on the different and seemingly disparate approaches used by scholars to flesh out the concept of Islamic economics does not signify that the field of study has no philosophical underpinnings of its own. There is a core set of axioms to which most Islamic economists more or less subscribe and adhere to. These are, for example, a belief in *Tawhid* (God’s absolute Unity and Sovereignty), *Khilafah* (man’s role as God’s vicegerent on earth), the absolute ownership of everything resting with God, a relationship of co-operation and justice characterising human interrelationships, and the indispensable role of Revelation as a primary source of guidance for man in both his material and spiritual pursuits. On the basis of these axioms, scholars derive principles which they consider to be reflective of the objectives of the *Shariah* (Islamic Law), and they then set out to demonstrate how these objectives can and ought to be accomplished and actualised in an Islamic society.

### **3. Critique**

The outcomes of the process of inference adopted by the Islamic economists, though ostensibly predicated on Revelation and apparently formulated around a set of values espoused by Islam, is not without its difficulties and contradictions both in thought and praxis. Firstly, different scholars may, and have indeed derived different sets of principles that also have a bias towards their own intellectual/cultural persuasions (see also Nasr, 1987). Even if we assume that the vast majority of Islamic economists hypothetically agree on a given set, what should the order of importance in the ranking of these principles be? In other words, should there be a primacy of one or more principles over others? Or is it theoretically sound, in the first place, to even conceive of a ranking? Is it possible for one or more principles so derived to be in conflict with (historically) established Islamic laws and practices? How ought this incongruence between the two be resolved, if and when it does arise?

Secondly, and as pointed out earlier, several scholars aver that Islam’s economic order is essentially a capitalistic

one, with some (e.g., Rahman, 1964; Shams, 2004; el-Gamal, 2006; Fadel, (n.d); Farooq, 2007) claiming that even interest could also be legitimised in such a system. Yet there are others who assert that Islamic economics is strongly socialist in its orientation. Given the vast treasure-house of the Quraan and Prophetic tradition it is technically possible, with some stretch of imagination though, to also “torture this data long enough until it confesses to anything”. Consequently, it is not uncommon to find scholars of greater or lesser reputation attempting to integrate a set of preconceived ideas into Islam. But what is remarkable in this context is that each group appears to be well-armed with appropriate Quraanic citations/Prophetic traditions to buttress its logic and justify its (opposing) standpoint.<sup>16</sup> How then, do the Islamic economists defend and resolve these apparent contradictions in the various characterisations of their field? What is even more telling is that despite some protestations, and vindication to this line of thinking (Rahman, 1979), most Islamic scholars have soundly rejected the appellation of Islam with either of these *isms* on several grounds, showing quite compellingly that the two are innately and manifestly incompatible with the core principles of Islam.<sup>17</sup>

Thirdly, Islamic economists are at pains to emphasise that *homo Islamicus* would behave in a manner more amenable and conducive to the goals of realising a prosperous society than his cousin *homo economicus* would. They contend that whilst some of his activities may need to be regulated by formal rules and regulations, desirable forms of behaviour such as altruism, the judicious use of both natural and produced resources, a work ethic aimed at excellence, and other codes of praise-worthy conduct would, in the main, be intrinsically motivated. But apart from a cursory mention of the transience of this world and the punishment-reward incentive (hoped for by well-behaved individuals) in the Hereafter, there is very little in the literature explaining how these norms would be actualised in practice. This failure on the part of Islamic economists has been very harshly criticised, particularly by Kuran (1983), Nasr (1986) and Choudhury (2000, 2008). Critically also, despite the primacy of the Man-God relationship in Islam there is almost no discussion on how this relationship is manifested in both belief and action with specific reference to economic behaviour.

Fourthly, proponents of Islamic economics have consistently emphasised that the founding of the science is not merely an intellectual exercise but has as its ultimate objective the realisation of an Islamic economic order. Even if the epistemological and procedural concerns highlighted above were to be assuaged, there still remains the contentious issue of formulating appropriate policy to implement and realise the envisaged system. On several issues of paramount importance identified in the literature, Islamic economists have been at variance with one other; at times, in fact, offering conflicting prescriptions. For example, socioeconomic justice and its assumed corollary, the eradication of poverty (or at least its alleviation) ranks very high on the list of imperatives in many writings on Islamic economics.<sup>18</sup> How would an Islamic economic system achieve this key objective?

Scholars like Chapra (1992) strongly argue that the market mechanism with some institutional constraints,

a progressive taxation system and the moral persuasion of individuals to avoid ‘conspicuous’ and ‘wasteful’ consumption is still the best route to realise this objective (à la ‘Islamic Capitalism’ again?). At the other extreme Husaini (1980), Engineer (1992), etc.<sup>19</sup> insist on widespread nationalisation of resources and even confiscation of excess wealth from private individuals (à la ‘Islamic Socialism’ as well?). Siddiqi (1978, 1981) and Naqvi (1977), on the other hand, seem to adopt a compromise stance by favouring interventionary monetary and fiscal policies and moderate amounts of State ownership of resources (à la Islamic ‘Welfare State’?). There are still yet others like Bani-Sadr (1982) who trust neither the individual’s moral conscience nor the State’s hegemony to distribute wealth equitably, but who argue for a kind of decentralised communitarian ownership and management of resources.

Now if Islamic economics, as hitherto enunciated, is rooted in its religious practice and Divine sources then why is there hardly any unanimity on issues that its proponents argue are fundamental to its *raison d’être*? Why is there a lack of agreement and in many instances, inconsistencies and ambiguities on key policy prescriptions? How do the Islamic economists reconcile these profound differences that arise among themselves, more especially when God, The Most high so unequivocally proclaims in the Quraan that He “...has perfected your Religion (i.e. Islam) for you...” (Ch. 6, V.3) and elsewhere that He “... sent down upon thee the Book (i.e. The Quraan) as an *explanation for every thing*, a Guide, a Mercy and Glad Tidings to those who submit” (Ch. 16, V. 89)? These and similar other verses do not imply that Islam is intolerant to differences of opinion or that there is no scope for variation in its interpretation. The Qur’an, in fact, quite nonchalantly relates of divergences in verdicts issued by even the great prophets of the past, without castigating them in any way.<sup>20</sup>

Furthermore, differences in thought and praxis are not without any historical precedent in the other Islamic sciences as it was developed by Muslim scholars. It is only natural that any intellectual enquiry, any effort to build up its knowledge structure, by virtue of it being a human experience, would inevitably lead to differences by the participants of that process on various aspects of its academic discourse. To illustrate, well over a thousand years ago various distinct schools of law in Islamic legal (and also philosophic) thought had emerged and evolved with complex and highly sophisticated intellectual tools of analysis. But despite the rich variety of opinions expressed on innumerable issues there was almost always a general consensus on the essentials viz. fundamental principles and methodology. Seemingly, such a consensus is disappointingly lacking in Islamic economics.

That Islamic economists do actually have a lot to learn from this Islamic intellectual heritage is a point I will return to later. It is even conceivable that at some point in future there might also emerge various schools of economics within the discipline of Islamic economics itself. With the extensive writings of Choudhury<sup>21</sup>, it already appears that the foundations have been laid for a distinct school based on his “*Tawhidi*” philosophy. But has ‘mainstream’ Islamic economics, in the first place, matured sufficiently enough for this to become a reality? Has its proponents been able to clearly articulate its basic philosophy coherently and

meaningfully so as to see its growth and development as a fully-fledged discipline? According to one prominent economist, Islamic economics is so entrenched “body and soul in mainstream economic doctrines that it has remained without (even) a distinctive birth-pang of its own” (Maurer, 2002: 652).

#### 4. The need for intellectual clarity

Given some of the shortcomings alluded to above, one can easily discern from across the spectrum of cynics, neutral observers and (even leading) proponents that all is not well with Islamic economics. From amongst its most truculent critics, Kuran (1983, 1986, 1989, 1995a, 1995b, 1997), Philipp (1990) and Haque (1992) project the phenomenal growth in Islamic economics as part of a broad campaign by Muslims to preserve their culture and tradition. They aver that the discipline has no economic agenda as such and consequently dismiss the entire project and effort as an exercise in identity politics. In a similar vein, Behdad (1994, 1995, 2005) and Mehrdad (1993) argue that the idea of an “Islamised” economy in Iran only gained popularity in the wake of the Islamic Revolution but disappeared soon thereafter from the Iranian political agenda. Furthermore, both commentators emphasise the pervasive influence of Marxist thinking that characterised much of the debate and political discourse of the 1980s. Ultimately, however, Mehrdad contends, the reason for its failure in Iran was due to conflicting notions of what exactly constituted a “true” Islamic economic order.

Many in the West are also fascinated by the zest and conviction of the Islamic economists to establish an alternative economic paradigm for the adherents of the Islamic faith (Nienhaus, 1982, 2006; Wilson, 1983, 1998, 2007; Pryor, 1984; Pfeifer, 1997; Maurer, 2002; Sauer, 2002; Shams, 2004; Hefner, 2006; Asutay, 2007). Their general observation is that Islam’s textual sources can indeed serve as a foundation for Islamic economic *thinking* but they are doubtful about claims, as yet, to a distinctive Islamic economic science. Nienhaus (1982), for example, bemoans the inability of proponents of Islamic economics to mesh their theoretical ideas with the theological basis of Islam and its epistemology. Like others, he is particularly critical of those who “add a type of cultural/folkloristic colouring to Western concepts” and then present them as being “Islamic”.

What is most encouraging in many writings, though, is the acknowledgment on the part of Islamic economists themselves that “something has gone wrong” and that they need to reassess critically the reasons for their mission remaining unaccomplished (Nasr, 1986, 1989; Hosseini, 1988; Ali, 1990; Metwally, 1997; Choudhury, 1999, 2006; Akhtar, 2000; Chapra, 2000; Siddiqi, 2004, 2008; Kahf, 2004, Haneef, 2005, 2007). These writers have proffered various explanations for what Siddiqi (2008:1) calls the “collapse of the grand Islamic agenda”. The reasons for it faltering range from a lack of resources to the more fundamental conceptual and epistemological contestations. Although some leading proponents such as Siddiqi and Kahf are still insistent that Islamic economics can and should remain within the purview of neoclassical economics, the vast majority of them are vehemently opposed to this (traditional) paradigmatic classification of this new area of study. It is because of this primary reason, they aver, that

Islamic economics has lost its purpose. There seems to be an increasingly acute awareness among both proponents and critics that Islamic economists have slavishly enslaved themselves to both the theoretical content and methodology of mainstream economics. In the words of Nasr (1991:388), the theoretical core of Islamic economics has “failed to escape the centripetal pull of western economic thought, and has in many regards been caught in the intellectual web of the very system it set out to replace”.

Why is it then, that there are such strong sentiments in favour of treating Islamic economics separately from competing paradigms? Neoclassical economics, as it so often parades itself, is not value-free. By imitating Newtonian mechanics, adopting Bentham’s rationalism and hedonism and assuming the unrealistic ideal world of perfect competition, its focus is exclusively on an abstract “economic man” who lacks social, ethical and political dimensions (Hosseini, 1990). By anchoring its philosophical and epistemological roots in methodological individualism and Rationalism it assumes that the behaviour of this simplistic economic man is driven only by self interest and conflict and that he is not a creature motivated towards any action due to habit, culture or norm. Consequently also, its methodology has of recent largely imitated the traditional reductionist approach of the natural sciences. Furthermore, in striving for sophistication and empirical evidence for its postulates, its increasingly extensive use of mathematical tools and econometric techniques have rendered it impervious to the very elements of human nature that gives the field of economics its legitimacy as a social science.

The Islamic faith, on the other hand has a *weltanschauung* which is distinct from that upon which neoclassical economics is predicated. It places at its core the overarching and deeply-embedded reality of the Unity of God, The Most High, and His Divine Will. The *raison d’être* of man’s creation is the realisation and recognition of this Unity in the various socio-politico-economic contexts that man finds himself in. He is guided to this fulfilment through the agency of Prophethood and Revelation that God, The Most High had sent from time to time to the different nations of the world. Although the satisfaction of man’s sensual needs are explicitly recognised and acknowledged, these are never to be regarded as exclusive or as ends in themselves. In fact, rather, it is through the purposeful use of the bounties of God, The Most High that man achieves his higher aims and objectives for which he was created.

If, indeed, the worldview of Islamic economics as briefly elaborated above, is different to that of mainstream economics, can it be epistemologically sound to assume that the theory and methodology of both would therefore necessarily concur or at least be compatible? Many Islamic economists, especially the likes of Choudhury, Nasr and Haneef, including some Western observers such as Nienhaus and Sauer, are convinced that they do not. And that is why they contend that as long as Islamic economics does not exorcise itself of the Western and foreign moorings in which it has been entrenched, it will dejectedly fail to achieve its objectives. This point is also alluded to by some of its most hostile critics when they demonstrate that, based on its current framework, there is nothing quite unique about Islamic economics for its proponents to lay claim to it as a distinct alternative.

## 5. Conclusion

The common thread that one clearly discerns from most of the critique is the belief that Islamic economics does indeed have the potential to make a valuable contribution to the science of economics. But in order for it to do so, its protagonists firstly need to expand the narrow conceptualisation of it being just interest-free economics. More importantly, they must transcend its current phase of exercises in apologetics and develop for it a character of its own.

To begin with, Islamic Economists need to clearly elaborate on how its philosophy and the worldview (*weltanschauung*) emanating therefrom meshes and correlates with economics. Given the primacy of man's relationship with God it needs to be demonstrated how this relationship shapes the individual and collective psyches of adherents to the Islamic faith and its consequent impact on economic behaviour and outcomes.

Next, but equally importantly, the epistemological framework of the discipline needs to be clearly articulated. The different modes of enquiry and investigation that are admissible as sources of knowledge, the relative importance and limitations (if any) of each, and the intellectual tools required to adopt them in an integrated manner has to be affirmed and clarified. In this regard, Islamic scholars have recourse to the most outstanding works of early epistemologists like al-Ghazali, ibn-Sina and ibn-Rushd,<sup>22</sup> and to the writings of contemporary scholars like Choudhury and al-Attas, among others.

Lastly, given the pivotal role that morals and ethics play in the Islamic scheme, Islamic economists have justifiably emphasised the normative nature of Islamic economics. But with regard to its positivistic contribution they have only paid relatively peripheral attention, though the Islamic sources are rich in this content as well. More seriously however, even with regard to the values and principles implied by its normative content, these have not been interpreted by the Islamic economists from the perspective of a transcendent/divine norm or ideal, as ought to have been the case, but rather from a humanistic perspective. It is therefore vital to delineate and redefine, if necessary, these ideals ontologically from its divine sources and expound on how one expects to see them manifested in an Islamic society, and further, to identify how they interact and integrate with its positivist content.

To encapsulate then: Islamic economics needs a conceptual framework formulated on the basis of its worldview; and then, to develop its content and form on its *own* terms and using its *own* distinct categories, if necessary. As (Pfeifer, 1997) remarks, if the discipline is able to resolve its theoretical and practical difficulties it could then justifiably take its place alongside Western capitalism and its offshoots, with a distinctiveness of its own.

### Notes

1. See, for example, his work *Kitab al Kharaj* in which he discusses topics such as economic development, taxation, etc.
2. See his magnum opus *Al Kitab al-Muhallabi'l Athar*.
3. See also his magnum opus *Ihya Ulum al-Din*. For a more detailed expose' on his economic thought refer to Ghazanfar and Islahi (1997) and Ghazanfar (2000).
4. Refer to his specific work *Al-Hisbah fi'l-Islam*. For a comprehensive account of Ibn Taimiyah's conceptualisation of economic phenomena see Islahi (1988).
5. See Spengler (1964) for an exhaustive account of the concepts and ideas in economics that were introduced by Ibn Khaldun and which only much later came to be elaborated upon by Smith, Laffer and others. Based on his significant writings and contributions to economics, especially in his celebrated work *Al-Muqaddimah*, several scholars regard him to be the real Father of Economics (Boulakia, 1971; Oweiss, 1988).
6. Islahi (2005) has undertaken an encyclopaedic review of not only the role and impact of medieval Muslim scholars in Islamic economic thought but also their influence in the evolution of mainstream conventional economics.
7. I use the word "institutions" throughout this paper in the broadest possible sense as detailed by Hodgson (1998), unless otherwise qualified.
8. The extent of this "independence" is still a thorny issue in Muslim political discourse and although quite intriguing, its detailed analysis is beyond the scope of this paper.
9. See Rahman (1979) for an instructive account of the challenges faced by reformers in this task.
10. See for example Mawdudi (1941/1978), Qutb (1948/1970) and al-Sadr (1961). For a critique on the contributions of each of these authors see Kuran (1997) and Chapra (2004), Shephard (1992) and Wilson (1998), respectively.
11. To the extent that the previous British Prime Minister, Gordon Brown, announced of his desire to see Britain as the gateway to Islamic trade and to make it the global centre for Islamic finance (BBC Business News-13 June 2006). More recently, even a country as stubbornly secular as France pledged to take steps "to make (Islamic banking) activities as welcome in Paris as they are in London and elsewhere." (Reuters – Agence France Presse (AFP) – 22 July 2008).
12. See also Wilson (2007).
13. See nevertheless, Hosseini (1988) on how Marxist thinking has influenced many of the Iranian clergy in their conceptualisation of several economic precepts!
14. See also (Brohi, 1975) for the conceptual difficulties that arise from these hybrid expressions.
15. In this context 'optimality' does not necessarily mean "efficiency" as the term is commonly understood in conventional economics.
16. See also Pryor (1985).
17. For a fuller discussion of these arguments refer to Siddique (1974).
18. See for example, Siddiqi (2004).
19. See also Siddiqi (1981).
20. See for example, al-Quraan: Ch. 21, V. 78–79.
21. See references for some of his works.
22. Better known as Algazel, Avicenna and Averroes, respectively, in the West.

## References

- Abd-al-Hakim, K. (1953) Islam and Communism. Institute of Islamic Culture. Lahore.
- Abdul-Rauf, M. (1984) A Muslim's Reflection on Democratic Capitalism. American Enterprise Institute. Washington DC.
- Abu Yusuf (translation by Abid, A.A., 1979) Kitab-Ul-Kharaj (Islamic Revenue Code). Islamic Book Centre. Lahore.
- Ahmad, S.H.M. (1970) Man and Money. *Islamic Studies, Islamabad*. 9(3):217–44.
- Ahmad, K. (1978) Islam and the Challenge of Economic Development. In: Altaf, G. (Ed.). *The Challenge of Islam*. London: Islamic Council of Europe. pp. 338–49.
- Ahmad, K. (Ed.) (1980) Studies in Islamic Economics, Leicester: The Islamic Foundation.
- Akhtar, M.R. (2000) Definition, Nature and Scope of Islamic Economics. *A Review Journal of Islamic Banking and Finance*. 17(1):53–61.
- al-Attas, M.N. (1978) Islam and Secularism. ISTAC. Kuala Lumpur.
- al-Attas, M.N. (1995) Prolegomena to the Metaphysics of Islam. ISTAC. Kuala Lumpur.
- al-Faisal, M, A-S. (1986) Islam and The West: Towards a New International Economic Order. *Journal of Islamic Banking and Finance*. 3(2).
- Al-Faruqi, I. (1982) *Islamization of Knowledge*. IIIT. Herndon, VA.
- al-Ghazali (forthcoming translation by Holland, M.) *Ihya 'Ulum al-Din* (Revivification of the Sacred Disciplines), Muslim Literary Society and Fons Vitae, Laurel, Mississippi.
- al-Lababidi. (1980) Islamic Economics: A Comparative Study. Islamic Publications. Lahore.
- al-Qadhafi, M. (1975) (translation in English-n.d). Al-Kitaab al-Akhdar (The Green Book). Public Establishment for Publishing, Advertising and Distribution in Tripoli, Libya.
- al-Sadr, M.B. (Orig. Arabic ed.-1961). (Translation: 1982–84.) *Iqtisaduna: Our Economics* (4 Vols.). World Organization for Islamic Services. Tehran.
- Asutay, M. (2007) Conceptualisation of the Second Best Solution in Overcoming the Social Failure of Islamic Finance: Examining the Overpowering of Homoislamicus by Homoeconomicus, IIUM. *Journal of Economics and Management*. 15(2).
- Ausaf, A. (1990–1991) In Defence of and a Plea for Islamic Economics. *Universal Message*. 12:13–21.
- Bani-Sadr, A.H. (1982) Islamic Economics: Ownership and Tawhid. In, Donohue, J. (Ed.) *Islam in Transition*. Oxford University Press. New York. pp. 230–235.
- Behdad, S. (1994) A Disputed Utopia: Islamic Economics in Revolutionary Iran. *Comparative studies in society and history*. 36(4):775–813.
- Behdad, S. (1995) Islamization of economics in Iranian universities, *International Journal of Middle East Studies*. 27(2).
- Behdad, S. (2005) Revolutionary Surge and Quiet Demise of Islamic Economics in Iran. UCLA seminar, Centre for Near Eastern Studies.
- Boulakia, J.D.C. (1971) Ibn Khaldun: A Fourteenth-Century Economist. *The Journal of Political Economy* 79(5):1105–1118.
- Brohi A.K. (1975) Islam in the Modern World. Publishers united Ltd. Lahore.
- Chapra, M.U. (1979) The Islamic Welfare State and Its Role in the Economy. In: Ahmad, K., Ansari, Z.I. (Eds.) *Islamic Perspectives*. The Islamic Foundation. Leicester. pp. 195–222.
- Chapra, M.U. (1992) Islam and the Economic Challenge. The Islamic Foundation. Leicester, UK.
- Chapra, M.U. (1996) What is Islamic Economics? Islamic Development Bank Jeddah in IDB Prize Winner's Lecture Series. No. 9. IRTI.
- Chapra, M.U. (2000) Is It Necessary to Have Islamic Economics? *Journal of Socioeconomics* 29(1): 21–37.
- Chapra, M.U. (2002) The Future of Economics: An Islamic Perspective, Leicester: The Islamic Foundation.
- Chapra, M.U. (2004) Mawlana Mawdudi's Contribution to Islamic Economics. *The Muslim World*. Vol. 94.
- Choudhury, M.A. (1986) Contributions To Islamic Economic Theory: A Study In Social Economics. St. Martin's Press. New York.
- Choudhury, M.A. (1990) Islamic Economics as a Social Science. *International Journal of Social Economics*. 17(6):35–59.
- Choudhury, M.A. (1995) The Epistemological Foundations of Islamic Economic, Social and Scientific Order. 6 Volumes. Statistical, Economic and Social Research and Training Centre for Islamic Countries. Ankara, Turkey.
- Choudhury, M.A. (1998) Reforming the Muslim World. Kegan Paul International. London.
- Choudhury, M.A. (1999) Islamic Economics and Islamic Political Economy. *Managerial Finance*. 25(5).
- Choudhury, M.A. (2000) The Islamic Worldview, Socio-Scientific Perspectives. Kegan Paul International. London.
- Choudhury, M.A. (2006) Science and Epistemology in the Qur'an, 5 Volumes. Edwin Mellen Press. Lewiston, New York.
- Choudhury, M.A. (2006b). What is the Scope of Islamic Economics and Finance? *Journal of Islamic Economics and Finance*. 2(1).
- Choudhury, M.A. (2008) Islamic Economics and Finance – A Fiasco. *Middle East Business and Economic Review*. 20(1):38–51.
- el-Gamal, M.A. (2006) Islamic Finance: Law, Economics and Practice. Cambridge University Press.
- Fadel, M. (2008) Riba, Efficiency, and Prudential Regulation: Preliminary Thoughts. *Wisconsin International Law Journal*. Available at: <http://hosted.law.wisc.edu/wordpress/wilj/files/2012/02/fadel.pdf>.



- Farooq, M.O. (2007) The Riba-Interest Equivalence: Is there an Ijma (consensus)? *TDM*. 4(5).
- Ghazanfar, S.M., Islahi, A.A. (1997) Economic Thought Of Al-Ghazali (450–505 A.H. / 1058–1111 A.D.) Islamic Economics Research Series. King Abdulaziz University–2. Jeddah, Saudi Arabia.
- Ghazanfar, S.M. (2000) The Economic Thought of Abu Hamid Al-Ghazali and St. Thomas Aquinas: Some Comparative Parallels and Links. *History of Political Economy*. 2000. 32(4):857–888. Duke University Press.
- Haneef, M.A. (2005) Can There Be an Economics Based on Religion? The Case of Islamic Economics. *Post-Autistic Economics Review*. Issue no. 34.
- Haneef, M.A. (2007) Islamization of Economics: Where Have We Gone Wrong? Unpublished Paper: International Institute of Islamic Thought Malaysia.
- Haque, Z. (1992) Nature and Methodology of Islamic Economics: An Appraisal, *Pakistan Development Review*. 31(4):1065–72.
- Hefner, R. (2006) Islamic Economics and Global Capitalism. 44(1).
- Hosseini, H. (1988) Notions of Private Property in Islamic Economics in Contemporary Iran: A Review of Literature. *International Journal of Social Economics*. 15(9):51–61.
- Hosseini, H. (1990) The Archaic, the Obsolete and the Mythical in Neoclassical Economics: Problems with the Rationality and Optimizing Assumptions of the Jevons-Marshallian System, *American Journal of Economics and Sociology*. 49(1).
- Husaini, S.W.A. (1980) *Islamic Environmental Systems Engineering*. London: Macmillan.
- Ḥazm, I. (translation by Ayad, F.M., 1985) *Al Kitāb al-Muhallā bi'l Athār* (The Book Ornamented with traditions) Published by Islamic Mosque at Texoma (Sherman, Tex).
- Khaldun, I. (translation by Rosenthal F., 1967) *The Muqaddimah: An Introduction to History*, Three Volumes, Bollingen Series XLIII, Princeton University Press, Princeton, N. J.
- Taimīyah, I. (translation by Holland, M., 1992) *Al-Hisbah fi'l-Islam* (Public Duties in Islam: the Institution of the Hisba), Islamic Foundation, Leicester, UK.
- Islahi, A.A. (1988) *Economic Concepts of Ibn Taimiyah*, Leicester. The Islamic Foundation.
- Islahi, A.A. (2005) *Contributions of Muslim Scholars to Economic Thought and Analysis (11–905 A.H./ 632–1500 A.D.)*. Scientific Publishing Centre, King Abdulaziz University Jeddah. Saudi Arabia.
- Kahf, M. (2004) Islamic Economics: What Went Wrong? Paper presented at the Roundtable Discussion on the State of Islamic Economics held at the IDB Headquarters, Jessah.
- Khan, M.I. (1951) Communism and Islam Contrasted. *Islamic Literature: Lahore*. 3(4): 11–21.
- Kuran, T. (1983) Behavioral Norms in the Islamic Doctrine of Economics: A Critique. *Journal of Economic Behaviour and Organization*. (4):353–379.
- Kuran, T. (1995a) “Further Reflections the Behavioral Norms of Islamic Economics”. *Journal of Economic Behavior and Organization*, Vol. 27.
- Kuran, T. (1995b) Islamic Economics and the Islamic Subeconomy. *The Journal of Economic Perspectives*. 9(4):155–74.
- Kuran, T. (1997) The Genesis of Islamic Economics: A Chapter in the Politics of Moslem Identity. *Social Research*. 64(2):1–22.
- Kuran, T. (2004) *Islam & Mammon: The Economic Predicaments of Islamism*. Princeton University Press. Princeton and Oxford.
- Lewis, B. (1954) Communism and Islam. *International Affairs*, London. (30):1–12.
- Mannan, M.A. (1970) *Islamic Economics, Theory and Practice*. Muhammad Ashraf. Lahore: Sh.
- Maurer, B. (2002) Anthropological and Accounting Knowledge in Islamic Banking and Finance: Rethinking Critical Accounts. *Journal of the Royal Anthropological Institute*. 8:645–667.
- Mawdudi, S.A. (1941) (English translation, 1978). *Economic Problem of Man and its Islamic Solution*. Islamic Publications Ltd. Lahore.
- Mehrdad, V. (1993) Islamic Economics and Economic Policy Formation in Post-revolutionary Iran: A Critique. *Journal of Economic Issues*. 27(3):793–812.
- Metwally, M.M. (1997) The Economic Consequences of Applying Islamic Principles in Muslim Societies. *International Journal of Social Economics*. 24(7–9): 941–57.
- Myrdal, G. (1958) *Value in Social Theory: A Selection of Essays on Methodology*. Streeten, P. (Ed.). Harper. London.
- Naqvi, S.N.H. (1977) Islamic Economic System: Fundamental Issues. *Islamic Studies, Islamabad*. (16:4):327–46.
- Naqvi, S.N.H. (1981) *Ethics and Economics: An Islamic Synthesis*. The Islamic Foundation. Leicester.
- Nasr, S.H. (1968) *Science and Civilization in Islam*. Harvard University Press.
- Nasr, S.V.R. (1989) Towards A Philosophy Of Islamic Economics. *Hamdard Islamicus*. 12(4):45–60.
- Nasr, S.V.R. (1986) Whither Islamic Economics? *Islamic Quarterly, London*. 30(4):211–20.
- Nasr, S.V.R. (1987) Choudhury, M.A: Contributions To Islamic Economic Theory: A Study In Social Economics (Book Review). *Journal of Economic Literature*. 25:1323–1324.
- Nasr, S.V.R. (1991) Islamisation of Knowledge: A Critical Overview. *Islamic Studies*. 387–400.

- Nienhaus, V. (1982) Islamic Economics – Policy Between Pragmatism and Utopia. *Economics, Tubingen*. (25):80–100.
- Nienhaus, V. (2006) *Islamic Economic System – A Threat to Development?* Marburg. Germany.
- Oweiss, M. (1988) Ibn Khaldun: The Father of Economics. Arab Civilization: Challenges and Responses. New York University Press.
- Philipp, T. (1990) The Idea of Islamic Economics. *Die Welt Des Islam's*. 30:117–139.
- Pfeiffer K. (1997) Is There an Islamic Economics? In: Beinin, J., Stork, J. (Eds.). *Political Islam: Essays from Middle East Report*. University Of California Press. Berkeley.
- Pryor, F.L. (1985) The Islamic Economic System. *Journal of Comparative Economics* (9):197–223.
- Qutb, S. (Original Arabic ed.-1948) (Translation by Hardie, J. D -1970) *Social Justice in Islam*, New York: American Council of Learned Societies.
- Rahman, F. (1964) Riba and Interest. *Islamic Studies, Karachi*. 3(1).
- Rahman, F. (1979) *Islam*. University of Chicago Press, 2nd edition.
- Rahman, F. (1982) *Islam and Modernity: Transformation of an Intellectual Tradition*. University of Chicago Press.
- Rodinson, M. (1966) *Islam and Capitalism*. Editions du Semil. Paris. English Trans: Pierce, B., Lane, A. (1974) Penguin. London.
- Sauer, J.B. (2002) Meaning, Method and Social Science: A Realist Account Humanomics. 18(3/4): 101–113.
- Schumpeter, J. (1949) Science and Ideology. *American Economic Review*. 39:345 -59.
- Shams, R. (2004) A Critical Assessment of Islamic Economics. HWWA Discussion Paper. No. 281.
- Shariati A. (1980) (Translation by Campbell R. Berkeley). *Marxism and other Western Fallacies: An Islamic Critique*. Mizan Press. Berkeley.
- Shepard, W.E., (1992) The Development of the Thought of Sayyid Qutb as Reflected in Earlier and Later Editions of 'Social Justice in Islam.' *Die Welt des Islams, New Series*, Bd. 32(2):196–236.
- Siba'i, M. (1960) Islamic Socialism. In: Donohoe, J.J., Esposito, J.L. (Eds.) (1982). *Islam in Transition*. Oxford University Press. New York. pp.120–22.
- Siddiqi, M. (1975) *Marxism or Islam*. Sh. Muhammad Ashraf. Lahore.
- Siddiqi, M.N. (1970) Some Aspects of Islamic Economy. Islamic Publications. Lahore.
- Siddiqi, M.N. (1978) *Islam ka Nazariyah Milkiyat (Islam's Theory of Property)*. Markazi Makteba Islami. Delhi.
- Siddiqi, M.N. (1981) *Muslim Economic Thinking: A Survey of Contemporary Literature In Studies In Islamic Economics*. The Islamic Foundation. Leicester, UK.
- Siddiqi, M.N. (2004) Round Table on Islamic Economics: Current State of Knowledge and Development of the Discipline. Islamic Research and Training Institute, Jeddah and the Arab Planning Institute, Kuwait.
- Siddiqi, M.N. (2008) Obstacles to Islamic Economics Research, Seventh International Conference on Islamic Economics, Islamic Economics Research Center, KAAU, Jeddah.
- Siddiqui, K. (1974) *Towards a New Destiny*. Muslim Institute for Research and Planning. London.
- Spengler, J. (1964) Economic Thought in Islam: Ibn Khaldun. *Comparative Studies in Society and History*. April, 268–306.
- Taleghani, S.M. (1982) (Translation by Compbell, R.). *Society and Economics in Islam*. Mizan Press. Berkeley.
- Usmani, M.T. (2000) *An Introduction to Islamic Finance*. Idaratul-Ma'arif. Pakistan.
- Wilson R. (1983) Islam and Economic Development. In: Mcoin, D., al- Shahi, A. (Eds.). *Islam in the Modern World* London. Croom Helm. pp. 119–131.
- Wilson, R. (1998) The Contribution of Muhammad Bāqir Al-Sadr to Contemporary Islamic Economic Thought. *Journal of Islamic Studies*. 9(1):46–59.
- Wilson, R. (2007) *Islamic Finance in Europe*. RSCAS Policy Papers No. 2007/02. Florence.