

Islamic Yes, but Economics...?

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

30 years after the First International Islamic Economics Conference in Makkah, we still have those who say: is there such thing as Islamic Economics. The skepticism is not about the "Islamic", it is about the "Economics".

The argument goes as follows:

Science is knowledge brought under general principles by observation, experiment and critical testing. We need it because we don't know, we don't understand, and because we want to know and understand. Through scientific probing, we can explain and discover how the forces around us function. Once we know how they function we can predict their behavior and hence have an opportunity to harness their power to our benefit, control them to protect ourselves from their perils. This will make our life more enjoyable. It will improve our welfare. This is true with physics, chemistry, medicine as well as economics.

But science is not the only source of knowledge. As believers, we have the divine source. Knowledge correctly derived from the latter is the absolute truth. While the one derived from science is "relative" at best. Once we say "Islamic" then we are internalizing knowledge derived from the divine sources.

If we already know the answers, if we have the conclusions, then observation, experiment and critical testing become a waste of time. It is an "over kill". Now this is the dilemma of Islamic economics, or so the argument goes. It can either be Islamic or Economics.

Is this a real dilemma or it is so only in the imagination of the writer?

Let us see:

If I write a paper using the tools of economic analysis to show that use of Mudarabah as a mode of finance improves equity in the

distribution of income in the society, this will be a celebrated contribution to the literature of Islamic Economics. However, if I use the same tools to show that the same Mudarabah (as a mode of finance) is less equitable than borrowing on the basis of interest, then this would be *secular economics*.

If I start a research project with the premise that “use of Riba in the economy will increase the rate of employment” this will never be Islamic Economics because we know it is wrong so why bother. If my investigation nevertheless reached the conclusion that, on the contrary, use of Riba will increase the rate of unemployment, then this will be Islamic Economics *par excellence*.

If I study the size of interest based lending in a Muslim country, this would not be considered Islamic Economics. But if at the end I reached a conclusion that such lending has dropped lately because most of banks transactions are now sale based and Mudarabah based, then this suddenly becomes a candidate for the inclusion in the Islamic Economics “*hall of fame*”

What can we draw from all these examples?

Very simple, we as Islamic economists already have our conclusions and we define our discipline on the basis of “Islamically correct” conclusions. I will only accept the "economics" that reaches the same conclusion which I already know to be true because I have the answers from my more reliable source. If the premise appears to be open to any result that is contrary to our pre-set conclusions, we immediately refuse to accept it. Once we are assured of the *conclusion*, we then accept to engage in "scientific" research. But then the best we can accomplish is to reach a conclusion we already know.

Therefore, Islamic Economics can never be a scientific discipline. Disciplines are defined by their methodology not by their conclusions. A new discipline is born when people succeed through the accumulation of writings in defining a new methodology to answer old questions. Conclusions and subject matter of a science are never the defining factor of a discipline.

Both the science of psychiatry and the art of voodoo specialize in healing “ailments of the soul”. Both reach results that are not dissimilar (with all due respect to both categories) with not too different a degree of success. Yet they are dissimilar because their methodology is obviously different.

Farmers everywhere developed over the centuries methods for predicting winter storms, rainfalls and the arrival of spring, through observing the behavior of animals, signs of the stars and changes in trees and plants. Metrology tries to do the same thing: predict the weather. Until very recently, they both have the same degree of accuracy yet they are different because their methodology is different.

Religion gives us conclusions and science gives us tools to reach conclusions. To be good Muslims, we should take the conclusions drawn from the divine sources as given and true. To be good economists we want to use the tools of science to reach conclusions

and to be open to any conclusion, and to consider part of Economics only those conclusions that pass the test of these tools.

Is this the case with Islamic Economics?

A cursory review of Islamic Economics will show that the part that can be called "economics" (i.e. not fiqh or history or even law or accounting) is simply an exercise using the tools of economic analysis to arrive at conclusions we already know correct from another source (religion). Islamic economics then uses the tools of science to reach conclusions we already believe to be true and correct.

Take for example:

- Do we need economists to show us that Zakah is good for everybody, good for the rich, good for the poor, good for consumption, for investment for employment, for rate of economic growth. If the answer is: we don't, then why is Islamic Economics literature "a wash" with research trying to do just that.

- Do we need economists to show us that Riba based banking is "bad" for everybody? We don't, because we are believers. Yet, Islamic economists in what we call "Islamic Economics" have gone to pain and used the most sophisticated tools of analysis just to show that "Riba" is bad for you.

The question would then be why waste time trying to *re-reach* conclusions we already reached through faith and we know and believe to be true and correct?

Many answers.

One may say yes we believe, but the exercise is still useful because we still want to speak to the non believers and in doing so using the language they understand (logic) is the most effective way to convince them to joint the believers. This would be fine but then the skeptic would say: let us call it Islamic "Dawah" not economics.

Another may say that we are believers but we will become even be stronger believers when we know that Shari'ah injunctions are not illogical i.e. we can arrive at the same conclusion by way if rigorous analysis not blind faith. This would be fine but the skeptic would say we should go join the "Ejaz Elmi" movement.

A third may say that what ever you may say about Islamic Economics it remains that it is "our" science it gives us identity it proves "ours" is superior to "theirs" using their own tools. Don't our "Ummah" need this in the midst of the struggle... (and the rest of the contemporary brouhaha about the inevitability of the clash of civilizations). This is fine but then Islamic Economics will become propaganda tool not a scientific discipline.

Let us again re-visit the literature.

So many articles and books written on the subject of Islamic theory of the firm, Islamic theory of consumer behavior, Islamic welfare function. Islamic Macro, Islamic Micro... it appears every theory in

standard economics text books deserve an answer from us Islamic Economists. But what is the net gain from this "huge" effort?

For example, the standard theory of the firm says that a firm (if such firm is part of a general equilibrium model) maximizes profit. As Muslims, we feel this is objectionable. A firm owned by Muslims and operates in a Muslim society is more concerned with social good and zakah than maximum rate of profit. Hence we have to design an Islamic theory of the firm based on a model that gives the "correct" outcome and...."Eureka" we have the Islamic theory of the firm, a model of a firm that maximizes Zakah not profit.

But this approach is not flawless. Reasons:

- 1) We appear to miss the whole purpose of standard economic theory of the firm. It is to predict the behavior of the firm not to make a statement about the moral responsibility of the owners. If we need to rebutt, all we have to do is test this theory. Is this theory capable of predicting the behavior of an Islamic firm (i.e. one owned and operated by faithful Muslims). If it does, then

designing a new theory is an exercise in futility. If it doesn't then we uncovered an anomaly in the standard theory which deserves to be part of that standard theory for the benefit of all human kind. We would be making a stronger statement.

2) We appear to miss again by assuming that a theory must be a facsimile of reality¹. Economic theories are judged on the basis of their ability to predict behavior. But was our theory designed for this purpose. Is falsification possible.

3) We missed again because once we "perfected" our theory, we failed to test it to see if it does the job, if it delivers the goods. The purpose of a theory is to predict. Now does our Islamic theory of the firm correctly predict? We don't know because all we are concerned with is the easy part: design a model that behaves correctly.

¹ assuming that the "maximization of Zakah" is a reality (which is most unlikely) and assuming that it is Islamically desirable not be concerned with profit but with Zakah (which is just as doubtful).

4) We missed a fourth time by ignoring the difference between what is and what ought to be. Worse yet, even what we think is the "ought to be" is standing on fragile Shari'ah basis.

In consumer behavior, we assumed that the standard theory is actually predicting a consumer behavior in which he would sleep full while his neighbor is hungry. This, to us Muslims, is "gross" and unacceptable. Again, the right approach would have been to test this theory on Muslim consumers. If it turned that what the theory predicts is true then we need to "fix" our Muslim consumers.

Rather, we decided we need our own theory of consumer behavior. One that produces the correct results. Does this exercise invalidate the standard theory and its claim of being a general one predicting consumer behavior of a Muslim as well as infidel? We don't know because we never bothered to test this theory.

There is still hope:

Having said all that, there remains an area of Islamic Economics that is most rewarding, methodically robust and Islamically most valuable. Yet it is totally neglected. This is where tools of economic analysis are used to determine the most appropriate Shari'ah position on an issue where several possible positions are possible, or what is called preponderation. This is a huge area of research.