

Comments of

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on

Islamic Economics and Finance:

Where Do They Stand?

by

Masudul Alam Choudhury

It is a source of great pleasure and honour for me to be a discussant of the paper written by Prof. Masudul Alam Choudhury, whom I respect greatly for the several valuable contributions he has made to Islamic economics and finance.

Islamic economics, as you all know, is not a new discipline. It represents the revival and further development in the Twentieth and Twenty-first centuries of ideas on economics that had evolved in the writings of a large number of prominent Muslim scholars like Abu Yusuf (d.798), al-Mawardi (d.1058), Ibn Hazm (d.1064), al-Sarakhsi (d.1090), al-Tusi (d.1093), al-Ghazali (d.1111), al-Dimashqi (d. After 1175), Ibn Rushd (d.1198), Ibn Taymiyyah (d.1328), al-Shatibi (d.1388), and Ibn Khaldun (d.1406).¹

Similarly, the Islamic financial system, which is trying to get rid of the role of interest in financial intermediation, is also not something new. It worked quite effectively during the heyday of Muslim civilization and for centuries thereafter. According to Udovitch, the *muḍārabah* and *mushārahah* modes of Islamic finance were able to mobilize the entire reservoir of monetary resources of the medieval Islamic world for financing agriculture, crafts, and long-distance trade (1970, pp. 180 and 261). These modes were used by not only Muslims but also Jews and Christians to the extent that interest-bearing loans and other overly usurious practises were not in common use (Udovitch, 1981, p. 257, see also p. 268). According to Goitein, breach of the Jewish, Christian and Islamic law against interest was found in the “Geniza documents only once in the record of a judgement”, even though “an unusually large amount of Geniza documents deal with credit” (Goitein, 1967, pp. 255 and 250, see also Goitein, 1966, pp. 271-4). By the time of the Abbasid Caliph al-Muqtadir (908-932), sarrafs, who performed the role of bankers in Muslim history, had started performing most of the basic

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¹ For some of these contributions see Spengler, 1964; DeSmogyi, 1945; Mirakhor, 1987; Siddiqi, 1992; Essid, 1995; Islahi, 1996; Chapra, 200; and S. Ghazanfar, 2003.

functions of modern banks (See Fischel, 1992). They had their own markets, something akin to the Wall Street in New York and the Lombard Street in London, and fulfilled all the banking needs of agriculture, industry and commerce (Duri, 1986, p. 898) within the constraints of the then-prevailing technological environment.

However, as a result of the Muslim decline over the last few centuries, further development of Islamic economics did not continue except by a few luminaries like al-Maqrizi (d.1442), al-Dawwani (d.1501), and Shah Waliyullah (d.1762). This was to be expected because, as rightly predicted by Ibn Khaldun, sciences progress only when a society is itself progressing (*Muqaddimah*, n.d., p.434). Even Islamic finance got displaced, like many other Islamic institutions, by the conventional financial system after the colonization of Muslim countries.

It is heartening that Islamic economics and finance have both been reviving after the independence of Muslim countries from foreign domination. A number of prominent scholars, Prof. Choudhury being one of them, are striving to give it a shape that would enable Muslims to respond successfully to the challenges they are facing. However, while conventional economics and finance have gone through a long process of development over the last two centuries, it would be unrealistic to expect Islamic economics and finance to become mature over a short period of just three or four decades. Both these are in the initial phase of their development and it will be quite a while before they become mature.

Prof. Choudhury's paper is a critique of both Islamic economics and finance. This is, of course, welcome because it is the only way in which the failings of both these disciplines can be brought into the limelight and efforts made to remove them. It is better for these disciplines to be subjected to criticism in their early stage of development so that the failings may be corrected before it is too late. Prof. Choudhury needs to be complimented for being one of the several scholars who are performing this task.

However, while complimenting him for his critique, I take the liberty to point out that all his criticisms are not necessarily right. He does not seem to me to be right in his critique of Dar and Presley's advice to Islamic economists to "exploit the wealth of supportive arguments in Western literature." Their advice is in keeping with the historical record of Muslims who have never in their history adopted a policy of living in isolation of other civilizations. They actively interacted with the Chinese, Indian, Egyptian, Greek and Sassanian civilizations and borrowed from them what they thought was good and useful and, after improving upon it and adding to it immensely through their own creative genius, passed it on to the Western civilization. It would be naïve not to acknowledge the fact that the West has kept the torch it bequeathed from the Muslims with even greater brightness. Muslims need to benefit from what the West has done instead of trying to reinvent the wheel. Islam believes in the unity of mankind which is an essential corollary of the Islamic belief in the unity of God. According to the

Qur'ān, mankind was created as one, but became divided because of their differences and transgressions against each other (al-Qur'ān 10:19, 2:213 and 3:19). The ultimate objective of Islam is to unite mankind. Without such unity, its teaching of the brotherhood of mankind will not be able to materialize. How can we succeed in uniting mankind if we do not believe in the cross-fertilization of ideas put forward by different civilizations?

It would be a mistake to assume that everything in conventional economics is wrong, and that we should not borrow from its “methods and models” as Prof. Choudhury would like us to do. It is true that conventional economics did take a wrong turn after the Enlightenment Movement of the 17th and 18th centuries. This did not, however, strip it totally of the moral basis of society emphasized by the Aristotelian and Judo-Christian philosophies. All conventional economists did not necessarily become secular in their lives and many of them continue to be attached to their religious worldviews. Consequently the pre-Enlightenment tradition never disappeared completely in conventional economics (Baeck, 1994, pp.11). Protests have been, and continue to be, made by prominent scholars against the Enlightenment worldview. Thomas Carlyle went to the extent of calling economics a “dismal science” and rejected the idea that free and uncontrolled private interests will work in harmony to promote public welfare (See Jay and Jay, 1986). Henry George ridiculed the dominant doctrine of laissez-faire with its emphasis on self-interest (Progress and Poverty, 1879/1955).

A number of conventional economists have also been arguing in favour of the need to give a human face to capitalism (Brittan, 1995). Others have been emphasizing the injection of a moral dimension into economics. Hausman and McPherson have concluded in their survey article in the *Journal of Economic Literature* on “Economics and Contemporary Moral Philosophy” that “An economy that is engaged actively and self-critically with the moral aspects of its subject matter cannot help but be more interesting, more illuminating and, ultimately, more useful than the one that tries not to be” (1993, p. 723). It is, therefore, possible that, as a result of continued increase in the expression of such views in conventional economics, Islamic economics and conventional economics may draw closer to each other and that, after a lapse of time, the distinction between them may almost disappear. I, therefore, see no harm in benefiting from the writings of conventional economists, particularly those among them who wish to return to the pre-Enlightenment worldview. This would greatly benefit Islamic economics.

The above discussion has indicated one of the points where I disagree with Prof. Choudhury. However, I wish to compliment him for his effort to inject a multidisciplinary and circular causation analysis into Islamic economics. This is the need of the hour and a number of other scholars have also emphasized this. This is, however, not something new in Islamic economics. Ibn Khaldun and his predecessors had also adopted such an approach. They tried to show the closely

interrelated role of moral, psychological, political, economic, social, demographic, and historical factors in the rise and fall of human societies. None of these factors can by itself make an optimum contribution to development without the support of the others. It may have been better if Prof. Choudhury had at least made the mention of the contributions made by classical Muslim scholars to multidisciplinary and circular causation analysis.

In their multidisciplinary analysis Classical Muslim scholars laid a great deal of emphasis on the key role of human beings in the socio-economic and political development of human societies. This is because human beings are the end and means of development. It is their well-being which is desired. If they are the end of development, then they will not be motivated to render their best unless their well-being is ensured; everything that prevents them from receiving the fruits of their labour needs to be reformed. If they are the means, then they will not be able to render their best unless they have the ability to do so. This requires their moral as well as intellectual uplift. Reform and education of human beings is, therefore, indispensable. This is the reason why the Qur'ān says: "God does not change the condition of a people until they change their own inner selves (13:11). Accordingly, all the Prophets of God gave a central place in their message to the reform of human beings and the institutions that affect their behaviour. The human being should, thus, occupy a central place in any development philosophy as well as multidisciplinary and circular causation analysis.

However, when we talk of the role of human beings in development, we need to bear in mind that the institution that has a maximum impact on human attitudes and behaviour is justice. Islam has, therefore, given a central place to the establishment of justice in human societies. To ensure justice, it is necessary to have rules of behaviour. These are called moral values in religions paradigms and institutions in institutional economics. These rules of behaviour may not be meaningful unless they are enforced. This is where both the society and the government have an important role to play. Thus the individual human beings, the society, the government, and values and intuitions all interact with each other in development. The manner in which lack of justice triggers the decline of a society has been spelt out with great clarity by Ibn Khaldun in his *Muqaddimah*.

As far as Islamic finance is concerned, I am in full agreement with Prof. Choudhury when he says that "Islamic financial institutions are evolving along a line of activities based on a mechanistic understanding of the Shari'ah". It is, accordingly, not fulfilling its real purpose which is to "mobilize the resources of the community in Shari'ah compliant ways and by Shari'ah compliant instruments to attain the desired levels of well-being for the community" (p. 31). *Muḍārabah* and *mushārah* modes of financing have not made a significant headway, and the conditions laid down by the Shari'ah for the permissibility of a number of the debt-creating modes of finance are not being fulfilled earnestly as a result of the use of *ḥilah* or legal contrivances. The result is that a number of critiques of Islamic

finance do not find any significant difference between Islamic and conventional finance. I am afraid that, if the course that the Islamic financial system has taken so far is not rectified, people will lose faith in the system and it will suffer a severe set back. It would have been worthwhile if Prof. Choudhury had tried to show how the system may be reformed to enable it to help realize the *maqāṣid* al-Sharī‘ah.

On the whole I think Prof. Choudhury needs to be complimented for writing a thought-provoking paper. However, I would advise him to use less difficult language so that even commoners like me can easily understand the message that he is trying to convey. I wish to give below just a few examples of the difficult language used by him:

- “Imitation and prolonged ambivalence to the originary foundations” (p.7)
- “*Tawhīdi* epistemological-ontological-ontic methodology” (p.10)
- Preference-benign methodology of microeconomics (p.11).
- *Tawhīdi* episteme of unity of knowledge: (p.33).

He is a great scholar and a prolific writer and it should not be difficult for him to use language that is simple and easy for everyone to understand. Simpler language will enable him to convey his worth-while message to all more successfully.

Violation of Moral Values²

I now wish to come to a point which in general most Islamic economists tend to miss. It is, of course, important to emphasize the injection of a moral dimension into economics. This is what Prof. Choudhury has also done admirably well. However, this leaves a very important question unanswered. Why is it that the observance of the same moral values fluctuates over history such that they are abided by faithfully during certain periods and violated during others in the same society? If the task of Islamic economics is not just to analyze 'what is', but also to lead to 'what ought to be', then assuming the prevalence of Islamic values, as has been done generally, cannot be helpful when the values are in fact generally being violated in most Muslim societies.

Moral values are not sufficient by themselves. Muslims have been listening to sermons for centuries during the period of their decline and yet the moral condition of their societies has not improved. There is perhaps greater corruption and injustice in the Muslim world than in the 'secular' West. Workers in the Muslim world are also perhaps less conscientious, hardworking, and punctual, and businessmen are probably less honest and scrupulous than what Islamic norms require. Many of the morally wrong practises like cheating, bribery, and other unfair means of earning have now become securely locked-in through the long-run

² This and the following sections have drawn heavily from Chapra, 2000, pp. 366-76.

operation of path dependence and self-reinforcing mechanisms. Everyone condemns the practises but is unable to get rid of them even if he sincerely desires to do so, because the whole social environment has become corrupted. Hence, Muhammad Asad, one of the great Muslim scholars of this century, has rightly said: "To desire a return to an Islamic reality is one thing, but to visualize that reality in all its concrete aspects is another" (Asad, 1987, p. 3).

If Islamic economics is serious about introducing the role of moral values in economic performance, then it cannot avoid identifying the different factors that create divergence between the ideal and the actual behaviour in human societies. It must also try to find practical, down-to-earth ways of weakening these factors and reversing their effect to the extent possible, to enable Muslim countries to move towards the Islamic ideals of better moral-orientation and greater well-being. For example, one of the important factors responsible for the gap between the ideal and the actual is the lack of effective political accountability in clear violation of Islamic norms. There is hardly any Muslim country where there is real democracy, where the press is genuinely free, where the courts are truly independent, and where the law of the land is applied fairly and impartially to all, irrespective of their wealth and power. Hence, while the revelation of any instance of moral or financial corruption in the West creates a sensational expose in the news media and leads to the resignation of the minister concerned, it hardly finds mention in the local news media of many Muslim countries and, if it does so in countries where the press is relatively free, it fails to create any ripples in the echelons of power. No minister or official feels the necessity to resign because of the revelation of his corruption or moral laxity. He may even be 'reappointed' or 're-elected' with great ease. In such an environment where it is possible for the wealthy and the powerful to get away with corruption, inequities, and incompetence, there is bound to be a lack of serious political commitment for reform and general wellbeing.

What Islamic economics needs to show Muslim countries, therefore, is how to have the Islamic values reflected in the legal, social, political and economic institutions of Muslim countries. Other societies have done this in spite of an external secularist and value-neutral stance ((OECD, 1996). They have formulated a legal framework and a proper code of conduct for government officials, and put in place mechanisms for transparency, rule of law, public accountability, and the protection of whistle blowers. They have also created sufficient checks and balances, and adopted measures that make it difficult for violators to get away unscathed. Muslims have lagged behind here. This is not because of Islam, but rather in spite of Islam.

Solutions to Crucial Problems

In addition, there is a glaring omission in Islamic economics of a scientific analysis of some of the crucial problems that are plaguing Muslim countries. These include: corruption, extravagance and wastefulness, budgetary and balance of payments deficits, a high debt-servicing burden, low levels of saving and

investment, high rates of inflation and unemployment, extreme inequalities of income and wealth, poverty and miserable socio-economic condition of the poor. The immediate need is to find remedies to all these problems. Some non-Muslim countries have admirably solved a number of such problems by adopting certain standard remedies, which are easier to adopt and more effective in the short-term. A discussion of these remedies does not seem to get a fair share in Islamic economics. A complete package of reforms, some of the elements of which may be common to both Islamic and other moral or even secular systems, has yet to be discussed by Islamic economics.

This makes Islamic economics appear unrealistic to the critics as well as policy makers. Even those who are favourably inclined towards Islam, and there is a large number of these, feel that while most of the policy instruments discussed by Islamic economics are essential for ensuring justice and the long-term health of Muslim societies and economies, they will take a longer time to implement and bear results. In contrast, the prevailing problems need immediate attention and solutions. If this were done, it would automatically become clear that, while the greater emphasis on justice, brotherhood, moral reform, family and social solidarity, and some specifically Islamic institutions would continue to be the distinguishing feature of Islamic economics, there would be a great deal that overlaps between Islamic and conventional economics. This is because, as already pointed out, conventional economics has not been as secular and value-neutral as the economics profession would have liked it to be. It has not refrained from making value judgements, suggesting policies, and analyzing their impact. Conventional economists are human beings with a throbbing heart. They live in democratic societies and it is not possible for them to ignore their societies' values and aspirations, many of which have their roots in religion and not in secularism or materialism and hedonism.

The Future Course of Action

It is high time that Islamic economics started concentrating on the existing problems of Muslim countries and proposing remedies which are Islamically preferable as well as politically and economically feasible.³ Such an approach would not only help enhance its popularity and general acceptance but also create a better environment for the introduction of specifically Islamic measures. A change of this nature in its approach would, however, require individual country analysis. The intensity of the problems is different in different countries. In addition, the historical backgrounds, institutional frameworks, and 'prevailing' social mores are also different. Each country may, therefore, need a specifically tailored reform

³ Homa Katouzian has rightly pointed out that "the economists and other social scientists would be able to make much more useful contributions if they concentrated their efforts on the social and economics problems these countries face" (Katouzian, 1985, p. 391).

programme. The blanket approach of considering all Muslim countries together may perhaps not be suitable except for a general discussion of the Islamic economic system to elucidate its objectives, principles, rationale and operation.

Islamic economics would also have to collect reliable data on a number of important economic variables. Without knowing the actual position and the reasons for it, it is not possible to prepare a well-conceived programme for social, economic and political reforms. Data creates transparency and reveals the true picture, which some governments do not welcome because of the adverse impact this has on their vested interests. Hence, one of the essential prerequisites of the Islamization process is transparency through the collection and publication of all necessary data and their scientific analysis. Missing in particular are data on the distribution of income and wealth, the extent of need-fulfilment, and the nature and quality of life, particularly of the downtrodden. Without such data, it is not possible to know the degree of equity prevailing in the allocation and distribution of resources, which is the most crucial criterion for judging the Islamization of a Muslim economy. There are also inadequate data about government revenues and expenditures, consumption, the savings and investment behaviour of individuals and different sectors of the population, employment and unemployment, bonded female and child labour, wages and salaries, working conditions, work habits, and productivity, along with a rational explanation for the deviation from Islamic norms. Once this is done, it may be possible for Islamic economics to do a more meaningful job of analyzing the impact that the introduction of Islamic values and institutions may have on aggregate consumption, savings and investment, economic growth and stability, and income distribution.

A Task Far More Difficult Than Conventional Economics

The task of Islamic economics is, thus, broader and far more difficult than that of conventional economics. The nature of its paradigm does not allow it to confine itself merely to a discussion of just 'what is'. Its primary task needs to be to transform Muslim societies and to take them to 'what ought to be'. To accomplish this, it must identify all the major factors that influence the behaviour of economic agents. None of these can be taken in isolation because, as Ibn Khaldun rightly observed, all of them tend to interact with each other over time in a circular manner. A theory of socio-economic dynamics comparable to general equilibrium theory may make it possible to study the interaction of all major values and institutions with economic variables over time in a way that helps realize the desired allocation and distribution of resources that is in conformity with the vision of Islam. By adopting such a goal-oriented, dynamic and inter-disciplinary approach, Islamic economics may be able to explain not only the growth and stagnation of Muslim economies in the past but also the sources of their current problems. It may be able to predict relatively more confidently the behaviour of economic agents and influence more effectively the future course of events.

The practical wisdom of Islamic economics has been unable to come anywhere near this goal so far. It has not been able to come to grips with the task of explaining the rise and fall of Muslim economies in the past, the gap between Islamic norms and the actual behaviour of economic agents, and the causes of the problems faced by Muslim countries. It has been unable to suggest a balanced package of policy proposals in the light of Islamic teachings, to enable Muslim countries to perform the difficult task of reducing their imbalances and simultaneously actualizing the *maqāṣid*, particularly justice and general well-being.

The expectations for the near future should not, therefore, be pitched at a very high level. It may not be possible to raise Muslim societies, at least in the near future, to the high spiritual level that Islam demands and that Muslim economists assume in their analyses. Moreover, the performance of all the functions that are expected from Islamic economics may not be immediately feasible because of the lack of resources and political support, the non-availability of data, and the difficulty of measuring a number of the socio-economic and political variables that need to be incorporated into the models. Hence, while it should not lose sight of its ultimate goal, it should be realistic about the immediate possibilities. It is possible that even after a great deal of effort, its achievements may not be significantly great in the immediate future. The effort should, however, continue, because, as Nasr has put it: "Islamic economics and the institutions which are predicated upon it have tremendous unfulfilled potential yet to be realized" (Nasr, 1991, p. 392).

Islamic economics fortunately has the advantage of drawing strength from the renaissance which is steadily gaining momentum in the Muslim world after centuries of decline and disintegration. It also has the advantage of getting support from the foundation of multidisciplinary dynamics laid down by Ibn Khaldun (d. 1406) and of the tools of analysis developed by conventional, social, humanitarian and institutional economics as well as other social sciences. It is hoped that the development of this new discipline with its explicit commitment to the satisfaction of the material as well as the spiritual needs of the human personality, and to moral values, socio-economic justice, and family and social solidarity, will not only help the Muslim world but also provide a new impetus to economics in general.

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