



The 7th International Conference in Islamic Economics

Thirty Years of Research in Islamic Economics
Solutions & Applications of Contemporary Economic Issues

24 - 26 Rabie Awal 1429 H

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CONFERENCE PAPERS



Islamic Economics Research Center



King Abdulaziz University



Islamic Development Bank



Islamic Research and
Traning Institute - IDB



The International Association
for Islamic Economics

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FORWARD

King Abdul Aziz University had the honor to organize the First International Conference on Islamic Economics in Makkah Al-Mukarramah during the period 21st and 26th Safar 1396 corresponding to 21st to 26th February 1976. One of its recommendations was the establishment of the Islamic Economics Research Centre by mid 1397 / 1977. Since that time the movement of Islamic Economics started. This was followed by six consecutive international conferences, the last of which was the Sixth International Conference on Islamic Economics held in Jakarta, Indonesia in 2005.

Today, the honor comes back to King Abdul Aziz University represented by the Islamic Economics Research Centre to organize the Seventh International Conference on Islamic Economics in collaboration with the Islamic Development Bank and the International Association for Islamic Economics during the period 24th to 26th Rabie Awal 1429 corresponding to 1st to 3rd April 2008 in the Ceremonial and Conference Centre of the University under the Title: "Thirty Years of Research in Islamic economics: Solutions and applications for Contemporary Economic Issues".

On this occasion, the Academic Committee of the Conference requested some eminent Muslim economists to assess research in Islamic Economics by writing papers on: Obstacles to Economic Research in Islamic Economics, Duality of Sources in Islamic Economics and its Methodological Consequences, Achievement of Previous International conferences on Islamic Economics, etc.. This is in addition to a paper by the Centre entitled: "A Proposed Strategic Vision for Future Research in Islamic Economics".

The Academic Committee also called for papers on thirteen different research topics with the objective of rationalizing and developing research in Islamic Economics. It received over two hundred papers, out of which thirty were selected. The selected papers were received from researchers within the Kingdom and from other countries such as: Algeria, Jordan, Sudan, Lebanon, Australia, India, Pakistan, Malaysia, UK, USA, etc.

We hope that this Collection constitute an addition to the Library of Islamic Economics and contribute in assessing the movement of Islamic Economics during the last thirty years.

The Islamic Economics Research Centre takes this opportunity to thank all those who participated in this Conference and in the preparations for it.

Director of the Centre
Dr. Abdullah Qurban Turkistani

The Seventh International Conference on Islamic Economics
The Academic Papers presented to the Conference
(English Section)

Subject	Researcher	Page #
Obstacles to Research in Islamic Economics	Dr. M.N. Siddiqi	3
Comment: Asad Zaman		15
Comment: M. Aslam Hneef		19
Duality of Sources in Islamic Economics, and its Methodological Consequences (Position Paper)	Dr. Muhammad Anas Zarka	23
Strategic Vision for Future Research in Islamic Economics	Islamic Economics Research Centre (IERC), Jeddah	39
Islamic Economics: Current State of Knowledge and Development of the Discipline	Dr. Khaled A. Hussein	55
Comment: Abdulmannan		61
Comment: Shommo		67
Comment: Usamah Ahmad Othman		69
Contributions of the Last Six Conferences	Dr. Munawar Iqbal	71
Comment: Asad Zaman		109
The Experience of the Islamic Foundation UK in Promoting Islamic Economics	Dr. Manazir Ahsan	115
Experiences of IIIIE: 1983-2007	Dr. Asad Zaman	123
English Academic Theme Papers	Researcher	
Secondary Databases and Their Role in Research in Islamic Economics	Dr. Abul Hassan	137
Studies on Islamic Economics in Turkey	Dr. Ismail Yurdakok	163
Creating Bridges between Research and Education in Islamic Economics	Dr. Rasem N. Kayed	183
Appraisal of the Status of Research of Labor Economics in the Islamic Framework	Dr. Toseef Azid	199
A Roadmap for Making Islamic Finance Sources More Accessible The Role of Secondary Services in the Dissemination of Research	Dr. S. Nazim Ali	225
An Evaluation of Research on Monetary Policy and Stability of The Islamic Economic System	Dr. Shamim Ahmad Siddiqui	235
Credit creation and control: An unresolved issue in Islamic banking	Dr. Zubair Hasan	271
Methods And Methodologies In <i>Fiqh</i> And Islamic Economics	Dr. Mohammad Yusuf Saleem	285
Evaluation of the research development on the Islamic securities (Sukuk)	Dr. Umar Mohammed Idris	303
Ethical rules for research in Islamic Economics	Dr. Monowar Hossain	317

Subject	Researcher	Page #
A Review of <i>Fiqh al-Mua'malat</i> Subjects in Economics and Related Programs at International Islamic University Malaysia and University of Brunei Darussalam	Dr. Ismail Mat	327
Thirty Years of Research in the History of Islamic Economic Thought: Assessment and Future Directions	Dr. Abdul Azim Islahi	347
Funding Research in Islamic Economics and Finance	Dr. Mohammad Aslam Haneef	371
Journey of Islamic economics in the modern world	Dr. Masyhudi Muqorobin	385
Malaysian Experiences on The Development of Islamic Economics, Banking And Finance	Dr. Wan Sulaiman Bin Wan Yusoff Alfattani	405

The Seventh International Conference on Islamic Economics
The Academic Papers presented to the Conference
(Arabic Section)

Subject	Researcher	Page #
Obstacles to Research in Islamic Economics	Dr. M.N. Siddiqi	3
Comment: Shoqi Ahmad Dunya		19
Comment: Abdul Hamid Ghazali		23
Duality of Sources in Islamic Economics, and its Methodological Consequences (Position Paper)	Dr. Muhammad Anas Zarka	29
Comment: Saifuddin Tajuddin		45
Strategic Vision For Future Research In Islamic Economics	Islamic Economics Research Centre (IERC), Jeddah	49
Islamic Economics: Current State of Knowledge and Development of the Discipline	Dr. Khaled A. Hussein	71
Comments: Abdur Rahim Al-Saati		79
Achievements of Previous International Conferences on Islamic Economics	Dr. Mohamed A. Sakr	83
The Experiment of IERC in Scientific Research	Fadul Abdul Karim Mohammad	101
The Experience of Saleh Kamel Centre of Islamic Economics (SKCIE) at <i>Al-Azhar</i> University in Scientific Research	Dr. Mohammed Abdulhalim Omar	151
The Experiment of Islamic Economics Centre At Khartoum International University	Dr. Siddiq Talhah Rahmah	175
Islamic Economics Unit: A Successful Experiment	Dr. Mohammed Al-Qataan	191
Perception of Islamic Foundations for Economics and its Impact on the Academic Progress The Experience of Postgraduate Studies in the Faculty of <i>Shariah</i> at Umm Al-Qura University Makkah	Dr. Mohammad bin Hassan Al-Zahrani	201
Arabic Academic Theme Papers	Researcher	
<i>Maqasid</i> (Purpose) Framework for Research in Islamic Economics	Professor Muhmad Rafee	255
Research Trends in Islamic Economics	Kamal Tawfiq Hattab	279
The Role of Information Technology in Scientific Research of Islamic Economics	Ezzeddine Malik Tayeb Mohamed	303
Assessment of Theoretical Underpinning for Islamic Banks and the Need for a New Approach after Three Decades of Experiment	Mohamed Boudjellal	329
Ethical Values of Researchers of Islamic Economics	Mohamed Ahmed Babeker	355
Statistical Analysis of the Characteristics of Research on Islamic Economics	Ahmed Saeed Bamakhramah, Mohammed Omar Batwaih	385

Subject	Researcher	Page #
Islamic Economics within the Framework of Islamic Knowledge Theory	Jasim Al-Faris	407
The Role of Translation in Development and Research in Islamic Economic and its Contribution to Enhance the Future of Islamic Studies in Islamic Economics	Ahcene Lahsasna	427
Protection of Intellectual Property Rights for Researchers in Islamic Economics	Abdullah Abdulkarim Abdullah	451
Media Role in the Development of Research in Islamic Economics	Abdul Hafiz Al-Sawi	473
Academic Research in Islamic Economics -The Methodology Problem-	Abdur-Rahim Al-Alami	495
Guidelines for Selection from the Statements of Muslim Jurists in Matters Relating to Islamic Economics	Fahd Bin Abdul Rahman Al-Yahia	515
Terminology Development in Islamic Economics	Abderrazak Ourkia	561
Islamic Economics Literature by Non-Muslims:1976-2008, - Britain a Case Study -	Ahmed Belouafi	579
Islamic Economics Literature by Non-Muslims:1976-2008, - France a Case Study -	Abderrazak Belabes	609

Obstacles of Research in Islamic Economics

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Abstract. This paper concentrates on six obstacles that hinder the advancement of research in Islamic Economics (IE). These are: the absence of historical studies, the lack of empirical studies, the insufficient institutional support, and the non-adherence to ethical norms of research and publication, and the weakness in vision. The paper discusses in details these obstacles and proposes an action agenda for the remedy.

This paper emphasizes six factors as main obstacles to progress in research in Islamic Economics. They are: Lack of proper historical studies; Lack of empirical studies; Lack of adequate institutional support; Non-observance of ethical norms relating to research and publications; Poor vision of Islamic society and economy that fails to distinguish between the essential and the peripheral, and, last but not the least; Failure to distinguish between the divine and the human in the Islamic heritage. In what follows we discuss each one of these, with the existing Islamic economics literature in mind. We then suggest possible ways of removing these obstacles to further progress in Islamic economics research. *wa billah al-tawfiq*

INTRODUCTION

Before we launch our enquiry it is appropriate to ask ourselves the question: Why are we doing it? All is not well with Islamic economic research. The enthusiasm of the early decades has gone. The surge in enrolment in Islamic economics courses, especially at the post-graduate level, observed during the eighties of the last century, has all but subsided. In its place we have kids looking for appropriate qualifications in “Islamic Finance”, and sprouting of institutions offering such courses “on line,” to meet the growing needs of the ‘industry’. Nothing bad. No regrets. The question is, what about the grand idea of providing an alternative to capitalism and socialism, that is informed by moral purpose and inspired by an spiritual vision. Has it yielded to a desire to join the flock at its own terms? I suspect it is so, and that this is rooted, among other things, in the change of times. In the sixties and seventies of twentieth century the world of Islam was abuzz with all things Islamic: education, society and state. Currently, in the first decade of the twenty-first century, there is a collapse of grand agendas leaving a pathetic scenario in which everything is in a flux: education, society, state. As I proceed to discuss the micro-causes of decline in Islamic economic research, I beseech you not to lose sight of the macro- framework in which the future would unfold itself. The grand Islamic agenda has been pushed back due to its own shortcomings.

Lack of a sense of History

Islamic economics, insofar as its normative aspect is concerned, is based on divine guidance revealed in the seventh century Arabia to a desert people who later carried it to the fertile valleys in the north, west and east, and then across the mountains and beyond the oceans. People of all hues and colors, speaking different languages, and cherishing different traditions rooted in each people's unique past, tried to live that guidance. Trying to do the same in the twenty-first century in a globalising world, we need to know everything about these trials before we can draw a plan of action.

That is where we failed. The source of most of the economics projected as Islamic has been *fiqh*, which is largely based on the historical experiences of the first four centuries, mostly in what we now call the Middle East. Historical experiences over the next thousand years, especially those in Andalus, the Maghreb, India, South-East Asia, Turkey and Iran have neither been studied properly nor allowed full impact on *fiqh*. Among the very few attempts to sift through Islamic history for knowing more about such institutions and practices as *waqf*, *zakat*, *mudaraba*, *suftajah*, and such concepts as *israf*, *infaq*, etc.⁽¹⁾, the sources covered are all in Arabic and from one particular region. This has deprived us of the variety of interpretation and diversity of experience in living according to Quran and Sunnah. Economic history of Muslim peoples is a very thinly researched area, and so is the economic thought of Muslims. This can hardly do, as living according to norms and concepts handed down centuries ago is a challenging task, especially in economic affairs. It would be some help to know how Muslims responded to technological changes, expanding markets and new sources of energy over the centuries. As it stands, most of Islamic economic literature treated Islamic norms and concepts relevant for man's economic life to be above time and place, unaffected by increasing populations, urbanization, rising incomes, increasing trade and commerce, innovative ways of handling money and foreign exchange and faster means of transport and communication. That is unacceptable as even during the first few centuries of Islam, which did not witness any revolutionary change in sources of energy or technology, we have some variety of interpretation and diversity of practice. What we need is a closer look at what was going on in different regions at different times. That requires sifting through all available historical records, supplementing these by a study of stories (*qissas*), poetry and travelogues, court records, etc. This has to be done for all regions under Muslims, covering all the languages spoken by them.

Let us have it straight, history, even of Muslim peoples, is not a source of guidance for us. Divine guidance inheres only in Quran and Sunnah of the Prophet, peace be upon him. We invoke history for the purpose Quran has recommended it to us: as *ibar*⁽²⁾. There are lessons to be learnt, warnings to be heeded. We run a great risk in ignoring history. Knowledge of history may save us from repeating mistakes and encourage us onto following into footsteps of those who succeeded.

(1) al-Faharia al-Tahliliyah lil-Iqtisad al-Islami (1985-86), 5 vols. Amman, Jordan ,Maktabah Saleh Kamil & al- Majma'al-Malaki li-Buhus al-Hasarah al-Islamiyah, Mussasaah Aal-al-Bayt

(2) Certainly in the stories of the bygone people there is a lesson for people of understanding [12:111.] Also see, 59:2; 3:12

A greater risk inheres in focusing on only part of Islamic history and ignoring the rest. This elevates a particular history to a status it cannot claim and does not deserve. By committing this mistake we run the risk of alienating parts of humanity for no fault of theirs.’

Being Realistic: Feel of the Ground under your Feet

We know very little about contemporary Muslim economic behavior. There is lot of work on what Muslims should be doing as consumers, producers, employers, traders and managers. But what they actually do, and whether it is any different from what others are doing in similar situations, we hardly ever investigated. The same applies to our distinctive institutions like *awqaf*, *zakat* funds, even Islamic financial institutions. The question: What to do if and when a Muslim behaves differently from the way he or she should behave, cannot be addressed without knowing what actual Muslim behavior is. Similarly we need to know whether our institutions are actually playing the role claimed for them in Islamic economic literature. Lack of adequate attention to finding out the actual state of Muslim individuals and institutions, needs some explanation. It will be too much to assume that we do not care, that all we care about is announcing what the desired model is. This cannot be true as the whole thing about Islamic economics is an offshoot of the movement towards Islamic living that the second and third decades of the last century witnessed. In other words Islamic Economics is not an academic exercise (no economics ever was). It is an offshoot of the Islamic Movement. So it must be caring about change, change from the current behavior and institutional structures to those in accordance with Islamic norms. But can we do so without first knowing what the state of Muslim individual and of Muslim institutions is, and why?

We claim a Muslim would behave ethically. That there are higher spiritual horizons he or she is looking at in the conduct of business. But how far they do so, and what explains the discrepancy? Does the fault always lie with human perfidy? Or, someone may have overshot in defining the norms and developing the concepts. There is also the problem that inheres is comparing today’s Muslims with the idealized image of Muslims during the days of the Prophet and the caliphs. The present we know and observe, but the past is partly a mental construct. The reports that form the basis for that construction are neither exhaustive nor all authentic. But their romantic spell is capable of clouding judgment and suppressing rational evaluation.

I suspect that may have happened, especially with regard to the period immediately following the Prophet. It might have been found to be prudent to underplay departures from Islamic norms as perceived. But that dilutes the didactic value of history as honest recording of facts.

A final verdict must await fresh research. Meanwhile it will do no harm to know the current state of affairs thoroughly. That needs being done with regards to individual behavior in all aspects relevant to economics. It needs being done for all regions and ethnic groups in matters where geography may matter. For comparison we need studies of non-Muslim behavior too, as we want to know impact of Islam, if any. The same has to be done about institutions like family, bazaar, and inter-Islamic trade as well as uniquely Muslim institutions like inheritance, the *Hajj*, *waqf* and *zakat*.

If there is one lesson to be learnt from the collapse of the socialist agenda and demise of Soviet Russia during the short span of less than a century, it is that one must feel the ground underneath one's feet before launching on a grand march to the ideal. Before one dreams of successes to come, there may be lessons to learn from current failures. This is especially true of priorities. What is to be done in case the peoples' own concerns are widely different from priorities in the agenda of the reformers? Shall the reformers readjust to ground realities or persist with their own sequencing?

Consider the current focus of Islamic economists on Islamic finance and dearth of Islamic economic literature on poverty removal, inequality and development. Among the billion plus Muslims of the world, how many are bothered about banking and finance? How many of the over six billion inhabiting the planet, considering the fact that Islamic economics is for all?

Research Needs Money

Modern research needs lots of resources. Whether it is historical studies of the kind indicated above or empirical studies of the type we were talking about in the previous paragraphs, they both require large teams making sustained efforts over long periods of time. Their findings have no industrial application, so the market is not going to finance them. The costs of these public goods have to be borne by the Muslim society. If the record of the last forty years is an indicator (in which very few Muslim governments assigned any resources for these tasks, and the assignments have been too meager to deserve any mention), Muslim governments would not be funding the type of fundamental researches outlined above. Most of the contemporary regimes in the Islamic world that have resources to spare are happy with the status quo. Whatever the perceived tension between that status quo and the popular construct of Islamic history, it is well contained and poses no threat to the status quo. But the same cannot be true about the outcome of new probes into the past with a new set of questions in mind.

Most of the research output in Islamic economics so far owes itself to private charity and/or dedication of the researchers themselves. Happily the financial resources of the private sector are destined to grow with the passage of time. More and more wealth is likely to be created by human ingenuity and the relative share of scarce resources such as petroleum is destined to decline. While one should continue pressurizing governments, especially those in democratic countries, for allocating funds for historical and empirical research, current hope lies in persuading the voluntary sector to change its priorities from doing more of the same to exploring new directions. One ground for persuasion is the failure of the old to inspire fresh positive thinking and produce new agenda for reconstruction of the *ummah*. As things stand now, all new energy seems to be destined for destroying what is perceived to be un-Islamic, with no clear vision of what to replace it with. It is precisely for recovering such a vision that fresh fundamental research in the past and a new understanding of the present is needed. Those who care for the destiny of the *ummah* and that of humanity, and there are many, would be willing to open their purses without expecting any material returns to themselves. The important thing is to impress on our people that the stakes are very high. Unless the *ummah* is given a new direction that is credibly rooted in the past,

convincingly realistic regarding the present and reasonably confident about building a better future, an avalanche of crises may sweep away many a promising career.

Resources, to the extent available, need to be spent judiciously. It is not advisable to house all research under one roof or in one country, even in one region. It must also be multi lingual. Universities, autonomous institutes and associations like the International Association for Islamic Economics should all partake in this enterprise. A role awaits the publishing industry too, by way of patronizing young scholars and providing them with initial impetus. No less important is need for the media, including the *mimbar*, to orchestrate the new priorities so they are accepted by the *ummah* as a whole

Rights Protection

Plagiarism is an endemic disease afflicting scholarship. But does it pose a threat to proper development of Islamic economic scholarship? Frankly speaking, I don't know. There are indicators, however that it is assuming bothersome proportions. There have been complaints on ibf net, the popular Islamic economic discussion forum in English. Some senior teachers and authors have also told me the same about research and publications in the Arabic language.

It will take time and efforts to root out the evil. Teachers and publishers have special responsibility, but peer review and vigilance must also play its role more effectively. But will they? We have some notions about knowledge being for the benefit of all, any proprietary claims to new ideas being essentially bad, un-Islamic. Besides being baseless in law and morality, such notions totally ignore the way new facts are discovered, fresh ideas originate, and new knowledge germinates and flourishes in a society. Original research in modern times demands life-long dedication. Each small brick laid could be the basis on which further edifice may rest. Unless it is secured in the name of the originator, and brings him or her any recognition and/or rewards society thinks fit for awarding, there would be no incentive for follow up work. It is in society's interest to protect the rights of researchers, authors and publishers from plagiarism and piracy so that the flow of scientific research continues unabated. This social protection does not depend on law alone. More than legal provisions, it needs, first of all, to be clearly recognized as the norm. No one, neither a student nor an author has a right to lift even a sentence or two from any author's work and present it as his or her own, without reference to the source and proper acknowledgement.

Cheating in scholarship is worse than robbing someone of material possessions. Plagiarism, unlike robbery, harms society much more than it hurts the victim. Taking it lightly is like allowing quakes to wear the mantle of physicians. The intellectual health of a society that fails to prevent it will be at grave risk.

The Essential and the Peripheral

Islam is for all times and all places, and so are its teachings that are relevant for the economic life of man. It was, however, revealed in seventh century Arabia. The time and place in which the Prophet, peace be upon him, gave Islam's first concrete exemplification was bound to have its stamp on that example. But what was local and

specific to those times cannot form part of the universal and eternal Islam. We who are engaged in living Islamically in the twenty-first century in a globalising world have the responsibility of sifting the eternal and the universal for implementation now and here, implementation that is bound to bear the stamp of a changed locale in a changed time. While all Muslims share this responsibility, and have to partake in its discharge, each according to his or her capacity, Muslim economists and social scientists have special responsibility. Having a better understanding of the changes that have occurred since the early centuries of Islam, and the features that distinguish modern living conditions from living in those times, they can identify the eternal and the universal, fit for adaptation and implementation.

The record of Islamic economic research so far has not been very promising. Islamic economists hardly did any better than those without any learning of social dynamics, specializing only in traditional Islamic sciences developed more than a thousand years ago. Hopes of getting better results by bringing the two expertise together by housing them in the same institution and/or seating them around the same conference table have not been very encouraging.⁽³⁾ The result is a kind of intellectual paralysis. What is worse is the exploitation of this situation by a section of the market to offer conventional goods in superficial Islamic wrappings in the name of Islam.

It will take going into very many details fully to substantiate the above. I do not think it is necessary, even proper, to attempt doing that in this paper. I wish the task of substantiating (or refuting!) is taken up by someone with more time and energy than available to this writer. But I cannot miss this opportunity of giving at least one example, that of insurance. The Islamic economic literature on insurance during the last half-century, and the corresponding practice in the name of *Takaful* and Islamic insurance, exemplifies the problem, the predicament and the dangers I have indicated in the previous paragraph.⁽⁴⁾

In a world in which even such problems created by rapid technological change as job insecurity and increasing inequality in the distribution of income, are sought to be tackled by insurance⁽⁵⁾, we are still discussing whether the idea of insurance itself is valid. Scholars would generally regard as alien, and therefore unacceptable, the idea of random events being subject to regularities that could be discovered, given a mathematical formulation and used for insuring against risk. Yet the same scholars would easily accept the fiction of *tabarru* (donation) to validate thinly wrapped conventional insurance.⁽⁶⁾

(3) Mohammad Nejatullah Siddiqi, 'Shariah, Economics and the progress of Islamic Finance: The Role of Shariah Experts', Seventh Harvard Forum on Islamic Finance, 21 April 2006.. Available at the author's website <www.siddiqi.com/mns>

(4) Issa Abdoh (1978) *al-Tamin bain al-Hill wa-l Tahrim*, Cairo, Dar al-I'tisam. The book also records views of more than a dozen scholars other than Dr. Issa Abdoh. For the current position, see, Mohammad Obaidullah (2005): *Islamic Financial Services*, Jeddah, King Abdulaziz University pp.119-141

(5) Robert J. Shiller (2003) *The New financial Order, Risk in the 21st Century*, Princeton University Press, page 4-7 & 149-164

(6) One scholar is reported to have defined it as "...a contract of donation with a condition of compensation..". See the site <http://www.kantakji.org/fiqh/files/insurance/diffbwconvIns.pdf> (accessed 21 March 2007) More on reciprocal *tabarru*' http://www.Islamic-world.net/economics/takaful_intro.htm Many other details are available at websites of Bank Negara Malaysia and other Malaysian Islamic Financial Institutions and on IBF NET.

I do not want to debunk the various Islamic insurance products available in the market. Let a hundred flowers bloom. What I am lamenting is a failure to accept anything that does not fit in the old mould despite its obvious wisdom. In trying to abide by derived rules we have distanced ourselves from the very source of rules. We have already noted the anomaly of Islamic economic research relegating poverty removal to the backburner and bringing investing rich peoples' surpluses for making them richer to the fore. That is how essence is overwhelmed by the peripheral.

The remedy lies in focusing on the vision of a Muslim and that of an Islamic society before we attend to rules of conduct and ways and means for their implementation. The so-called economic rules of individual conduct and social policy, most of them lifted from secondary sources, blur our vision of the total picture because we are living in a different time and place. The better method is to perceive and conceptualize the totality from out of the primary sources, the Quran and the Sunnah. All the rest should follow and not lead, insofar as Islamic economic research is concerned.

The Human Element in the Islamic Heritage

This brings me to the last point: The need to distinguish what is human from what is divine in our Islamic heritage. The Prophet, peace be upon him, brought the word of God and explained it by living it and guiding a whole generation of men and women organize their lives, including their economic affairs, in accordance with divine guidance. The word of God is preserved in its originality, un-adulterated by word of man. But the same is not true of anything else. As the Prophet leaves the scene and his companions are left to fend for themselves, the problem gets more complicated. It is no longer a matter merely of authenticity of reports. We are now dealing with men like us, without any direct link with divinity. Facing new challenges, they no longer had the Prophet to ask how to meet them. All they had is the Quran and what they had heard from the Prophet or, seen him doing in different situations. Building on that, they had to decide for themselves, and they did. Times moved on. The second and third centuries of Islam brought new challenges and explored new solutions. It is during these times that most of the recorded Islamic heritage took shape. Besides the vast literature on what is characterized as Islamic sciences the age produced a rich harvest of living traditions, arts and culture. Supplemented by the intellectual contributions in the following centuries, that is the heritage we cherish and seek inspiration from in our own enterprise of living an Islamic life in this globalized world of the twenty-first century. So far so good.

In exercising ones own judgment in the enterprise of Islamic living, it is good to have so much to fall back on. It is a great help. But one should not be constrained by the sayings and doings of other humans. The divine is binding but the human is not. Additional constraints thwart fresh thinking and innovation. Sacralization of the non-sacred has been a great source of degeneration in human history. It is one thing to treat history as help and inspiration. It is very different when we try to recreate it in a changed world, and that too in economic affairs. History, even Islamic history, is not sacred. We run a great risk by giving it that status.

Well said, but has it any relevance to the subject in hand? I think it has. You need only a cursory glance at the Islamic economic literature on taxation, fiscal policy, social welfare and development financing to conclude that the writer is focused on some script, rarely looking up to gauge the reality faced in modern living. Most writers on Islamic Public Finance⁽⁷⁾ are writing history, telling us how to recreate it. The divine in our heritage does not offer such script, so, how come? That is the problem.

The problem is not confined to archaic treatment of novel modern situations and issues. Our fixation with a particular history not only alienates us from current reality, it also isolates us from the rest of humanity. It reinforces Muslims' sense of being different from others to undue proportions, making frank, sincere outreaching and interaction almost impossible. The normal process of learning from others' experiences and contributions is replaced by, at the least, indifference and apathy, and often by suspicion and hostility. No wonder we get the same in response.

This situation has to be rectified before it goes out of hand. There is no better area for making a beginning than economics. I say this because the need to focus on the divine in human heritage and treat the human only as efforts in implementation from which lessons can be drawn is most obvious in economic matters. It is the economic affairs of man that bear the brunt of technological change and are often harbingers of change in other aspects of life. It is in economics more than in other areas that our focus should be on *Maqasid al-Shriah*⁽⁸⁾ (the objectives of Islamic Law) rather than what is commonly perceived as Law. Islamic economic research, unbound from the chains that human elements in Islamic heritage have put around it, can then bring Muslim intellectuals out of their shell into the company of other intellectuals for exploring ways and means of delivering humanity from the unprecedented predicament it finds itself in.

Regaining Self Confidence

A shrinking from independent thinking and total reliance on Islamic heritage came to Muslims after the first five hundred years of their history gradually and due to many factors. First it was to save Islamic law from becoming a hand-maid of petty rulers in a world of Islam torn asunder by sectarian squabbles and internecine wars. Then came the colonial era and the onslaught of Christian missionaries in the wake of western armies. The new emperors produced their own courtiers from out of greedy elite among the natives. Islamic thought was defended from inroads by foreigners and tampering by motivated insiders by declaring it self sufficient and immune to change. All that is history. Things have been changing after the coming of Muslim peoples from out of the yoke of colonialism during the last century. The intellectual scene of the *ummah* is humming with activity, the emergence of Islamic economics being one of its fruits. It takes time. There is no justification for despondency. But speed matters in this age of rapid change. The obstacles to progress in Islamic economic research are all removable.

(7) S.A. Siddiqi (1948,1975) *Public Finance in Islam*, Lahore, Sheikh Mohammad Ashraf; Ibrahim Yusuf Ibrahim (1980) *al-Nafaqat al-Ámmah fi'l Islam*, Cairo, Matabi' Diyab; ... (1989-90) *al-Idarah al-Maliyah fi'l Islam*, 3 vol;s. Amman, Muassisat Aal al-Bayt.

(8) Mohammad Nejatullah Siddiqi (2004) Key Note Address to Round Table on Islamic Economics, Jeddah IRTI, May 26-27,2004. Available on the author's website <www.siddiqi.com/mns>

We can do that. Better begin by diverting existing resources to priority areas of research. The next step should be to revamp the existing institutions involved in Islamic economic research by giving them greater autonomy, making them more democratic and providing them with more resources. Let the newly rich among Muslims in India, China and South East Asia realize their potential and cast away the image of dependence on largesse from the oil-rich for funding their universities and research institutions. We need a strong center for research in Islamic economics located in the west. This will serve the dual purpose of benefiting from the well-established research traditions in the west and affording western scholars interested in the area, and they are an increasing lot, a closer look at the ideas.

The toughest nut to crack are the two last mentioned obstacles, failure to prioritize so that the essence prevails over the form and detaching the human accretions from the eternal and universal divine guidance. Two sides of the same coin, they are so well entrenched in traditional Islamic scholarship that even their mention is bound to raise eyebrows. Yet there would be no breakthrough without removing these obstacles. They are borne of precautionary defensive mechanisms created during the last one thousand years to protect Islam from corruption by the un-scrupulous Muslim autocrats, foreigners and their lackeys. Even after two hundred years of Islamic revivalist movements, many calls to *ijtihad* and fresh thinking, and hundreds of conferences and seminars to revive creativity among Muslim intellectuals, fear of the unknown makes the commonality of Muslims and their mentors stay close to the beaten path, if not quite on it. We may err if we think independently. There is bound to be variety of opinion if free discussion and independent judgment is encouraged. Far-flung regions of the Islamic realm, now bound together by adherence to half a dozen major schools of *fiqh*, may opt for newer directions, especially in matters of economic policy. And so on and so forth, goes the long list of reasons advising prudence, conservatism, at the least wait and see. The net result is restraining the pious, the knowledgeable and those likely to evoke trust from the Muslim masses, leaving the field entirely, or mostly, to dare devil *mujtahids*. The outcome, not entirely unexpected, becomes yet other reason why the status quo should not be disturbed!

The status quo cannot sustain itself. If we do not change in a well-considered manner, change will be forced onto us in haphazard manner. I already see it happening in an area so dear to us Islamic economists⁽⁹⁾, the area of Islamic finance. The remedy lies in getting rid of the fear psychosis, the fear of committing mistakes in matters of religion, thereby inviting the wrath of Allah. That is too dumb a view of God to be taken seriously. Did the Prophet not tell us there is a reward awaiting even the *mujtahid* who errs?⁽¹⁰⁾ We have faith in God that needs to be buttressed by confidence in ourselves. The chances of making a mistake today are less, not more, than the chances of a Muslim

(9) Mohammad Nejatullah Siddiqi (2006) Islamic banking and Finance in Theory and Practice: A Survey of State of the Art, in *Islamic Economic Studies* (Jeddah) , Vol. 13, No. 2, pp. 1-48, Also by the same author (2007) Economics of Tawarruq: How its Mafasid overwhelm the Masalih, Harvard Law School and London School of Economics, Workshop on Tawarruq, Available at the author's website <www.siddiqi.com/mns>

(10) Abu Dawood in his Sunnan has the following report: ...Amr Ibn al-Âs reports that the Prophet, peace be upon him, said, "When a ruler decides and exercises his judgment and gets it right, he is rewarded twice. When he exercises his judgment to decide and errs, he is rewarded once." Hadeeth # 3574 . Kitab al -Aqdiyah , Bab # 2

thinker making a mistake in the third century of Islam. We have better access to Quran and Sunnah, more works on other Islamic sciences within easy reach, and better, faster means of mutual consultation and discussion than was available to our fore runners.

To the Organizers of this discussion

I congratulate the organizers. At least you recognized there are obstacles to research in Islamic economics that need serious discussion. You felt more of the same would not do. We need to take newer directions, break new paths. I have contributed my humble bit. I am sure the panel discussion will throw up ideas we can pursue on to the road of progress.

معوقات البحث في الاقتصاد الإسلامي

أ.د. محمد نجاته الله صديقي

المستخلص. تركز هذه الورقة على ستة عوائق رئيسة تعترض تقدم البحث في الاقتصاد الإسلامي، وهي غياب الدراسات التاريخية الملائمة، وغياب الدراسات التجريبية، وغياب الدعم المؤسسي الكافي، وعدم الالتزام بالقواعد الأخلاقية المتعلقة بالبحث والنشر، وضعف نظرة المجتمع والاقتصاد بين الإسلاميين الذين أخفقوا في التمييز بين ما هو أساسي وهامشي، وأخيراً، الإخفاق في التمييز بين ما هو من عند الله، وما هو متصل بالإنسان في التراث الإسلامي. وتناقش الورقة كل عائق، آخذاً في الاعتبار أدبيات الاقتصاد الإسلامي الراهنة. ثم تقترح الأساليب الممكنة للتخلص من هذه العوائق لدعم تقدم البحث في الاقتصاد الإسلامي.

Comments on Dr. M. N. Siddiqi's paper
“Obstacles to Research in Islamic Economics”

By: Dr. Asad Zaman (asadzaman@alum.mit.edu)

The problem under discussion could be placed under the general heading of “Islamization of Knowledge,” which is, I believe, one of the most important problems facing the Ummah currently. There is no doubt that in many fields the West has surpassed us in knowledge. How can we solve this problem, advance in knowledge, and re-acquire the leadership that we once had? How did it come to pass that the Ummah which gave the concept of higher education and civilization to the World¹ now has the highest rates of illiteracy? How can this state of affairs be changed?

In my view, a fundamental problem is the one labeled ‘regaining self-confidence’ by Dr. Siddiqi. Western Social Science is full of concepts antithetical to Islam. Lack of self-confidence has led many Muslims to accept these Western concepts, which preclude the possibility of creating a truly Islamic approach. Unfortunately, the writings of many Muslim economists convey the false impression that we have more to learn about management of economic affairs from Samuelson than we do from the Quran and the traditions of the Prophet. For those who have been given knowledge of the Quran, looking elsewhere for wisdom shows lack of understanding, respect, and gratitude for what they have been given. The remedy and solution to this problem is to show that even now, Islamic traditions offer far superior solutions to economic problems than those available in the leading economic textbooks and World Bank/IMF research papers. Because the Islamic paradigm is radically different from the Western one, our solutions are not those found in standard texts – that is, they do not conform to Western methodological commitments. Our traditions are full of precious insights not available in the Western literature. Below I will highlight just a few important ones. I believe that rapid developments in Islamic economics are possible if we focus on areas of our strength, instead of attempting to compete with the West in areas of their strength.

Weber’s (1918) idea that science is value-free (and also that values are not scientific) has taken root and caused a transformation in the way that social science is conceived, formulated and understood in the West. This leads to several methodological

(1) Professor George Makdisi of Harvard has argued convincingly for a major Islamic contribution to the emergence of the first universities in the medieval West, showing how terms such as having “fellows” holding a “chair,” or students “reading” a subject and obtaining “degrees,” as well as practices such as inaugural lectures and academic robes, can all be traced back to Islamic concepts and practices. Indeed the idea of a university in the modern sense—a place of learning where students congregate to study a wide variety of subjects under a number of teachers—is generally regarded as an Arab innovation developed at the al-Azhar university in Cairo. As Makdisi has demonstrated, it was in cities bordering the Islamic world—Salerno, Naples, Bologna, Montpellier, and Paris—that first developed universities in Christendom, the idea spreading northward from there.

commitments which must be rejected by Muslim economists in order to make progress in Islamic economics. A more detailed discussion is given in Zaman (2008b); below we discuss two major principles which lie behind current Western formulations of economic theory.

1. The social scientist is a detached observer. Personal involvement and the desire to bring about change and improvement can interfere with dispassionate and objective recording of facts required of a scientist. Furthermore, since science is value-free, the scientist should not impose his personal values and attempt to judge, normatively, whether a given social state is good or bad.

2. A consequence of the value-free ideal is that social scientists record observations and facts about human nature, and on this basis attempt to arrive at laws which govern societies. The policy maker then utilizes these observations and laws to move society in desired directions according to his normative judgements.

Both of these ideas are in direct conflict with Islamic teachings. The purpose of this Ummah is to enjoin the good and to prohibit the evil. The life of our Prophet (s.a.w.) was spent in the struggle to transform his society from the Ignorance (Jahiliya) to one of those with Faith. The social transformation that resulted from his efforts is the most remarkable one in the history of mankind. People who were cruel enough to bury their own daughters alive, kill each other for trifles, and behave in other barbaric ways, developed such conduct and behavior so as to become examples for all mankind. For example, the Quran testifies to, and praises those who gave to others while being themselves in need. The Muslim economist must boldly describe the good and strive hard to bring it about. This will clearly differentiate him from the Western economists who cannot explain what “good” means (as an economist) because values are not scientific, and cannot struggle to achieve these ends because they must remain detached from the subject of their study.

The second Western methodological commitment, that we look for laws of economic behavior, is also fundamentally flawed. The idea that there are “natural laws” which govern economics is a false and damaging outcome of accidents of European history which led to the development of modern economics. Using just one law, Newton was able to explain a diverse set of physical phenomena. This accomplishment made a tremendous impression on European minds. Economists set out to replicate this achievement, self-consciously modeling their discipline on Physics, ignoring warnings that social science was not like physics – see for example, Mirowski (1989). Economic theory is methodologically bound to the idea of using just one principle of human behavior – greed and acquisitiveness – to explain the entire range of economic phenomena. This methodology has prevented the development of a sound understanding of economic phenomena in the West. A simple consequence of this failure has been the inability (acknowledged by many) to develop suitable policies for development, the inability to predict large numbers of economic crises (including the Great Depression), and the observation that huge increases in wealth and comfort levels have not led to any measurable increases in satisfaction with life, and sense of well-being (see Lane 2001). A more detailed discussion of the failures of modern Western economic theory is given in Zaman (2008a). The idea that there are laws of economics has led to the dropping of ideas about exploitation of laborers, of the immorality of hoarding etc. Just as one does

not ask whether it is fair or just that stones should fall at 10 m/s^2 , so questions about fair and just prices do not arise if these are determined by natural laws.

At the heart of Islam is the idea that man has the potential for being higher than the angels and also of being worse than the beasts. Striving to change ourselves to achieve the hidden potential within us is the greater Jihad. It is a simple consequence of this struggle that there are no fixed laws of motion for human societies. It is immediately obvious that the economics of the Arabian peninsula was radically transformed by the work of our Prophet (s.a.w.) Similarly, if we engage with our societies and attempt to transform them in ways pleasing to God, the economic laws which govern our societies will change – for example, effective Da’wah to Muslims to pay Zakah and to adopt simple lifestyles recommended by Islam has the potential to eliminate poverty in Islamic societies. Unlike Western social science which attempts to observe behavior, Islam is a collection of tools for transforming behavior of individuals and societies. This area of transformation is one where Islam has deep insights to offer, and nothing comparable is available in the Western literature. Once we reject the idea that there are natural laws governing economic behavior comparable to physical laws, a whole range of issues suppressed in Western economics arises. For example, we can train our children to be greedy and acquisitive, or we can train them to be kind, generous and compassionate. While Western media promote luxurious lifestyles and encourage the pursuit of idle desires, we can follow Quranic injunctions to avoid this. The economic laws which govern our societies, and the kinds of economic institutions which emerge, will depend on the kind of training we give our children. Because norms and values are not scientific, Western economists cannot discuss these issues within their discipline boundaries, and cannot compare different types of normative structures for societies. On the other hand, Islam is full of guidance on precisely this issue. For example, discouraging *Israf*, *Tabzeer*, and conspicuous consumption, which are all forbidden in Islam, would lead to a tremendous reduction in the amount of waste associated with the rampant consumerism in the West.

To summarize, Islam offers us a vision of an ideal society where people cooperate with each other, and help each other in times of need. This is radically different from, and in conflict with, the vision of cut-throat competition leading to efficient production at the heart of Western economics. Islam also offers us tools and methods for transforming immoral societies to the ideal forms which are described in our religious source materials. On both of these counts, there is no comparable body of knowledge in the West. If we focus on our strengths, the process and methodology of “*Amr Bil Maroof and Nahi anil Munkir*,” this would lead to creation of societies motivated and structured according to Islamic ideals. As a by-product, study of the economic structure of such societies would lead to a genuine Islamic economics.

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**Comments on Dr. M. N. Siddiqi's paper
"Obstacles to Research in Islamic Economics"**

By: **Dr. Mohamed Aslam Haneef**
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In any attempt to evaluate the progress of research in a discipline, in this case Islamic economics, an inescapable question that must be addressed is the obstacles, challenges or problems faced by researchers and research efforts in that discipline. It is also very fundamental to choose the correct person to write on the subject. In both these two tasks, the organizer's must be congratulated for getting one of the pioneers of contemporary Islamic economics, M.N. Siddiqi to pen his thoughts down on the topic for this 7th Conference. For me, to be asked to comment on a paper by someone who has been involved in the 'frontline' of research activities in Islamic economics and finance for almost five decades, makes me feel greatly honored.

Dr. Siddiqi's brief, but concise paper, looks at six factors he considers as 'main obstacles to progress in research in Islamic economics', i.e. lack of proper historical studies, lack of empirical studies, lack of institutional support, plagiarism, poor vision leading to the inability to make distinction between the essential and peripheral and the failure to distinguish between the human and the divine. For purposes of this short comment, I reduce the discussion to three: neglect of research in important sub-areas of the discipline, lack of funding and the poverty of judgment and good behavior.

A very important reality that he mentions, probably too briefly in his short introduction is the loss of the idealism and maybe sincere commitment and purpose that once seemed to have been the hallmarks of researchers in Islamic economics in the 1970s and 1980s. As someone who began my own study of Islamic economics in the early to mid-1980s, I can vouch for this claim as my own institution the International Islamic University Malaysia and specifically the Kulliyyah of Economics and Management Sciences that was established in 1983, also saw that great enthusiasm, idealism and commitment (even if it lacked great intellectual output), wane over the years due to many reasons. I remember the slogan of the times was that we, the future graduates of the IIUM, should realize our mission as 'agents of change'. 30 years down the line, this Conference of Islamic economists, has to ask sincerely, have we been agents of change or have we become *changed agents*? Have we been able to present an economic and finance alternative to humanity or have we become 'passive' participants and joined the bandwagon? Has that spirit of idealism of Islamic economics been consumed by the pragmatism and commercial interests of Islamic finance? These questions in themselves could be a valid theme for a symposium or even a research project or two. I propose that this loss of idealism, or the 'spirit of the Makkah Conference' is a root cause for much of the problems we face. While we cannot go back in time, we can surely learn from our experiences.

1. Neglect of Research in Sub-Areas of Islamic Economics

Dr. Siddiqi is right to point out that to move forward, we also need to look back for lessons. He is right to lament that we have overly reduced our exposure to our heritage to the domain of *fiqh* per se, and neglected many other areas of our heritage. Not only have we failed to discern that our heritage covers a vast spectrum of disciplines or bodies of knowledge, but we have not given sufficient attention to many very important areas that make up the foundations of Islamic economics, including history- both of Islamic economic thought and that of Muslim economic life- in different parts of the world. To this I would add, the history of ideas and the relationship between the Muslim and non-Muslim worlds for they would certainly provide us with valuable lessons. It is very unfortunate that in programs of study in economics, the study of history has been downplayed or even taken out of the curriculum, due to various reasons. I am very sure that Dr. Siddiqi would agree that any good program of economics (undergraduate and graduate) should include exposure to history, politics and sociology. For Islamic economics, one would add courses on Islamic civilization as well as courses on western civilization, *but taught from Islamic perspectives*.

The neglect of empirical work is also a reality, although personally, from the example of the KENMS, it is not as acute as the neglect in history and heritage studies or in exposure to history of western economic thought/civilization. For example, most graduate theses and research papers at the KENMS for at least the last 10 years are more likely to be empirical work on Muslim countries. Unfortunately, these research works would very likely be from conventional perspectives, utilizing tools of analysis, approaches and models/techniques that are found in modern economics. Very few, if any, attempt to approach empirical studies via frameworks that depict Islamic perspectives, i.e looking at reality from the perspective of the worldview of Islam. While pure modern empirical studies of Muslim countries may perform a useful function in developing Islamic economics, I would argue that Islamic economists need to develop alternative frameworks to study modern Muslim (and non-Muslim) society so that these studies can contribute more effectively to the development of contemporary Islamic economics, which according to Dr. Siddiqi, is a part of a movement towards creating Islamic norms. In that sense, Islamic economics can be seen as a tool to help 'Islamize society'. I believe the whole issue of the relationship between the 'what is' and the 'what should be' in Islamic economics, the issue of ideals or perceived ideals versus factual realities in Muslim society has to be deliberated even further as methodological issues have been another area neglected by Islamic economists. The problem here is the human resources that we have.

2. Lack of Funding

The issue of funding research is another major topic that requires much serious deliberation. Studies of history discussed above as well as other fundamental or foundation studies for Islamic economics, have been particularly affected by the lack of funds. This, coupled with the orientation of graduate program, 'market forces' and the domination of mainstream neoclassical economics even in programs teaching Islamic economics, has also created a serious scarcity of young researchers in these areas. I fully agree that, left to itself, the private sector will not fund these areas. New initiatives

involving the private, public and voluntary sectors as potential contributors to new research funds in these ‘non-commercial areas’ need to be worked out. In this, I propose that this conference passes a resolution to empower a group or better still two or three groups to undertake surveys/studies into the funding agencies and organizations in other parts of the world so that we may learn from them. While I agree that we should not hope for one single institution to do everything, I also do not think it wise to overstretch our already thin resource base. In this, I believe we do have at least 3 or 4 credible long-standing institutions in the Muslim world that have been teaching and conducting research in Islamic economics for more than 20 years. These institutions have graduate programs that can easily be utilized to serve as the core research base for Islamic economics. If we are to find new financial resources for research in Islamic economics, I propose that we must also devise a new mechanism to allocate these funds more effectively and in a more coordinated, prioritized and efficient way, primarily to those institutions who have shown that they are not some ‘fly by night operations’. In addition, institutions dealing with Islamic finance per se and research dealing with Islamic finance, may be excluded from these funds since there are already sufficient funds available from the private sector.

3. Research Ethics and the Lack of Good Judgment

The problem of plagiarism according to Dr. Siddiqi, seems to be another factor that is an obstacle in research. Certainly at the level of students, I have personal experience of the problem of ‘copying/downloading from the internet’. While it is a great tool for progress, the internet also has the potential to be a contributor to moral and ethical poverty. I do not think the issue now is ‘not knowing something is plagiarized or not’. There exists plagiarism software to check works. The issue is how we treat the practice. Do we condone it? Do we know why it occurs? While intellectual property today may have significant financial benefits, it seems to me that acknowledging others’ ideas is a moral obligation to ‘point society in the right direction for intellectual leadership’. Claiming originality to ideas that are not ours only diverts society away from the scholars who have probably spent much time contemplating on certain ideas and who have certain moral rights and responsibilities to those ideas.

When this absence of research ethics becomes common, this could be a major reason for the last two factors discussed by Dr. Siddiqi, i.e. inability to ascertain priorities and the inability to distinguish between what is divine and what is human. Both these two deficiencies create great disruption in the allocation of limited resources, both human and financial. The result according to Siddiqi: an Islamic (economics and) finance industry that is more interested in dealing with rich peoples’ surpluses to serve the already rich rather than thinking how the wealth of Muslims can be used to remove the scourge of poverty that still plagues the Muslim world today. One could also add to this example the inability to realize that we should be concentrating on getting our fundamentals or foundations right, rather than rushing head-on to provide ‘solutions’ to problems faced. Simple logic will tell us that if we do not spend sufficient resources for research on these foundations, as scholars in Western Europe did in the 16-18th centuries, we will not be able to build a sustainable Islamic economics. If we are not able to discern that our Islamic heritage is much more than *fiqh mu’amalat*; and if we cannot realize that in order to make good ‘*shari’ah* based decisions in Islamic finance

today, we need to go beyond the legal dimension and look into ethics, hence a much more sophisticated benchmark for 'shari'ah compliancy', we will not be able to truly meet the *maqasid al-shari'ah* (objectives of the *shari'ah*).

Conclusion

Dr. Siddiqi ends his paper on an optimistic note that all these obstacles can be removed. He calls for revamping existing institutions involved in Islamic economic research. He asks for greater autonomy, freedom and funding. He calls on private and voluntary sector in many parts of the Muslim world to fund these revamped institutions and to stop depending on funding from oil money. While the proposal to have a 'strong center for research in Islamic economics located in the west' is acceptable, it is also relatively easier to do. The Muslim population in the EU and especially in the US are relatively well to do and can easily support this research center in the west. I think the greater challenge would be to revamp existing institutions in the Muslim world and to instill a new work ethic and management style to those researchers in the Muslim world. We have to stop thinking that money can solve all problems. Attitudes, work-culture, and good research practice, all important ingredients to successful research, is not guaranteed merely by pouring in money. These ingredients have to be cultivated and nurtured. No where better than those institutions like the IERC, IRTI, IIIE and the KENMS that- despite all challenges and shortcomings- have stood the test of time.

I would like to end by pointing out that this is not the first conference or seminar organized to talk about obstacles/problems of research in Islamic economics. As early as 1986, a symposium was held in Amman, Jordan talking about this. In 1987, a workshop was held in Kuala Lumpur also discussing this. Many similar events have been organized over the years. Yet, we have not been able to put things right. Will this Conference be a watershed for positive change, just as the First International Conference on Islamic Economics was in 1976? Time will tell.

Allahu A'lam.
21st March 2008.

"Duality of Sources in Islamic Economics, and its Methodological Consequences" (Position Paper)

Dr. Muhammad Anas Zarka

Abstract. Islamic economics as a discipline relies on two bases: traditional economics, and Islamic Shari'ah and its Fiqh. This duality in sources has methodological consequences that this paper addresses, such as: mistakes resulting from insufficiency of knowledge of either basis. Islamic economics should study, in Shari'ah framework, all available economic knowledge, human behavior and policies, even those not conforming to Shari'ah. Study in Shari'ah framework is achieved by explaining how each economic question relates to each element of an Islamic economic system, and what issues does each of these elements raise in economic theory or practice. Also addressed is the fact that economic knowledge is rarely certain, evolves over time, and is occasionally at variance with Shari'ah? The paper concretizes all issues with specific examples.

1- Introduction

The purpose of this paper is to convince both the economists and the specialists in *shari'ah* of the importance of benefiting from each other and from the suggested methodology in this paper: the duality of sources in Islamic economics, and its methodological consequences. The method of this paper is to give many specific examples showing the importance of this suggestion and the consequences of ignoring it.

I will touch only on major aspects of each question to make the paper equally available and understandable to both *shari'ah* people and economists. This is a position paper not a regular research paper. So I just present the view that I arrived at, after long considerations. But I do not present opposite views or discuss them. My main purpose is to be clear, so as the reader may decide to agree or disagree and challenge the ideas I am presenting.

2- Questions and Issues Addressed in this Paper

Islamic economics is an interdisciplinary branch of knowledge. It derives some of its basic ingredients from the human knowledge related to matters of living and falls under the science of traditional economics. Some other ingredients of Islamic economics are derived from Islamic *Shari'ah* and the *Fiqh* related to it. Thus, Islamic economics is distinct from both bases: traditional economics and *Fiqh*.

This duality of sources is a basic feature in Islamic economics. It gives rise to methodological matters that do not arise neither in *Fiqh* nor in traditional economics.

This paper addresses such issues.

Examples of such issues are:

- Why do we need Islamic economics?
- Is establishing Islamic economics a matter of intellectual refreshment or a religious or shari'ah duty?
- How does Islamic economics differ from *fiqh al-mu'amalat* (jurisprudence of transactions) and from traditional economics?
- What does it take from each branch of knowledge and what it keeps out?
- Is the scope of Islamic economics confined to only the study of economic behavior of Muslims? Or does it cover the study of the behavior of all human beings? How do we define Islamic economics?
- Can Islamic economics get meaningful contributions from non-Muslims, whether in theory or in applications? What do we mean precisely by connecting traditional economics with *Shari'ah*?
- Or what do we mean precisely by comprehending traditional economics within the framework of *Shari'ah*?
- How can this be acceptable while we acknowledge that sometimes economics contains assertions or statements or assumptions which are not compatible with *Shari'ah*?

3- Introductory Concepts and Definitions

Economics in general is a social science that studies matters of living and the social laws of cause-effects which prevail in economic life. Economics studies especially what relates to production of goods and services, their distribution and their consumption and other related matters.

An economic system is a set of goals, rules and institutions that a certain society prefers to abide by in its living conditions in making a living.

We may divide economics into several parts depending on the subject matter, such as public finance, international trade, but I prefer from a methodological point of view to note three components of economics:

- A) Economic Analysis** which is basically concerned with describing economic reality and discovering the causes and effects contained in it, as it exist in reality. This part of economics is known as the positive or descriptive part of it.
- B) Comparative Economic Systems** which is basically concerned with comparing the different systems as to their overall worldview and their objectives, methods and tools and policies which each system accepts in achieving its goals, and the consequences of these rules and conditions.
- C) Economic Policies** which is concerned with the different ways that we may follow in moving from one particular economic position to another position which is close to the economic goals of the society.

Economists who have studied carefully economic policies fully agree that preferring one policy over another in order to achieve a given goal, can never be based only on economic analysis. It must use also values or moral preferences which are

imported from outside economics. For Muslims, the source of importing such rules values is Islamic *Shari'ah*.

Economic Policies, even though they are tools in achieving goals, are more different among different economic systems than the goals being pursued.

3.1- What are the Objectives of an Islamic Economic system?

We may by induction from Shari'ah text arrive through deduction and *ijtihad* at the following goals and similar other goals.

1. Guarantee of a minimum level of living to every member of the society.
2. Achieve economic power in the sense of ability to achieve goals and economic independence from the need to ask others for assistance and a reasonable independence of economic decisions.
3. Reduction of disparity in income and wealth among people.

3.2- What type of Institution the Islamic Economic System would like to Preserve and Support?

We may mention among these institutions the following:

- Individual ownership with its corresponding social responsibility, Communal ownership and State ownership.
- Open competitive markets and observant of Sharia'ah rules.
- The family as a basic building block both economically and socially.
- The state or social authority which upholds justice, helps the weak and the poor, keeps security and interferes in order to, whenever necessary, make sure to achieve the social mandatory duties in Islam.

4- Examples of methodological Mistakes Committed as a Result of the Insufficient knowledge of the Researcher either in Shari'ah or Economics.

I may give more examples by giving more detailed references but I am refraining from this because my objective is just to concretize the ideas rather than criticize researchers.

4.1- Elimination of Interest on Loans

One well known Arab economist expressed his great apprehension that the call for the elimination of interest on loans would undermine the efforts of development. Because, on one hand, it will discourage savings as it deprives them from getting a return on their savings. At the same time, in his view, eliminating interest would be a hurdle for investment because investment then would not have a price signal in order to allocate the investible funds. Also, at zero interest rate, the demand on investment funds will be infinitely large. We will also lose the use of interest rate as a tool for comparing various investment products.

My comment: this apprehension is baseless from an economic point of view and is also based on some mistakes and insufficient knowledge of *Shari'ah* (Please see 8.2. below).

4.2- Risk

One economist said that the repeated emphasis on the idea that the various types of *Shari'ah* compliant investments methods are all the time involved in some degree of risk, large or small has no basis in *Shari'ah* and that it is imported from conventional western economics and especially from the well known economist Frank Knight. I am using here risk and uncertainty interchangeably.

My comment is: if you really survey the *fiqhi* financial contracts used in investment, you will clearly see that this assertion is wrong. Add to this, the authentic *hadith* (saying) of the Prophet (pbuh) which stipulates: *Al-Kharaji bi Al-Dhaman* (profits is subject to loss).

4.3- *Fiqh al-Mu'amalat* (Jurisprudence of Transactions)

There is a common mistaken belief among present day *fuqaha'* that Islamic economics is, in fact, or it ought to be a branch of *fiqh al-mua'malat*. My view is that this is not correct. Because even if we take one subject and look at it from *fiqh* and from economic perspectives we find difference. Take monopoly for example, the primary objective of *fiqh* is to discover the related value judgment (whether *halal* or *haram*) while the primary objective of economics is to study the actual reality to discover the cause-effect law such as how does monopoly arise and what are its consequences. These two objectives are contradictory but rather complementary. Therefore the teaching requirements for both are different.

4.4- Economic Planning

A graduate student consulted me once about the outline of his Master dissertation on planning in an Islamic framework. I found that he has built his whole outline on what has been revealed in *Surah Yusuf* in the Holy Qur'an, without bothering himself at all to look into the modern economic literature on economic planning. The Methodological mistake here is to consider that *Shari'ah* is a sufficient substitute for human reasoning and understanding reality that is concerned with cause-effects and results instead of being a guide that provides to these sciences the values, objectives and rules that such sciences cannot generate on their own.

4.5- Consumption

Another student consulted me about his outline for a dissertation on consumption from an Islamic perspective. As we know, *Shari'ah* contains many laws and values related to consumption. I advised him to add one or more chapters on studying real consumption in general or the consumption of a particular good or service in his own country. He objected that he does not feel that to be useful or even desirable, arguing that the behavior of people in consumption is not *Shari'ah* compliant. What should we study a reality which is tainted and not compatible with *Shari'ah*?

My brief answer was: A major objective of Islamic economics is to study the reality to repair it, improve it, or reform it, in order to make it closer to *Shari'ah*. So how can we reform a reality which we do not understand and we do not know?.

4.6- *Al-Kharaj*

I read a paper on *kharadj* written by a researcher who explains the *kharaj al-wazeefah* which is a specific sum of money imposed on each piece of cultivated land in conquered lands. Historically it was imposed by Umar ibn Al-Khattab the second Caliph after the death of the Prophet () and used to constitute a major component of the Islamic public finance. The researcher was calling for reviving it and applying it.

The main methodological shortcoming of this paper is that it ignores very important and pressing current questions related to this matter. All such questions arise from the great difference between our present economic reality and the past. Specifically, the relative importance of the agricultural sector has diminished greatly, as compared to the services and products of industrial economic sector. It means any taxes imposed based on *kharaj* at any rates which are not excessively high will never be sufficient to support the present demand of the treasury or *Bayt ul Mal*. This means that we have to impose some other types of financial taxes which were not practiced before and had no precedence in *Fiqh*. In fact, most of the *Fuqaha'* find any taxes beyond what is needed for absolutely urgent matters like stopping an invading enemy, they do not find it acceptable. They have not considered imposing taxes to provide public services that the people expect from their countries today. Such issues had to be raised, instead of just repeating what we know about the old *kharaj*.

4.7- Interests on Bank Deposits

A fatwa was given recently that says it is entirely alright from a *Shari'ah* point of view to invest deposits in conventional banks and get the resulting interest. The justification was a modern bank does not specify the interest it is going to pay, until after it has conducted expensive feasibility studies to make sure that the proposed project will generate specific profits.

My comment is: if it were true that we know beforehand that by investing say 1,000 Dinars we are going to generate a profit of 200 dinars. If we are sure of that, it then becomes entirely equivalent to: (A) You lend me 500 Dinars with the condition that I must return it with an extra 100 Dinars or (B) you give me 500 Dinars as participation in this investment with the condition that I give you half the resulting profit.

Fuqaha' throughout history understood *Shari'ah* to clearly prohibit (A) because it is *riba* and permit (B) because it is participation. They have asserted that *Shari'ah* which has been revealed by Allah () the All-Knowing, the All-Wise, to people who think would not give two opposite rulings to two matters which are identical.

Uncertainty about the future in economics is a major reality and a fact of economic life that has been known from all time by intelligent people and by merchants. We ask: "did modern feasibility studies change this fact by using statistics, computers and

mathematical models?" The answer, as all economists agree, and they seldom agree, is that no, the reality of uncertainty has never been eliminated by such modern methods. Modern feasibility studies do not claim that they can see the future and they never guarantee that their predictions will hold true. The only thing is that good feasibility studies use well available information in technically consistent methods which improve the chances of choosing more promising projects and eliminating unpromising and weak projects.

4.8- A paper on *Musaqah*

Musaqah is one form of classical method of financing a productive activity. In *Musaqah* the *Musaqi* or the worker provides labor inputs such as seeds and fertilizer and water to apply this to an orchid which is owned by someone else. Now, he does that to obtain a share in the output of the orchid. The owner gets the remaining share, and the share is agreeable between both.

A recent researcher said this is how to develop a *Musaqah* for a modern application. He said that the worker or the *Musaqi* keeps account of his expenditure and then when they reap the fruits they sell it and they deduct from the revenue the costs to arrive at the resulting accounting profit, which they divide between the two according to the ratio agreed. The researcher by this development has by his suggested development has made *musaqah* to be partnership in profit just like *Mudarabah*, whereas *Musaqah* has in its classical form in classical tradition. It was participation in output like sharecropping.

The suggested change by the researcher in itself is acceptable from the *Shari'ah* point view. But it eliminates unintentionally the major advantage of *Musaqah* and sharecropping and other types of contracts which are based on sharing output rather than sharing profit. That advantage eliminated by this suggested development is that the *Musaqah* and similar contracts have very low monitoring costs. The owner of the orchid doesn't have to watch over the *Musaqi* and his expenditure and dishonesty. The owner simply needs to come at the time the fruits are ripe or shortly before that. Then take his share from the output or selling the output and taking his share from the proceeds without ever looking at the costs of production.

Islamic financial industry has been rightly criticized for not paying sufficient attention in going or in using participatory form of financing. They have instead preferred to use sale based financing as in *Murabahah*. The basic criticism is that participatory mode of financing are more just and also more desirable by reducing economic fluctuations or not causing economic fluctuations compared to interest based and sale based financing. A question arises here: why the industry was not enthusiastic about going into partnership forms of financing. The main reason is the much higher monitoring costs on the manager or the *Mudharib* or *Shareek* (partner). Now, *Musaqah* and similar methods overcome this main disadvantage and still they are participatory in nature. So, this is their main advantage that should not be given up easily.

5- Why Islamic Economics? Is Establishing it an Intellectual Refinement Or is it a Required Shari'ah Objective?

The logical and the *Fiqh* rules say that if something mandatory needs some other matters to be achieved, then these matters become mandatory also.

For instance, eliminating interest is a religious duty which cannot be carried out in modern economic life by those who do not know the causes-effects and the alternatives to interest based financing and how to set up a monetary banking and international trade without interest. So, if only economists know this, then definitely, knowing economics becomes necessary.

Another example, monopoly has been prohibited by the *Shari'ah*. If a modern Minister of trade and industry wants to apply it, he will need to know not only the *Fiqh* rules about monopoly but he needs to know where monopoly appears in modern economic life? What are its various forms? Why did it arise in the first place in each form? and what are the alternatives and the hurdles or difficulties in eliminating monopoly?. All these are another study by economists.

We take a third example, widespread poverty definitely hurts the objective of achieving economic power and being independent from asking others for help and to achieve independence in economic decision making. So, widespread poverty will be a major hurdle preventing achievement of this second economic objective. Now, if we want to address poverty, we want to address this or reduce poverty, we definitely a widespread poverty can only be reduced by economic development. The rules and ways of carrying out economic development is something economists study.

These are three examples of religiously required economic objectives that cannot be, today, applied or achieved for someone who knows no economics. What is required is someone who knows not only economics but also good knowledge of relevant *Shari'ah* rules; that is someone who specializes in Islamic economics.

There is another type of need for Islamic economics which becomes clear when we consider the assertion that modern economics clearly indicates that current prosperous economics life and efficiency in the use of resources cannot be done without the institution of interest on loans. This assertion goes on to say that, if we eliminate interest (*Riba*) which include then we are undermining economic development. So, this particular assertion is basically that there is a clear injunction in the Qur'an which is incompatible with modern economics. Who can study examine the validity of this position. Only specialists in economics who know well the related *Shari'ah* rules can do so. This is quite similar to the situation in the Middle ages when the various questions raised by philosophers and caused concern in economic minds were addressed and replied to, by Muslim scholars, who were not only knowledgeable in *Shari'ah* but also knowledgeable in the philosophy of their times. Something similar by Allah's grace has been taking place in the field of Islamic economics in the last thirty years.

Add to above needs of studying economics, we have the importance of economics to understand the *hikmah* (the common sense or wisdom) of many economic rules of

Shari'ah. I hope the examples given in this paper or at least some of them will indicate reasonable explanation.

6- An Objection and an Answer

One may object that if establishing or doing the Islamic economic duties requires learning modern economics, does that not, by implication, mean that earlier generations, including the generation of the companions of the Holy Prophet () could never have applied Islamic economic duties well, because they will not be versed in modern economics. My answer is no, as there is no logical connection between these two. This objection is not valid because each generation is required by *Shari'ah* to do its best within the means available to achieve *Shari'ah* rules and objectives. What we mentioned above is the duty of our current generation because it is something we can do. It is not a valid basis to stop criticizing earlier generations.

7- How do we Define Islamic Economics?

There are two approaches. One says that the scope of Islamic economics is to study the economic life of society which abides by the rules of the *Shari'ah*. Thus, according to this definition, Islamic economics in its scope does not cover non-Muslim societies. The second approach says that Islamic economics is economics, which is guided by *Shari'ah*. So, it covers in its form all human beings (Muslims and non-Muslims) in their economic behavior, in their institutions and policies related to economic life, even when such behavior or policies are not *Shari'ah* compatible. Briefly, Islamic economics is economics interacting with *Shari'ah*. My preference is to choose the second definition. The main reasons for this is that the universality of Islam leads to this definition requirement and then inviting other people to Islam requires again this more comprehensive definition. Also, if we look in the Qur'an with its clear and repeated order that we should take note and derive lessons and Morales from the stories and the events of others. All these orders indicate that in order to invite others to Islamic economics, we need to know their economic reality. And if you are to draw lessons from an event, as the Qur'an dictates, you need to study it. Otherwise, how can you draw *ibrah* (lesson) from if you do not study it?.

Consequently, if we accept the second definition, as I am suggesting, it means that we must learn and examine carefully all accumulated human knowledge in the area of economic life in its various schools, philosophies and branches, so that we can put each part in its right place within the framework of *Shari'ah*. We have to define very carefully what do we mean by putting it within the framework of *Shari'ah* or establishing an interface between economics and *Shari'ah*.

8- How Do We Put Economics within the *Shari'ah* Framework? Or How do We Achieve Islamization of Economics?

I feel this can be achieved when: (a) We discover the connections between each issue at risk in conventional economics with each element of the Islamic economics system. Once we do this, then the relative importance of each economic issue will become clear in the light of this comparison and in the light of reality of practical issues.

As I earlier said the elements of any Islamic economics system are objectives, rules, including *Shari'ah* rules and institutions. (b) When we take every component or element of an Islamic economic system and examine ways in which it relates to economic analysis, economic reality, policies and human experiences. When we do this and in also the hurdles or the difficulties in applying it and in the potential consequences of economic life. When we do that then it becomes clear which policies are most suitable to establish in a particular time and place that particular element of an Islamic economic system. Let me give in the next two paragraphs examples of how to do this putting economics in the context of *Shari'ah*.

8.1- Consumption

We know that private consumption is discussed in microeconomics and aggregate consumption is discussed in macroeconomics. Let us look at this two from the point of view of how each one of them relates to elements of an Islamic economic system. About private consumption (individual consumption) we notice most *Shari'ah* texts are related to this type of consumption. These *Shari'ah* texts in general give the following sort of guidance. First, consumption up to the level which is required to achieve personal, family and public interest is mandatory on the individual not only permissible. After this level there is a high level of consumption which is wide in scope which is left to individual himself to decide how much. Beyond that wide scope of permissible consumption, we start reaching excessive consumption which is *Israf* (extravagance) and we enter into a prohibited level of extreme wastefulness.

It is a duty of each individual to earn this minimum level of consumption for himself and his dependents. If he is unable to do so, then his potential wealthy heirs have to help him. If they are not available, then Zakat fund, then the public treasury. If the public treasury is not sufficient then the government social authority must impose taxes of some kind from the well-off sufficient to cover the needs of the poor. When we come to aggregate consumption, we find that economic analysis helps us uncover this relationship to other wealth of the system, such as economic development. We notice that economic development requires savings and investment and increasing savings will require directly reducing consumption.

Since economic development is one major way to achieve economic power and achieve independence from asking others for help and in combating widespread poverty then clearly, we must search and construct economic policies that balance the needs for more consumption which is a goal compared to the need to reduce consumption to achieve other more urgent wants.

We notice also that the public authority in Islam has more authority, more leeway in regulating consumption in order to achieve a very important goal such as getting minimum level of the consumption of every member of the society compared to another goal which is less urgent like reducing disparities.

8.2- The Prohibition of Interest (Riba) on Loans

This is a well known *Shari'ah* rule that became very much in the public mind because some people assert that it contradicts a well known fact in economics (see example mentioned in 4.1 above). I will outline how *Shari'ah* rule can be viewed from an economic point of view. In other words explain it with conventional economics that does not know *Shari'ah*.

Eliminating interest (*riba*) on loans technically means imposing a ceiling of zero percent on the rate of interest. When you impose this ceiling it means any funds advanced as loans can only be in the form of Qard Hassan (benevolent loan). There can be no commercial or profit earning motive for providing such funds. Only non profit motives such as religious or humanitarian will be a motive for supplying such funds on the basis of loans. Besides, it would be expected that the demand for such benevolent loans will be very large. In his case, there should be a way or a means (not a price such as the characteristics of the person needing the loan or his poverty) in allocating the loans to the large demands as is the case in all situations where a price ceiling lower than the market equilibrium price.

The conventional economist will also enquire on the possibility of using other commercial modes of finance (seeking profit) for allocating funds for investment and the demand for it. If we survey the *fiqh* literature related to the matter we find several formula for providing such funds commercially. We have the overall approach for participatory finance such as: *Musharakah*, *Mudharabah*, etc.. and we have deferred sales whereby one of the price counterparts is delayed (deferred payment as in *Bay' Mu'ajjal* or deferred commodity as in *Bay' Al-Salam*).

A new economic question arises here. Will these commercial *Shari'ah* compliant modes generate price signals that can be used to allocate investible funds to different users and among various projects. Or should there be another mechanism that provides commercial funds on the basis of non price central authority?

My answer, is based on the result of what became more and more clear in the last quarter century through the researches of many scholars. The answer is that yes, an Islamic economy has a price mechanism to allocate investible funds on commercial basis. These various bases connect intimately between real economic activities in production, including sales, and investments including participatory forms of projects.

These various mechanisms permitted by the *Shari'ah* are all based on real activities whether production or investment. They generate rate of profit in the various activities and they also generate price differential between a good change for cash versus the same good change on a deferred basis. All these indicators are price signals that can be used to allocate funds among various uses and various degrees of risk connected with each use. Savers will definitely get a return from the type of activities they are willing to finance.

All these price signals are not subject to price ceilings that is unlike *Qard Hassan* but they go up and down helping the demand and supply of commercial finance to meet, as discount factors allow, in order to differentiate between various investments.

This way, we see that the prohibition of interest on loans means providing some funds on charitable basis to the needy and allocating them among them according to non price social criteria, without affecting the commercial financing of investment, production and consumption on non needy people where price signals are used.

8.3- Economic History of *Salam* Contract

The permissibility of this contract is confirmed in the authentic Prophetic tradition (*Sunnah*) whereby the buyer advances the full price for a well determined quantity of a commodity that has determined specifications (dates or barley for example) and the seller promises to deliver it at a certain date. Usually, the buyer gets the commodity at a lower price from its expected market price at the time of delivery. The seller benefits from the advanced price in financing his production and consumption needs. This is well established in early Jurisprudence books.

However, one can conclude from some historical facts in Syria and Sudan (and probably other countries) that there was some exploitation and hardship imposed on the growers by giving them advanced low prices. In Sudan *Salam* is known as *Shayl* which become a bad example of exploiting poor farmers. In Syria, the well-known *Hanafi* scholar Ibn Abdin mentioned that many villages were destroyed because of *salam*.

From this we learn a lesson that when shari'ah allows a contract or gives an order that does not mean that it will not be abused and used in the exploitation of others. To prevent this, there should be an authority that control the situation and interfere when needed in order to establish justice and prevent aggression. So, is it still possible today to use *salam* contract in financing agricultural production in countries where there are poor farmers?

8.4- Theory of Agency and *Mudharabah* Contract

A number of studies appeared in the last quarter of the last century, analyzing the contracts where a party act on behalf of another party (an agent on behalf of the owner or the partner on behalf of his partner, or the executive management on behalf of shareholders) and the consequent possible acts that do not serve the owner or hiding information from him.

These studies also look at the costs of control on the conduct of the agents in different contracts, which make some contracts not desirable. Since we may find such behavioral conducts in modes of finance generally and in the Islamic ones especially, the economics of agency is useful for whoever studies or applies contracts in Islamic framework. I will start with *Mudharabah*.

***Mudharabah* as an Alternative to Productive Interest Based Loans**

We notice that the Mudharib (manager) act as an agent for the capital owner. Dr. Waqar Masud Khan compared in his PhD thesis in early 1980s at Boston University, both Mudharabah and interest based loans from economics efficiency perspective. He opened the eyes on the possibility of using the analytical tools of the Agency Theory on an Islamic contract and the benefit of using such methodology. The main result was the control cost on the Mudharib is the significant factor. If it is low (in case of the trustworthy Mudharib) the Mudharabah contract would be more efficient than interest based loans and vice versa.

Many studies followed after that in many conferences and journal articles that revised and amended the result obtained by Dr. Waqar. But he remains the first to point out the importance of taking into consideration the cost of control in comparing between different contracts.

8.5- *Ju'ala* Contract and the Wisdom behind its Permissibility

The form in which this contract takes shape is as allowed in the Prophetic tradition can be summarized in the following statement: "Whoever finds my camel will be given such amount". This is part of what the canonists call: "contract to realize an objective". Its counterpart is: "contract to exert effort" which is summarized in the following statement: "find my camel and I will give you such an amount". This last form is a normal work contract and not a *Ju'ala* contract.

The *Fuqaha'* observed earlier that the *Ju'ala* contract has some important exceptional features than the rules of contract in *Shari'ah*, such as *Gharar* (uncertainty). In *Ju'ala* contract there is a great *Gharar* (uncertainty) in the amount of work necessary to realize the objective. The laborer might find the camel after one work search and get the full amount or he might spend few days without finding it and get nothing. Whereas the work contract mentioned above is free from *Gharar* and there is no exception in it from the contractual rules. So why did the *Shari'ah* allow *Ju'ala* contract in addition to the normal work contract (known in *Fiqh* as: hiring human)?

The economic analysis of contracts and agency on behalf of others show the wisdom of allowing *ju'ala* because the cost of controlling a normal worker in the circumstances of the *Ju'ala* contract is very high (you need to go with him, or send someone after him to follow him wherever he goes!).

There is another wisdom which can be seen in the *Ju'ala* contract such as in the case someone comes to you claiming he has skills in digging wells and reaching water in your garden. He might either be genuine or a liar, you cannot be sure.

This form of information asymmetry between the parties of the contract is found in many other contracts and the economists have given it a great importance. In our garden example, the owner would prefer *Ju'ala* over normal job contract whereby each digged meter would cost a specific amount.

The Result: It seems that the higher cost of controlling execution of contracts and also the large gap between the information available to the parties of the contracts are two clear cut explanation of the wisdom of allowing *Ju'ala*, its justification and by analogy allowing many similar other cases.

Anyway, *Ju'ala* is one of the strongest evidence that the shari'ah allows some *Gharar* in contracts if it is used to fulfill a human need (This is according to *Madhab* Imam Malik and Ibn Taimiyah leans towards it as well).

The previous points in section 8 of this paper give examples on how to achieve communication between Economics and Islamic Shari'ah in order to establish the discipline of Islamic economics. I wished I had more time to add more examples.

9- The Presumption of Economics and Some of its Issues

How can we call for the discipline of Islamic economics to include all human economic knowledge, some of which are wrong and some of which are presumptive or contradictory to Islamic Shari'ah. This is in addition to the fact that they are all subject to change and correction even by those who believe in it?

The answer: Its comprehensiveness means its examination and study no matter what it is, then scrutinize it to remove what appears to be mistaken and revise what is inadequate.

As for the presumption of this knowledge. This is true in the case of economics and in many other sciences to which the scholars do not hesitate to rely on in applying Shari'ah on reality such as medicine.

There is no disagreement among the senior jurists that following the most probable presumption is not only permissible but is compulsory in practical matters.

As for the saying that some economic statements might contradict the rules of the Shari'ah and its worldview, this is another reason for the necessity to study such knowledge in order to separate the right from the wrong and dispel confusion. We have seen the issue of the prohibition of usury as a good example.

What about the changing of the views of economists who would have considered something as right yesterday and today they see it as a mistake. They may even change their views after sometime. This does not deny its incidence as this is the case with all human sciences, and Shari'ah has accepted that we strive in knowledge and application according to the most probable when taking decisions.

10 - Recommendations

Islamic economics will not be complete theoretically in research and teaching, nor in application on the ground through appropriate policies, but with the help of Allah the Almighty and then relying on those who know economics in addition to the knowledge of Shari'ah, jurisprudence and economic reality.

Until a sufficient number of such people are available, it is unavoidable to depend on the optimal available, one person who knows only one side of knowledge while keeping in touch with and taking advice from the those who know the other side of knowledge.

The need is not for a great number of such people but for distinguished qualities. This way it is possible for those who know only one side of knowledge to participate in the development of Islamic economics, even if they are non Muslim scholars by choosing the right subject, determining its foundations and assumptions while consulting those who know the other part of the knowledge.

ثنائية مصادر المعرفة في علم الاقتصاد الإسلامي ونتائجها المنهجية" (ورقة موقف)

أ.د. محمد أنس بن مصطفى الزرقا

المستخلص: يقوم علم الاقتصاد الإسلامي على ركيزتين هما الاقتصاد التقليدي والشريعة الإسلامية وفقهها. ولهذه الثنائية نتائج تبينها هذه الورقة، منها الأخطاء الناجمة عن نقص المعرفة بالشريعة أو بالاقتصاد، وكون ذلك النقص عقبة أمام تقدم هذا العلم. يجب أن يدرس الاقتصاد الإسلامي، في إطار الشريعة، وجميع المعارف، والسلوك البشري، والسياسات الاقتصادية، حتى ما كان مخالفاً للشريعة. ويكون ذلك بدراسة كل قضية اقتصادية من جهة اتصالها بعناصر النظام الاقتصادي الإسلامي، ودراسة كل عنصر من النظام من جهة ما يثيره من قضايا اقتصادية تحليلية أو تطبيقية. وتناقش الورقة مسألة ظنية المقولات الاقتصادية، وتطورها مع الزمن، ومخالفة بعضها لنصوص شرعية، وتشخيص كل ما سبق بأمثلة محددة.

A PROPOSED STRATEGIC VISION FOR FUTURE RESEARCH IN ISLAMIC ECONOMICS

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Abstract. This paper proposes a tentative about a strategic vision for research in Islamic Economics. It identifies the current state of the world economic scene, and argues that the world is in a state of disarray. It needs a reform agenda to correct the imbalances and create a healthy atmosphere that lays the ground for a solid platform upon which the betterment of mankind can be attained. It goes on to argue further that Islamic Economics (IE) can be a viable paradigm. This is because IE incorporates values that are enduring, universal and suitable for the whole human race. However, the task is not easy and the road ahead is cumbersome. Unless IE is ready for the task by addressing the problems of mankind regardless of faith color and race, and making the necessary adjustments from within to build on what has been achieved in the Islamic world and from other parts of the world as well, the task might not be accomplished effectively. The proposed research agenda has to be carried out in an innovative and creative way. Hence the paper identifies some of the shortcomings that the current and previous literature in IE suffers from—and tries to answer specific questions relating to research quality, new generation of researchers in IE and the mobilization of funds.

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Part One: Towards a Strategic Vision for Future Research in Islamic Economics

Research is focused on new knowledge, knowledge we do not have. Ideas and institutions that served us well in the past may not suit the future, a future likely to be very different from the past. Our vision for future research in Islamic economics should be guided by our view of the future itself.

New Concerns of Economics

At the top of the consciousness of mankind are a few perceptions about the future. Globalization and the interconnected world resulting from it is one. Environmental concerns, a loss of confidence in continued availability of such essentials of life as a place to live, water to drink and air safe for breathing are widely shared. Rapid technological changes, flexible labor markets, hot money and flying capital..., all add up to rising anxiety levels outpacing rising living standards. Gender relations are in a flux, family is no longer the same, and an aging population is throwing challenges: financial, sociological and moral, that mankind is ill-equipped to meet with dignity and grace.

That is a far cry from the scarcity focused “dismal science” we inherited from the past. During the last half century Islamic economics tried to do economics in an Islamic way. With the emphasis on the latter part of the job --- doing it in Islamic way. There was hardly any attention paid to the changing nature of economics itself. This has to change as both economics and the ground reality economics is supposed to handle is fast changing. We proceed to elaborate this with reference to some of the new concerns of economics in the twenty-first century listed above.

Globalization’s Dimmed Image

Much of the enthusiasm for globalization during the late nineties of the twentieth century and early years of the twenty-first century has subsided. The increased commerce between nations it brought did not prove to be a blessing for all, leaving the poorest of the world still reeling under abject poverty. Nation states still guard their sovereignty and cling to their (imperial) privileges with tenacity. Ethnic and racial biases still dictate policies and self-interest still masquerades as moral missions at the national as well as individual levels. Yet the distances are dissolving, communications are improving, making it a different world. But whether this has made ensuring peace and prosperity for all any easier, remains debatable. At the root are certain behavioral norms, certain policy goals that have to gain universal acceptance before the paradox of poverty amidst plenty can be resolved. Islamic economics is well equipped for arguing in favor of these goals and norms. What is missing is convincingly to demonstrate that globalization’s failures are rooted in its moral deficit, that self-centered profit-maximization cannot usher in a humane society, even in the age of plenty. We have to demonstrate that caring for others and adjusting one’s behavior to environmental exigencies can work in tandem with rationality. Does there exist any historical evidence in favor of this claim? Are there any empirical data on current situation favorably indicating such a possibility? Novel research projects indeed.

If there is one lesson to be learnt from the combined challenge of environmental threats and the opportunities thrown up by globalization it is that no people can do it alone. Peoples of the world, of various faiths, ethnicities and cultural traditions have to join their efforts in making the world safer and saner. The juristic legacy of the Islamic past from which much of Islamic economics till date has been drawing sustenance does not prepare one for dealing with the “other” at par. But there is plenty in the *Quran* and *Hadeeth* to sustain a new posture towards humanity that is positive, welcoming and forward-looking. Going directly to the divine, brushing aside the dated human elements

in our heritage: that is the challenge Islamic economics of the future has to face. All parties to the needed human cooperation have to shed any superiority complexes, any notions of entitlement to hegemony. Can Islamic economics take the initiative in introducing an approach that prepares the *Ummah* for this noble and formidable task? Once again it may need both history and ground reality to be called in for supporting its diagnoses and prescriptions, no ordinary research projects.

The Problem with Capitalism

Capitalism to which are ascribed the astounding levels of material progress humanity witnessed in recent decades, recognizes no limits to growth. It lacks self-correcting self-regulating mechanisms when it comes to excessive greed and exploitation of the weak and the poorly informed. Reformers have been grappling with these issues since early nineteenth century with mixed results. But the 'new economy' has aggravated these deficits threatening personal weal as well as international peace. Socialism has failed. Do we have a solution? A solution that does not take away the ease and comforts modern man has become addicted to yet give man back the peace of mind and stability of human relations one feels to be missing. Again it is not philosophical musings or moral exhortations that will convert people. They need models of behavior and frameworks of policy well grounded in the current realities with some support in history.

Islamic Economics: the Stakes are High

The vision is for Islamic economists to break loose from doing it for Muslims only in the current framework of majority states and minority communities. The guidance from Allah is for all the peoples of the world for all the times. Let them seize the opportunity the current deficits of conventional economics offer them. Let Islamic economics be for each and all, declaring their problems to be its problems, taking up the causes of humanity as its causes. This will call not only for changes in contents and priorities but also in language and style---culture-determined traits not easy to shake off.

Islam does not offer only ideas, norms and goals of public policy but also institutions and rules. *Zakat*, *waqf* and *takaful* offer immense possibilities of social reconstruction from below, based on voluntary action rather than state regulation. Designed for caring and sharing, these institutions have sustained the community of Islam in various scenarios. They have, over the centuries, demonstrated great potential in adjusting to changes and responding to new needs. Even now efforts are on to integrate them with the Islamic finance industry with possible benefits to both, the voluntary for-service sector and the business for-profit sector. Once again, an innovative approach to age-old institution will call for support from field studies as well inspiration from historical records.

Islamic Finance at Crossroads

This brings us to the most dynamic expression of Islamic economics during the last half-century: Islamic banking and finance. The world at large recognizes only this face

of Islamic economics. All claims and promises of Islamic economics will naturally be evaluated on that basis. While the progress of Islamic financial industry is a source of satisfaction for many, and a source of pride for some, the stakes are very high insofar as its being rooted in the ideas, norms and policy goals of Islamic economics is concerned. Future research in Islamic economics may well be advised to devote quite some energy in evaluating the experience, paying special attention to innovative examples like that of Malaysia in financial markets and the Sudan in monetary management. This evaluation need not be conducted within the framework of received doctrines of Islamic jurisprudence. In harmony with the universal approach indicated above, the latest in human thought and experience on justice, equity and efficiency must be brought to bear on the enquiry. In the end we must be looking for what will be good for all human beings, not what will satisfy a certain set of criteria drawn from a jurisprudence not expressly designed for this age. The real test is to realize the *maqasid al- Shariah*, taking note of received wisdom and without violating any limits set by the Word of God. A progress on this front can secure a place for Islamic economics in the consciousness of contemporary humanity that is ill at ease with things as they are but knows not what to do about it.

Research Areas Priorities

The following areas for research are proposed for the coming years:

1. Economic history of Muslim peoples during the first 500 years.[May be divided into: Contributions to economic thought, and history of Institutions and practices such as *Mudarabah*, *Qard Hasan*, and building and construction, international trade, etc.]
2. Impact of Islam on Muslim economic behavior in different regions during the last few decades. [Charitable giving, ethical investment and *Waqf*-making may be taken up, to begin with.]
3. Compilation of Syllabuses, Course Outlines, Question Papers, and Reading Materials of all institutions teaching economics in Islamic perspective. A critical survey of this material will be useful.
4. A study of debt- creating Islamic financial instruments, their currency, impact and desirability on the criteria of declared objectives of Islamic economy. A study of the practice of *Einah* in Malaysian Islamic finance, and of recent changes in the practice will be useful.
5. A study of Monetary Management in contemporary Muslim economies claiming to be doing it the Islamic way. Separate projects on Sudan and Iran will be useful.
6. A study of poverty, poverty removal policies and their impact in selected Muslim economies. Separate projects on Malaysia, Pakistan and one of the Arab countries will be useful.

These six priority researches conducted over the next decade or so, are likely to produce sizable amount of new literature that serves the cause of Islamic economics. Detailed projects for the above-mentioned researches can be prepared at a later stage.

Advantages that New Technologies Provide

In these days of the Internet and other means of fast communications, scholars residing in different countries can be made part of the teams working on an institution based in certain geographical location. The crucial elements are sufficient incentives, efficient networking and a decision making process that can be fast and flexible.

Cooperation

At the present we have half a dozen institutions sponsoring research in Islamic economics. They are, besides the KAAU center, the Islamic Research and Training Institute (Jeddah), the *Kulliyah* of Economics at IIUM (Kuala Lumpur), the International School for Islamic Economics, International Islamic University (Islamabad), the Markfield Institute for Higher Education (Leicester), and the Islamic Finance Program in the Harvard law School (Cambridge, Massachusetts). An imaginative mechanism for cooperation between these (and yet others to come) can help a lot in streamlining Islamic economic research and pushing farther the frontiers of knowledge. Exchange of information on approved projects, Cross-evaluation of completed works and sitting around a table once a while, to share visions for the future, are badly needed.

The Vision Thing

No plan is worth the name without a vision, an imagined state of the world at the end of the tunnel. Looking back at the last thirty years of the some of the aforementioned institutions, it is advisable to be modest in our expectations. Research institutions are not for working miracles, though they can help understand the impact of one if it takes place. We are passing through a critical stage in human development when explosion of knowledge and fast technological changes have thrown humanity off balance. Past memories and a better understanding of what is going on will help in maintaining some composure. Meanwhile innovative thinking on how to manage our economy will keep us abreast in the competitive race between peoples of the world in which everyone is learning from everyone else. The important thing is to keep the lofty ideals in human existence, the *maqasid al-Shariah*, in view, so that the goals do not get submerged in an avalanche of means.

The Center envisages that at the end of this century the current wave of consumerism and the race to attain higher and higher standards of living will have yielded place to greater attention towards environmental safety and sustainable, balanced living. It is plain to see a demotion of “finance” from the lofty pinnacle it occupies currently in man’s life. An obsession with quantity and speed may yield the priority of place to a care for quality and balance. These newer concerns will call for fairer distribution of what we have and a less aggressive drive to add more to it. Cooperation rather than rugged individualism may well be the next ethos. An exit from the current anxiety ridden competitive existence into a saner, slower world of cooperative coexistence seems to be on the cards. It is time we see the signs and readjust our priorities.

We shall conclude by noting that these newer trends are more in harmony with the essential Islamic vision of living a contented peaceful life, a life in which one is at peace with the Creator, with one's inner self, with one's fellow humans and with the environment. For long the Islamic economic agenda has been decided under compulsions of a competitive world, ruthlessly in pursuit of more and the sooner the better. Now that this stranglehold seems to be loosening, a little courage, self confidence and faith is needed to take the initiative in reverting to a *maqasid*-guided approach to economics and finance. Once we start upon that quest we may find innumerable similar initiatives being taken by peoples of every faith, in all corners of the world. The future lies in joining hands with them.

Human Resource Management

The generation that launched the project of Islamic economics in the middle of twentieth century has almost retired. Bound by the priorities of the second half of the last century and worried by the insecurities facing the project in that period they tried to build institutions capable of continuing the project. Circumstances in early twenty-first century are very different from those in which existing institutions for the promotion of Islamic economics were established. Country level projects have little chances of success, thanks to globalization. Nationalistic approaches too are doomed, mainly for two reasons. Added to the universalistic approach of Islam which sits ill with parochial nationalism is the fact of Muslims having spread all over the globe (including the developed west) as they were not before. As in the past, when Islamization of economy project is part of an overall nationalist political agenda (and narrower hidden agendas) it puts many people off, hurting the long term cause of Islamic economics.

Then there is the fact of shared concerns of humanity that Islamic economics has also to address: ecology, sustainable development and equity. The departing generation was focused on establishing Islam in chosen regions---an approach now passé. The target now is the whole world accepting the norms and policy goals that ensure balanced living, with regions opting for styles they prefer on account of their cultural heritage, etc. This approach should better be entrusted to a generation of scholars much younger than the founding generation. We hope a fresh round of Seminars, a better use of the Internet, and greater interaction with the economics profession can help attract the needed manpower. But what can be most effective in attracting younger scholars is greater relevance. The more relevant we make Islamic economics to the environment (including the market) the more manpower we attract.

Developing High Quality Research

Transparency of means and clarity of ends plus following the well- established traditions for scientific research like peer review, are the ways to ensure quality. Avoiding populism and catering to the widest audience rather than playing to a captive gallery, is the trick to stay scientifically acceptable. At the present Islamic economics lacks a tradition of self-criticism. That has to be encouraged.

Part Two: Answering Specific Questions

Preparing the Next Generation of Researchers in Islamic Economics

It is quite natural to be worried about preparing a new generation of contributors to Islamic economics in view of the dwindling stock of this nascent discipline. In answering the question how to energize the field and bring forth a new wave of significant contributions to Islamic economics we must begin by recalling what brought the first wave of contributions.

As documented elsewhere (Siddiqi 1988; Siddiqi 2006) the nascent discipline of Islamic economics was born during the second and third quarters of the twentieth century, even though its antecedents are rightly traced to the *Quran* and *Sunnah*. The contributions made during that period were mostly ideological, detailing the economic system of Islam as distinguished from capitalism and socialism. These brought forth a new wave of contributions during the third quarter of the last century, mostly by economists. These were more narrowly focused on aspects of Islamic economic living such as money, banking, finance, public finance, property rights, consumer behavior, labor relations, international trade, etc. It is these contributions that triggered a wave of legislations in countries like Pakistan, Iran and Sudan operationalizing Islamic economic teachings. Inspired by the same literature, the private sector had already seized the initiative by establishing Islamic banks, insurance companies and *zakat* houses in several Arab countries as well as in South-east Asia.

It is around such themes that a number of conferences and seminars were organized that brought together economists, *ulema*, bankers, businessmen and statesmen. Universities and colleges vied with one another in including Islamic economics in their curriculums. Publishers started issuing books on Islamic economics in all major languages of contemporary Islam: Arabic, English, Urdu, Persian, Malaysian, Indonesian, Bengali, Turkish, etc. All this came to pass, it is important to note, in response to challenges Muslims were facing during the above periods. Their colonial masters departed, leaving them free to shape and manage their economies. As Muslims they wished to do that according to Islamic teachings. As modern nations and communities, competing with other nations and communities, there were other dimensions to be kept in focus. As poor developing countries devastated by colonial exploitation they had priorities and alliances to mind. These were the challenges that produced the generations of researchers that ushered us into the first decade of the twentieth century.

The key to revival and reinvigoration lies in looking for challenges. Are there any new ones? Is there any old challenge not fully met? The answer to both the question is in the affirmative. There are new challenges to meet. There are old ones still calling for more effective response. We proceed to elaborate in what follows.

The Challenges of Globalization

The periods in twentieth century mentioned above belonged to a world divided into warring blocks. It was a world of limited mobility across national borders and slow, tardy communications, where communication was possible at all. It is a changed world we are living in now. In this globalized world of fast communication and greater mobility, age old systems of capitalism and socialism are fast changing colors as they adapt themselves to empowerment of individuals, international flow of capital and the rise of new economic powers in Asia. From accelerated growth the emphasis has shifted to balanced growth that keeps the ecological poise and saves the environment from further destruction. Mankind is bothered, far more than it was ever in the past, by increasing disparities in the distribution of income and wealth within nations as well as between nations. It is no longer a matter of presenting Islamic economics as a viable alternative to socialism and capitalism (that are now extinct insofar as their old forms are concerned). Man needs a new approach to economy that harmonizes with living together in the global village while saving the planet from man-made devastation. From being perceived largely as an issue in management, as the mechanistic sciences of the Nineteenth century made it to appear, economics is increasingly being posited as a moral- spiritual issue calling for man to redefine his relationship with environment. From maximum “exploitation” of natural resources to assuage man’s greed and vanity, economic enterprise is being redefined in the holistic sense of living together in peace and harmony. Islamic economics needs to redefine its priorities, may be undergo lot of changes in its idiom, to convey the wisdom enshrined in divine guidance to the contemporary humanity.

As already hinted above, two crucial changes have occurred between then and now making the current challenge different from the one Muslim intellectuals - *ulema*, economists, poets and philosophers---faced in the last century. It is no longer the question how Muslims are going to manage *their* economies. It is one world, one economy. The new economic order has to be conceived and executed at the global level. It has to be an Islamic economics for all, the entire humanity, rather than a Muslim manual on how to conduct your economy, as the contemporary Islamic economics largely happens to be.

There is a crucial difference between discipline and management. Discipline, in the first instance, relates to the subject. Management largely relates to the object. As long as the economy was perceived as some thing out there to be managed by man the master, economics remained materialistic in its concerns and priorities. It had little to do with values. Rather its focus was interests: individual, national, of “our” allies. The devastating response of ecology and environment to that attitude during the last few decades has given a rude shock. It has destroyed the ill-conceived confidence and arrogance characterizing modern economics. Maybe it is a matter of discipline rather than management. Maybe the problem lies in our-selves more than out there. Maybe

values are prior to interests. Is Islamic economics ready to seize the opportunity provided by these new perceptions? That is the challenge.

Values are universal, often eternal, while interests are mostly parochial, shifting focus with the passage of time. Values like truthfulness, honesty, justice and compassion inculcate economic behavior and policy very different from those resulting from pursuit of interests. When economic agents----- consumers, producers, employers, employees, lenders, borrowers-----tend to maximize their advantages we end up with the state of the world we are in now. The same attitude at the national level creates hegemonic tendencies resulting in exploitation of weak by the strong. This is ill suited to the social creature that man happens to be. It makes economic agents uncaring for the good of fellow humans, focused as they are on their own good. In contrast values teach care for the other while one strives to secure ones own interests. Projected at the international level values work for coexistence and cooperation among peoples. In place of the hard, aggressive approach towards environment that came with materialism, values that thrive best in spiritual paradigm, give us a softer, gentler approach towards nature. But values imply a measure of self-discipline coupled with a vision different from the one modern economics was founded on.

Islamic economics of tomorrow has to come up with a new message for humanity. At the center of this message is a world-view that brings humility rather than arrogance. In the complex web of relationships between man and environment and man and man, one has to tread with care lest integration and balance are destroyed by disruption and un-equilibrium. Moderation rather than maximization would be the new creed. Greed will yield to a quest for coordinated sufficiency. Competition conducted within the framework provided by moral values internalized by economic agents would result in efficient solutions without jeopardizing requirements of justice. Enterprise will be free, as nobody will be coerced into morality, Social Authority intervening only to protect others from harmful effects of exercise of freedom. Projecting a vision of balanced global economy with the promise of meeting all the challenges of technological changes, recent as well as those yet to come is no easy task. It cannot be done by recycling old policies and past strategies. Earlier ways of chaperoning individuals not empowered by modern technologies can hardly do now. What was good enough for regulating city-states, even country-size nations, may not work in the global village. A surge in creativity and innovation is called for.

Islamic economics in the past could manage with little creativity and few innovations, as its agenda was much more limited than what the future requires. Its primary focus was to enable Muslims to manage their economic affairs, especially finance, without getting involved in *riba* and *qimar* —effectively meaning bank interest and modern insurance. This it did largely by building upon *fiqh* coupled with some financial engineering. It succeeded in providing *fiqh*-legitimized alternatives to conventional financial products. But demands of the future are very different. The conventional structures in finance and business are to be revised. The whole approach towards creation and management of wealth is to change. Happily Islamic teachings are rich enough to help. That, however, requires recourse to *maqasid al-Shariah* rather than to *fiqh* and its regulations. The economic challenge faced by mankind in twenty-first century can be met by focusing on the values *Quran* inculcates and observing how their operationalization by the Prophet, peace be upon him, in seventh century Arabia can

help us do the same in twenty-first century global village. Creativity and innovation rather than casuistry and derivation should lead the way.

Once this idea fires somebody's imagination, the next step is researches producing a new Islamic economics that all may heed. It is thought that we can trigger this spark by drawing attention to two things. First there is a need have a closer look at and a better understanding of what ails the modern economy. Second there is a need to have a closer look at and a better understanding of what did the Prophet do to the economy of man in seventh century Arabia. As it stands now, little attention has been paid to either project. The Center suggests a major research project, involving senior as well as younger Islamic economists, historians and sociologists, etc. The latter project, a fresh look at how the Prophet, peace be upon him, transformed the economy of Arabia would require a team comprising Arabic knowing scholars with in depth knowledge of Islamic history as well as economists and economic historians. This team should be headed by an economist, in order to ensure relevance and give the research proper direction.

That is what research centers are to do. The task for University teaching is different. More attention to fundamentals, going to roots of human felicity and discovering the right place for wealth in a wholesome living is the thing to find, teach and explore. Economics courses should not dismiss modern economics but they should expose modern economics to criticism in the light of recent evidence and past wisdom. Students should be encouraged to think for themselves. Rather than dishing out readymade solutions (as there maybe none), the young should join the old in looking for new solutions-----something that presumes understanding of what the problems are. The same attitude should inform the study of Islamic sciences of *tafseer*, *hadees*, *fiqh* and Islamic history. Imparting skills rather than ensuring given- tasks-performance should be the target. Teachers mission must not be confined to transmitting received knowledge to new generation. It must include creation of new knowledge and training the young the art of doing so on their own. The key to new knowledge often lies in questioning received knowledge and raising new questions. Questions must not be discouraged. The most potent questions are those that a teacher cannot answer. Let the teacher take along the questioning student on to the mission of finding an answer.

Unlike in the middle of the last century when old Islamic economics was born we now have hundreds of Islamic financial institutions. One would expect them to play a role in preparing a new generation of researchers in Islamic economics. They should realize that their future depends on research. The days are about over when replicating conventional finance within the framework of *fiqh* could bring good business and ensure continued expansion of Islamic finance industry. Conventional finance itself is undergoing fundamental changes. There has been a sharp relative decline in bonds and rise in equity in international as well as domestic investments in recent past (Mirakhor 2007). Investing some of their money in promoting Islamic economic research may help them innovate and create products more responsive to new concerns of humanity. These concerns relate to social justice and balance, aims that guided Islamic finance during its first flowering more than a thousand years ago. That gives an edge to Islamic financial industry over the conventional financial industry. It would do well to seize the opportunity, dig deep into its Islamic past, look far into the future and focus on creating financial structures that are just and equitable. Who would do that other than a new generation of researchers?

A Larger Canvas

Islamic economics is more than finance. As hinted above new research will cover all aspects of man's economy. Humanity shares concerns relating to a balance with environment as well as a balance within and between nations in provisioning individuals, families and peoples with means for living. As things stand now, we have too much disparity. How to arrive at a state of the world where no one goes without provisions and the gaps between rich and poor are far below current levels? How to do so without jeopardizing freedoms? Answering these and similar questions in a way acceptable to all, that is the challenge. The challenge had been there all along since the early days of Islamic economics. But somehow it did not get priority attention. All religions have been poor-friendly, Islam particularly so. But this cannot be claimed for Islamic economics, so far. The attention paid to *zakat*, *sadaqat* and *awqaf*, the most poor-friendly of Islamic institutions, has been sporadic and feeble. The jewel in the crown of Islamic economics, Islamic banking and finance, proved to be largely irrelevant for the poor.

The poor were supposed to become less poor as a result of development, so went conventional wisdom. But many countries in Asia and Africa developed with little improvement in the condition of the poor. The disparities increased universally. Even the developed countries of the North can hardly claim their overall felicity has increased much. It is *tanmiyah* without *tazkiyah*, material growth without improvement in the human beings. Islamic economics focuses on man as well on matter. It inculcates values conducive to mutuality without discouraging entrepreneurship. But this message made little headway during the past half century. It was hardly heeded by economic agents. It was rarely picked up by statesmen, even by those bent on "Islamizing". There is little by way of research and publication to show on that count.

There is reason to believe in the potential of Islamic approach. One need not be dubbed as utopian if one seeks to bring motives and objectives into models of development. It is not the intention to rely on them exclusively, even largely. But they play a role that we neglect at our peril. Attention is now paid to these in the wake of environmental deterioration and increasing disparities. Once again it requires Islamic economists to look back and forth. We look back for inspiration and guidance. We look forward as we try to create new structures and innovate for meeting the newer challenges. The research agenda for poverty removal and development has more long-term importance than the research agenda for Islamic finance. It too is to be conceived as a universal quest of *tanmiyah* with *tazkiyah* for all in the global village rather than for Muslim countries and communities.

Universities and research centers have a greater responsibility with regard to the second agenda focusing on poverty removal and development. But Islamic financial institutions must not keep aloof. The two agendas are inter-related, one cannot deliver without the other. The young scholars may be motivated for researches relating to poverty removal and balanced growth if they are sufficiently aware of the changing geo-political realities. It is not a clash of civilizations but some civilizational change is in the offing that would cut across all civilizations. It is thrilling to partake in that process, these being no ordinary times.

Men are moved more by ideas than by money. Institutional arrangements, howsoever efficient, serve a purpose only to the extent the relevant goals are internalized. The recipe for raising a new generation of Islamic economics researchers is: Reiterate the challenges, illuminate the potentials and promises of Islam, emphasize the gravity of current human situation, then make it rewarding for those who take up the cause.

How to Improve the Quality of Islamic Economics Research Products?

The quality of research output depends on the competence of the researcher, the amount of hard work he or she puts in and on the advice given by the advisors or referees. But prior to these is the matter of getting the attention of potential scholars. If we get the attention of a sufficiently large number of potential scholars we can pick and chose, otherwise we face stagnation when we draw on the same pool again and again.

It is suggested that we try to reach out to economists and students of economics and other social sciences the world over. This is possible because of the shared concerns of humanity mentioned in the answer to the first question above: a quest for social justice and the necessity of preserving the environment while we grow. Whether it is readership of our journals and other publications (including websites and blogs) or reviews and refereeing, we need not, in fact must not, limit our reach to Muslims. The new emphasis should be on universalizing Islamic economics rather than on Islamizing economics.

It is also suggested that holding narrowly focused seminars attended by about 20 scholars, no more, in different countries, including Europe and the Americas. At least half the participants must be new in each seminar. Preference should be given to the young. The purpose should be discovering talented scholars. As regards the themes of these seminars we should avoid our traditional ones and select what is currently in vogue. For this purpose I suggest commissioning a survey of economics seminars and conferences held in 2006 and 2007 in various parts of the world—Europe, the Americas, Japan, China, India and South-east Asia.

Having selected researchers of proven competence through the above process we should invite research proposals from them. Simultaneously we should draw up our own list of subjects and supply it to potential scholars. Once a subject is selected and a scholar is identified for research on that subject, a generous grant should be made to enable him or her to complete the work. Parallel to the other existing arrangements a new category of grants needs being created. Once a research project is approved, the scholar should be free to pursue studies and complete research at places of his or her choice.

When the completed research is received it should be sent to advisors/referees. These should be selected carefully and paid handsomely. Their comments should then be forwarded to the scholar. When the finalized research is received it should be published in suitable ways. It must be realized that, more than money, publication in reputed journals and /or by respectable centers/institutes serves as a great incentive to researchers.

These are the preliminary steps for ensuring high quality research output. There is more to be expected from economists and social scientists than people trained in *fiqh* and other Islamic sciences. This is because of the nature of the problems in hand. Also the best researchers would be those with a good command of English as well as Arabic. But in view of scarcity of this genre, English educated economists and social scientists with access to Islamic sources through translations will be more productive than scholars who cannot read English or any other western language. For scholars who know only Arabic, meaningful research projects in Islamic history can be designed as indicated in a different section of this essay. Their services can also be harnessed in empirical researches focusing on Muslim individuals, families and communities. As indicated in an earlier section, this fieldwork may involve interviewing people or getting questionnaires filled by them. The subject of enquiry may be consumer behavior, investment patterns, *waqf* administration, or economic conditions of the people (extent of poverty, causes of poverty, etc.).

How to Utilize the Funds Allocated for Research in Islamic Economics?

This question seems to have in background a particular research center or institution. Otherwise the natural question to ask would have been: How to mobilize the financial resources needed for Islamic economic research. Since this matter has been addressed by other papers presented at this conference (e.g. M. A. Ha neef paper) the discussion will address here the question as framed.

The top two items in research spending should be incentives to the researcher and supply to him or her of the needed reference works, current works and empirical data or historical material that would aid the researcher. For in-house researchers that implies having a well-equipped library. But a smart researcher can get what he or she need from anywhere in the world through the Internet or library services. Location of the researcher is no longer a problem, in the advanced countries at least. For the in-house research it means providing the scholar with fast Internet connection 24/7.

Next in importance is smart state of the art secretarial services handling communications with scholars abroad. Last but not the least it is very frustrating for scholars to find their researches poorly produced, if and when they are published. Still more is the torture sensed if the distribution mechanism is poor and the research does not reach his or her peers and interested people. Having been paid for the research and with the copyright often claimed exclusively by the sponsor, the scholar is helpless to do any thing. The net result is: we lose that person, very likely never to get any other research done by him or her for us in future. Also we lose the momentum likely to be built up if (1) researches are published promptly, without any delay once they are approved,(2) they are sent for review to reputed international journals, and(3) are available on the market through some efficient mechanism[like Amazon and other distributors]. It is here suggested that an expert committee comprising those who know the trade of circulation and marketing of academic works be asked to go into the matter and suggest means of improvement on the current situation in our institutions. Let us put it very bluntly: non-accessibility of current (and old) research works on Islamic economics is one of the major factors hampering quality research. Any amount of money spent on improving upon the current situation will be worthwhile.

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تجربة مركز أبحاث الاقتصاد الإسلامي في البحث العلمي

مركز أبحاث الاقتصاد الإسلامي
جامعة الملك عبدالعزيز - جدة

المستخلص: لمركز أبحاث الاقتصاد الإسلامي ماضٍ ريق، وحاضر نشط. يتدرج القارئ في هذه الورقة من قسم للتعريف بالمركز (الرؤية والرسالة والهيكل التنظيمي) إلى قسم ثانٍ يشير لبعض منجزاته العلمية والجوائز العالمية التي كان له نصيب فيها، وقسم ثالث يبين إمكاناته العلمية والإدارية الحالية. إن التطور سنة الحياة، والمؤسسات التي لا يغيب عنها واقعها المتغير تمتلك من قدرة الابتكار ما تجعل مشاريعها متجددة وطموحاتها لا تنقطع. لدى مركز أبحاث الاقتصاد الإسلامي مشاريع عديدة مدروسة بعناية وجاهزة للتنفيذ في مجال البحث و التدريب و التدريس. إن أهم ما يميز أعمال المركز ومشاريعه المستقبلية رغبته الأكيدة وسعيه الحثيث للتواصل مع مؤسسات تشترك معه في الاهتمامات في الاهتمامات، لذلك سيتصل العلم بالعمل، كما تلتقي العلوم المختلفة في المساحات المشتركة. ما يزال المركز يقوم بدوره في خدمة علم الاقتصاد الإسلامي ويقدم أفكاراً ومشاريعاً جديدة متطلعا في ذلك نحو رؤيته لريادة علم الاقتصاد الإسلامي.

ISLAMIC ECONOMICS:

Current State of Knowledge and Development of the Discipline

Khaled A. Hussein

Abstract. Despite the considerable achievements that have been attained during the last three decades, there is a long road ahead for Islamic Economics to establish itself as self-contained discipline that lays the ground for an integrated global economic system.

Despite the development of various economic models, traditional economics has failed to provide permanent and sustainable economic solutions to our economic problems. Still, a vast majority of world population live in poverty and relying on mainstream economic thoughts does not prevent the world from witnessing financial and economic crises every few years. This led to a growing trend of dissatisfaction with existing economic system and many economists nowadays raise the question: Is there an alternate paradigm?

The current economic problems are crossing national boundaries. Recent developments in the world economic scene have brought various questions regarding the allocative and distributive mechanisms in the current global economic system. The growing income inequalities between the rich and the poor nations prompt serious deficiencies in the distribution mechanisms. The world now has 358 billionaires with a combined net worth exceeds the combined net worth of the world's poorest 2½ billion people. The recent history of various crises in financial markets sheds doubts on the effectiveness of the global financial systems. For every \$1 now circulating in the productive world economy of real goods and services, it is estimated that there is \$20 to \$50 circulating in the world of pure finance whereby investment funds are de-linked from the creation of real value. In the international currency markets, some \$800 billion to \$1 trillion changes hands each day, unrelated to productive investment or trade in actual goods and services. There is a growing trend of dissatisfaction with existing economic system.

“Islamic Economics” as a scientific discipline to address the contemporary economic problems came into light in 1975 when an international conference was held in Makkah on the subject. The conference introduced Islamic economics as an alternative paradigm promising a better understanding of economic problems and how to approach them. At the conference, Professor Anas Zarka denied that conventional economics is a value neutral science. He vigorously argued that Islamic economics can be developed as a distinct scientific discipline with its own objectives, value systems and methodology. Professor Khurshid Ahmed elaborated on how value system of Islam leads to a better concept of economic development and pragmatic approach to achieve it. This conference and several follow-up conferences and seminars motivated several Muslim economists and even some non-Muslim economists to explore the theory of Islamic economics and economic system that teachings of Islam entail.

There has been a considerable amount of writings in the last thirty years on the broad economic aspects of the Islamic system. Since Makkah Conference in 1975 when Islamic economics came into light, it has made substantial progress as a scientific discipline and nowadays Islamic economics and finance are taught at several universities, not only in Muslim countries but also in the West and among the most prestigious universities.

Several international conferences were held and economists have taken two directions: A group of economists argue that Islamic economics does not have a distinct theory. Mainstream economic theory is general enough to accommodate variations in values and even in rules of behaviour delineating economic systems. This group of economists, however, also believes that Islamic economics make a difference in the areas of macroeconomics and particularly in banking, finance and public finance. The prohibition of interest and the unique system of *zakah* introduces significant departure from the conventional system and requires a lot of analysis that promises results that is significantly different from those of conventional models. Islamic economics, as this group believes, should better be perceived as a branch of economics. Its analysis can be governed by the same methodology as that of mainstream economics.

On the other hand, another group of economists argue that Islamic economics is distinct paradigm and it can have its own theory but most of the work on theory of Islamic economics stopped at the level of delineating only the methodologies. With the exception of a very scanty work on factors of production, forms of business enterprises and capital structure of business enterprises, no attempt has been made to develop an integrated coherent Theory of Firm that will help understand how Islam views production process and its objectives and its interaction with Islamic ethics of business; factors of production, their markets and their rewards. If Islamic economics has to be offered as a different paradigm, distinct micro foundations of Islamic economics have to be discovered. The concepts related to consumption and consumer behavior highlighted in Quran and sunnah require developing an altogether different paradigm for the analysis of these concepts so that economics of the teachings of Quran and sunnah relating to consumption could be understood appropriately and policy implications can be drawn on how a society can achieve consumption pattern desired by Islam.

A parallel development, however, was simultaneously taking place, independent of the above mentioned development of Islamic economic thought. This was the emergence of Islamic banks in different parts of the world. The development was taking place with very little interaction with the economists who were delineating Islamic economic theory and Islamic economic system. Islamic banks took their own course which caused frustration to those economists. Market forces provided the impetus to Islamic banking which moved a long way in a short period to make its impact on the global financial markets. Development of Islamic economics as a science did not get any such impetus and was finally shadowed completely by the developments in Islamic banking and finance.

The progress of Islamic banking in the last thirty years is unprecedented. It convinced the world that it is capable of generating viable financial system compatible with the modern needs of people and economy and is dynamic enough to cope with the

needs of rapidly changing world. Not only conventional banks were forced to embrace this reality and ushered into the area of Islamic banking but also the international financial organizations embraced the concept and are in the process of developing their own Islamic instruments and their own *shari'ah* boards to advise them on Islamic quality of different financial instruments.

A large part of those economists who have or had the ambition to develop a scientific theory of Islamic economics and development of an Islamic economic system are not very appreciative of directions in which Islamic banking system has developed itself. They do not see a direct relationship in this development and the claim that Islamic economics promises a paradigm to give a better economic future to mankind. The fundamental pillars of Islamic economics like emphasis on economic justice, endogenizing Islamic ethics into objective function and market behaviour, significance of risk sharing in developing productive organizations etc. are hardly visible in the development of Islamic banking.

It is in this background that the Islamic Research and Training Institute and the Arab Planning Institute thought to organize a roundtable discussion with the following specific objectives:

- 1) Stock taking of what we have got in Islamic Economics as a scientific discipline.
- 2) What can be done to accelerate the development of the discipline on scientific grounds ?

The following important points were made, some of them contradict each others:

- Islamic economics has been too much focused on *fiqh* where such an approach suffers from limitations. There is a need to complement the *fiqh* approach by “*maqasid al shari'ah*” approach in order to deliver a meaningful agenda for economic development. Two major factors constrain the development of a distinct Islamic economics theory. The first relates to an understanding of the contemporary reality which is very different compared with the first four centuries of Islamic history when the codification of *shari'ah* law was almost complete. The second hurdle relates to a faulty approach to the *shari'ah* sources. Islamic economics needs to focus more on what concerns people more, not what appears to be more important in theory.

- The worldviews of Islamic and conventional economics are entirely different. Islamic economics gives importance to moral values, socioeconomic justice and puts great emphasis on social changes through a reform of the individual and society. The realisation of the Islamic worldview depends on the integrated roles of values and institutions, market, family, society, and the state.

- No one denies the uniqueness of the Islamic economic system that lies in the principles of Islam and the moral characteristics of its articulation, but Islamic economics should be seen as a branch of economics to study the units and variables within the Islamic legal and ideological framework. Islamic economics currently suffers from an overstatement of the uniqueness of the objectives of the Islamic economic system and the mix-up of principles and tools of analysis. There is a need to set clear lines between Islamic economics and finance on one hand and Islamic *fiqh* on the other hand. There is also a great need for rigorous research in several critical areas of Islamic economics.

- A serious deficiency in how Islamic economics is currently distinguished from the conventional economics. One can give examples to how researchers differentiate between Islamic economics and mainstream economics based on the conclusion of their research. So, if the conclusion is consistent with *shari'ah* principles then the research is considered as Islamic economics and vice versa. Islamic economics uses the tools of science to reach conclusions we already believe to be true and correct. The Islamic economics premises is not open to any results that contradicts a pre-set of conclusions, therefore Islamic economics is not a scientific discipline where disciplines are defined by their methodology not conclusions.

- Muslims should have their own theory of consumer behaviour since the mainstream theory of consumer behaviour has limited scope and lack the ability to explain some of the contemporary economic problems such as poverty. Distinction is made in Islamic economics between needs and wants whereby adopting a need-based approach would allow to understand several aspects of Islamic consumer behaviour which are expelled from the conventional approach.

- Islamic economics is very much needed. Islamic economics would expand the horizon of economics as a science but one should be careful of stretching the Islamic economics concepts too far. There is difficulty to distinguish between "wants" and "needs". Looking at "wants" but ignoring "needs" may justify any kind of behaviour even if the harmful ones, therefore "wants" should be maximized subject to the "needs". Further, there is a need to define several concepts such as self-interest and maximisation

- Islamic economics is very much part of economics as a broad discipline. He recognizes several unique features that differentiate the Islamic school from the mainstream one, however, both schools share some crucial common values, goals and tools of analysis.

- Do Muslims behave differently from others ? Many economists have taken this direction that a Muslim should behave differently from a non-Muslim and consequently, we have economic theory applicable to Muslims only. The differences between Islamic and conventional economics are institutional. Dr. Others disagree with this view, they argues that *Quran* clearly makes distinction between two behavioural groups: Muslim and non-Muslim. Then within Muslims "*Surat Fater*" talks about Muslims where there are three groups of behaviour. Allah (SWT) created man with almost the same quality but then we differ because we experience different atmosphere, culture, etc. Other scholars add that human beings are the same and thus our economic behavior is not different from the other but some distortion happens when people try to interpret what is right and wrong.

- There is a need for an Islamic theory, not in the sense of forging a unique philosophy of discovering economic theories, but in the sense of having our own theoretical emphasis and our own choice of the problem. As Muslims, we can choose problems which most interest us, and address our own theoretical and practical challenges. Nonetheless, we ought to approach our problems with a generally accepted methodology.

- Islamic economics is a science and not a branch of *fiqh muamalat*. Early contributions in economics by Muslim scholars showed that scientific roots of Islamic economics were established a long time before traditional economics. Islamic economics can benefit from mainstream economic theories whenever their basic assumptions do not contradict with Islamic *shari'ah* and ideology. There is a need for serious research to tackle several economic issues from an Islamic perspective since the

contributions of Islamic economists still rely on the descriptive approach in economic arguments rather than analytical one.

- Islamic economics is inter-disciplinary and Islamic economists have to integrate economics with other human sciences. Utility maximisation is not the proper framework for Islamic economics, instead researchers can use game theory to launch a research programme in Islamic economics. Islamic economists should adopt a multi-disciplinary approach in order to build values into economic analysis.

- There is a need to actually go into the specific economic issues and discuss these from Islamic perspectives. We have to think of issues that need to be discussed to revive Islamic economics; and can be relevant in today's world. Institutional economics is very relevant to Islamic economics and we have, in some ways, neglected this area in Islamic economics. There is a need to focus and try to identify the core of the discipline. why until now we are not able to define the boundaries.

- We are not clear yet about our premises and postulates which we are integrating in our theories and analysis.

- It was suggested to make a comprehensive list of questions and get answers from all participants. This would make valuable document to communicate in the future. To prepare a list of subjects on which very little has been written, and invite papers on these subjects from scholars. To establish an Islamic economics forum through an internet website.

- There is not enough human resources committed to Islamic economics which poses a threat to the future of Islamic economics.

- We are not clear yet about our premises and postulates which we are integrating in our theories and analyses.

On the other hand, despite the extraordinary achievements that Islamic economic has made over the last three decades, the development process of Islamic economics as a scientific discipline has a long way to go in order to offer a complete and comprehensive economic system.

الاقتصاد الإسلامي: الوضع المعرفي وتطوره

د. خالد حسين

المستخلص: على الرغم من المنجزات المعترية التي تم تحقيقها خلال العقود الثلاثة الأخيرة، فإن الطريق أمام تقدم وتطور الاقتصاد الإسلامي كعلم قائم بذاته لا يزال طويلاً للوصول إلى نظام اقتصادي كامل وشامل.

Islamic Economics:
Current State of Knowledge and Development of the Discipline

BY
Dr. Khaled A. Hussein

Comments

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Comments:

My comments on the paper may be divided into three parts:

- (a) First part dealing with author's justification for an Islamic Alternate Paradigm.
- (b) Second part dealing with emerges of Islamic economics in 1975 and
- (c) Third part dealing with '**important points**' to be considered for further growth of the discipline.

Strength of the paper

In the first part the paper, the author has successfully summarized the reasons for having a need for an Alternative Islamic Economic Paradigm just one page. It is argued that the growing income inequalities between the rich and poor nations leading to concentration of wealth into the hands of 358 billionaires exceeding the combined net worth of the world's poorest 2.5 billion people and the recent history of various crises in global financial system indicate the urgency for an alternate paradigm. Besides, delinking investment funds from the creation of real value is well argued by the author.

Serious weakness of the paper

Having said this, author's exposition of current state of knowledge and development of the discipline is far from satisfactory and in fact disappointing for the following reasons:

(1) The paper is full of sweeping generalizations without any documentation; it lacks depth and perspectives: the paper also contains serious distortions of facts as well. There is no references at all.

(2) It is a quite distortion of historical fact that 'Islamic Economics' as a scientific discipline came to light in 1995, as claimed by the author. It is true that King Abdul Aziz University had the unique honor and privilege of organizing the first International Conference on Islamic Economics in February 1976 at Makkah. This conference provided Muslim economists and Shari'ah experts ('Ulama') with the opportunity jointly to participate in discussions on major issues and themes in economics⁽¹⁾. But this historical conference on Islamic Economics in 1995 was not happened all *on a sudden*.

The fact is that in sharp contrast to earlier decades, a group of volunteer professional economists around the Muslim world started pioneering theoretical works on Islamic Economics, Banking and Finance during the '60s. To us, a volunteer is a person who without being coerced in any way, makes a free choice to participate in particular activity through his action, volunteer make a commitment to connect to the community in an effort to create a better social outcome, to make a difference. This was actually what happened in '60s when a group of volunteer Islamic economists challenge the Neo-classical orthodox paradigm in the wake of great transformation of Muslim societies resulting from gaining independence from their colonial past. This group of volunteers putting themselves forward, at some personal cost, moving outside the comfort zone of familiarity to engage with new frames of reference and undertaking agreed tasks. They are motivated by a complex mixture of factors, quite specific to their individual situations and perceptions of themselves. Quite likely there is an element of altruism, but self-interest is also an important motivating influence. By this I don't mean a narrowly defined material self-interest, but a broader recognition that personal growth, experience and learning represent valid self-interest, an avenue to participate in a sense of global community that crosses borders and cultures. "Altruism and self-interest need not be opposites, but can be complementary. As individuals identify their interests, and those of coming generations to be inextricably tied to the fate of the global community, at that point self-interest and altruism are even converging⁽²⁾.

This was how a group of professional economists of the Indian Subcontinent and Middle Eastern Countries, Egypt and other parts of world have been contributing serious pioneering analytical works on Islamic Economics Banking and Finance involving application and interpretation of the principles of shariah since early 60's. Indeed, the serious beginning of Mannan's work on Islamic Economics began in 1961, when a presentation on "*Interest-free Banking in Islam*" was made at a seminar organized by Sirajganj Degree College under University of Rajshahi of the then East Pakistan (Now Bangladesh)⁽³⁾ ⁽⁴⁾ Eventually, Mannan's Academic Award winning first textbook entitled, "*Islamic Economics: Theory and Practice*" appeared from Lahore, the then Pakistan in 1970. This book reprinted over 20 times since then, translated in dozen of foreign language including Arabic, English, Bengali, Turkish, Bahasa Malaysia and Bahasa Indonesia. Both Arabic and Turkish version of this book appeared in 1973. This is the most referred book in Islamic Economics till today. Besides Siddiqi's Survey of Muslim Economic Thinking based on literature produced upto 1975, captured the substance of Muslim Economic thought in relation major issues in Economics. This - survey was also presented at the said International Conference on Islamic Economics in 1976. In the same conference, Zaim reported serious development of the disciplines in Turkey.

(1) See 'foreword' by Dr. Abdullah Omar Nasif, President, King Abdul Aziz University, Jaddah, in Studies in Islamic Economics (1980) edited by Khurshid Ahmed, Published International Centre for Research in Islamic Economics & Islamic Function, London. 1980.

(2) See Peter Britton International Volunteerism and Global Survival in "Islamic Millennium Forum (IMFO) Vol. 11 number 2, Jan-March 2002 by Asian Muslim Network (AMN)- Indonesia.

(3) See author's interview with 'Arab News' Jeddah, Saudi Arabia, April 12, 1986, Shaban 3, 1406

(4) Ahmed Abdel-Fattah El-Ashker "The Islamic Business Enterprise", Croom Helm Ltd, Provident House, Burrell Row, Beckenham, Kent, BR3 1AT, UK, 1987, Page- 33.

At the operational level, the establishment of Mid ghamar Saving Bank in a rural area of the Nile Delta in Egypt in 1963 by Late Dr. Ahmed Al-Najjar is a part of a serious process which has now reached at a level where many international Banks like World Bank are now conducting Islamic Banking experiments. The Mit Ghamr experiment which suffered a setback, however, owing to changes in the political atmosphere in Egypt was revived in 1971, under Sadat's regime, with state funding under a new name, the '*Nasser Social Bank*'. Thus *what was started as a work of a group of volunteer professional economists in '60s' soon emerged as serious efforts forwards growth of professionalism in mid-70's*.

(3) The author's contention that there are two groups of economists are having two conflicting position with regard to the status of Islamic Economics as distinct discipline is *without documentations*. To me, the study of Islamic economics as a distinct discipline of knowledge is based on the fundamental *assumptions* that there are Islamic responses to the economic problems confronting the Islamic community of to-day and that the underlying assumptions on which *Neo-classical orthodox* paradigm or *Marxist-radical paradigm* are based are either inappropriate or inadequate or incapable of explaining the Islamic concern in economic matters and Muslim world view. It is not a question of showing superiority of one system over other system. The key question is: does a system based either on market or command serve effectively the needs of the particular Islamic community or country, given its resource endowment, its history, cultural and societal values? Our answer is not in the affirmative, although these systems may, however, work well within their respective socio-economist context and value systems.

The fact is that in every system of thought, there are some assumptions and ideas in common with other systems of thought. It is through emphasis or de-emphasis or rejection, an identity is established. This is fairly an objective view. For Muslims, there is then a need for a new line of intellectual inquiry, based on creative synthesis, reconstruction of Islamic thought processes and reappraisal of old values in new economic and social realities running through the socio-economic manifestation of Islam as a way of life and a code of conduct." Therefore, "Islamic economics will have its own hypothesis. In course of scientific investigation, we may reject or accept or modify or alter them irrespective of social and economic systems, based on market, command or tradition. In other words, if our scientific inquiry leads us to confirm or support any existing institution and practices of either capitalistic or socialistic system, there is nothing wrong in it in adopting or adapting in an Islamic state. In any case, Islam remains as a lender rather a borrower of ideas, for, Islam is older than either of two existing major systems⁽⁵⁾.

Thus, this trend towards the growth of professionalism lead to establishment of a number of research and academic institutions and Islamic Universities in various parts of Muslim and Non-Muslim world. This has generated considerable serious works in the area of Islamic Economics, Banking, Finance and development both at the theoretical level and operational level in 80's and 90's. Thus the development of the

(5) See M. A. Mannan, The Making of Islamic Economic Society, Islamic Dimensions in economic analysis, International Association of Islamic Banks, 47, Oruba Street, Heliopolis, Cairo-1984, Page- 3-4.

concept of “effective need” instead of “effective demand” as a basis of market mechanism in Islam, rejection in the role of Pareto optimality and “given demand hypothesis” in explaining the behaviour of the firm, introduction of notion of “expected desirable income hypothesis” in explaining consumption function and so on deserve mention.

(4) While I agree with the author that the progress of Islamic Banking and Finance in the last 30 years is “unprecedented” indeed. The operational success of Islamic Banking and Finance offers as a viable alternative to conventional Banking in terms of profitability and wide range of innovative products particularly in the corporate sector, not in terms of its contribution towards alleviation of poverty at the grass-root level of Muslim countries.

The author has failed to point out the dilemma of Islamic Banking and Finance in the corporate sector in this direction. Besides a careful study of the “interface” between Islamic and Conventional Banking reveals that Islamic Banking and Finance, without built-in-provisioning for social, ethical and moral ingredients, will most likely to be submerged in the mainstream of the western conventional banking system and consequently in the wave of market economy operating through western materialistic and secular values. This is perhaps what is happening either consciously or unconsciously in the case of operation of Islamic Banking in the corporate sector. The comparative advantage of conventional Banks over Islamic Banks in terms of their systems, management experience and techniques of product innovation is expected to bring competition, resulting in a sharpening of the techniques and procedures of Islamic Banking modes. In the process, profitability is becoming more dominant in Islamic Banks’ operations. Conventional Banks having Islamic windows lack knowledge and know-how of social, ethical and moral foundations of Islamic Finance. It then appears that the Islamic Banks in the corporate sector are running the risk of getting submerged in the wave of market economy with an concentration of ownership and its link with global elite and marginalizing social and ethical elements of Islamic Finance.

But Islamic Bank’s operational success however limited it may be, in the area of Islamic Micro-finance and Voluntary sector Finance represent paradigm shift indeed. For example, operationalization of the three sector model of Social Investment Bank Ltd (SIBL) established twelve years ago in 1995 in Dhaka, linking formal, non-formal and voluntary sector successfully implemented its innovative concept of family empowerment micro-credit, *a paradigm shift in Islamic micro-finance* with a built-in-mechanism for graduation process, where poor borrowers can move beyond poverty line from micro-credit to market via micro enterprise as well as introduction of its *Cash-Waqf Certificate scheme* in 1997, for mobilization of social capital as an innovation, thereby creating new opportunities to transfer liquid asset and make connection with one another on a local, national and global scale. It is well-received by other Islamic banks in Bangladesh, Indonesia and Muslim communities worldwide.

Lastly, the paper simply reproduced the so-called “important points” raised during the round table discussion between Islamic Research and Training Institute and the Arab learning Institute. These “important points” appear to be too general and vague.

The crucial question before us as to how the new emerging global Islamic wealth, estimated to be around US\$ 750 billion in asset under management, concentrated into the hands of a few families and individuals is to be invested and managed efficiently in Muslim countries for alleviation of poverty, not to speak of development of Awaqf properties worth billions of dollars of worldwide in addition to mobilization Cash-waqf fund that can open up new frontiers of human freedom that includes freedom from educational, social and economic deprivations of the Islamic Ummah⁽⁶⁾.

There is an increasing demand for world-class wealth management services that is in accordance with Shariah amongst Muslims to-day, “Economic growth rates in predominantly Muslim or all-Muslim nations are relatively strongly positive, often in the range of five to eight percent annually have helped fuelled such a strong demand. Coupled with this are the high savings rates, the emergence of private family wealth and high net worth individuals in the Muslim countries, which simply means new levels of wealth to be managed. According to the Boston Consulting Group, these individuals and families are sitting on a combined asset pool of a staggering US\$10.2 trillion. Many private bankers stressed that based on the feedbacks and investors, there is a huge demand for Shariah-compliant wealth management products and services”⁽⁷⁾.

The task before us as to how to meet this challenging demand for world-class professional in Islamic Wealth Management in light of disturbing gap between an ideal-shariah situation and the prevailing corruption and decline of moral values of Muslim Societies of to-day.

(6) See Prof. Dr. M. A. Mannan Cash-Waqf Certificate - An innovation in Islamic Financial Instrument: Global Opportunities for Developing Social Capital Market in the 21st Century Voluntary Sector Banking, Presentation at the Third Harvard University Forum on Islamic Finance, Harvard University, Cambridge, MA, USA, October 1, 1999.

(7) See, Labuan IOFC Finance Newsletter, Published by Labuan Offshore Financial Services Authority, Malaysia, Issue 2, November, 2007.

Comments by: Dr. Eltayeb Ahmed Shumo

On the paper prepared by Dr. Khaled A. Hussein

Title: Islamic Economics Current State of Knowledge and Development of Discipline

This paper presents a valuable effort to develop the current state of knowledge and understanding of the Islamic economics theory and the on going practice and applications. The paper advocates a problem base approach for having a sound Islamic economics system.

The theme of the paper is quite interesting but a defect in the methodology lies in its reliance on limited sources and lack of empirical data. The author started by focusing on the major challenges confronting the global economy and concluded that the conventional economic system failed to solve the problems of poverty, the acute unequal distribution of income, the growing rates of unemployment and the slowdown in productivity compared to fast growth in financial investment in financial markets.

In my view the issues covered by the paper deserve more efforts and need to encourage academic institutions and research centers to participate in developing the theoretical framework and to share in assessing the current experiences. With regard to the problem base approach for researches I agree with Mr. Khaled that we should move towards that system but we to restrict to the fundamental principles and values which distinct the Islamic economic system from the conventional economic systems.

The main comments need to be emphasized could be summarized into following:

- I feel uneasy to accept the treatment of Islamic economics as a branch of the conventional economic system although we can share with it its tools of analysis that not in contradiction with Islamic principles and ethical values. Alternatively we have to suggest an independent Islamic school of economics and not just to regard it as a branch of the economic school.
- The Islamic economics as science should not be isolated from the Islamic philosophy science it works as a part of inter-disciplinary system. In Islam there is no contradiction between goals and means or between theory and application all they should be in consistent.
- The Islamic economy is a real economy that it deals with real values rather than with nominal values. This characteristic is reflected in its methodology which combines both empirical and analytical approaches and it is only relying on descriptive approach as stated in the paper.
- It uneasy to accept the separation of Islamic economics from fiqh of "muamalat" science Islamic economics is an inter-disciplinary system. This not means we accept facts without following consistent scientific steps.
- With regard to the availability of academic scholars and specialists in the Islamic economics area I do believe there are a reasonable number of specialists but there is a lack of co-ordination. In that respect I argue with the

author for the need to establish a forum or websites to integrate the efforts of those interested in the subject.

- About the possibility of using games theory instead of utility theory this issue need more elaboration to see how it works
- With regard the principles of the Islamic economics they are clearly identified and agreed upon but the problem in the practice and the applicants of the system. For example the Islamic banks experience originally was found on strong vision and objectives; it was originally socially oriented but later after the seventies the experience was dominated by material needs and profit maximization goals similar to conventional banks. To explain more if we go back to mait-ghmer in Egypt, the bank was socially oriented to promote savings among farmers and improve saving behavior and thus to secure continuous accumulation of capital. Similarly the Hajj Fund in Malaysia was establishing with a clear vision and objectives to promote savings from Muslims to enable them perform Hajj.
- Finally I want to this occasion to suggest for Muslim scholars in the area of Islamic economics to focus on small finance and to give more attention to social goals rather than focusing merely on efficiency objectives.

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The Domain of Islamic Economics: A Discussion

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Advances in economic theory that took place ever since the 18th century, have improved a lot our understanding of how economic decision makers interact and the possible outcomes of individual and collective decision, both at the micro- and macroeconomic levels. However, there are still persistent problems of poverty, economically – driven wars, income inequalities, environmental problems, macroeconomic instability, to name but a few of serious economic problems that still loom large in spite of great scientific advancements. This raises a question about the need for an alternative economic paradigm, on the one hand, and how to deal with the existing paradigm, on the other.

Research in general, but in social sciences in particular, including economics, may not be value- neutral. This is because the researcher's social upbringing and psychological make up affects in many cases his choice of problems, his approach, and his use, if any, of the outcome. The value dimension in research is sometimes overt, sometimes covert. Those who believe that Islamic economics has a distinct paradigm, and those who do not, both agree that approaching socio- economic problems from an Islamic perspective may lead to different results in terms of both theory and policy. The demarcation between the two paradigms is not always present, however. Whenever the value dimension is absent or pretty weak, the outcomes may be similar. An example of this is the theory of international trade.

But what is the Islamic Paradigm? Since Islam replaces the “Economic Man” with the “Worshipping Man”, It becomes natural that the “Worshipping Paradigm “replaces the Maximization Paradigm” (See Uthman, 1998.) This does not render the “Maximization Paradigm” totally useless as a method of analysis, but it makes it constrained and guided by an upper driver. While self- interest is not denied, it is being modified by revelation from the Lord and submission to Him. In this way the business life is not isolated from other areas of life. Belief and submission are the grand guiding principles for all aspects of life. Consequently, any possible contradictions that may arise between different functions of Man are removed.

The Islamic methodology of research is essentially inductive. This is because the Islamic approach requires belief in the basic premises of Islam first. The many verses given in Holy Qura'n on the existence of the Almighty God, by calling upon Man to ponder the Universe are examples of an inductive method. But the deductive method may also be useful in researching problems for which no specific or direct verdict is given. This, however, remains guided by the Grand Principles of Islam, regarding the

Five Necessities- The protection of Religion, reason, soul (life), reproduction (of human-kind), and wealth.

Empirical testing of Islamic theories at the current state of Islamic societies is rather difficult, and if ever done needs to be highly qualified. The reason is simply that Muslim societies, nowadays, do not live the Islamic ideal. Furthermore, part of the difficulty arises from practices or research priors that try to subjugate Islamic Jurisprudence to current practices or ideas, instead of going the other way around. This has been the unfortunate state of today's Islamic finance in many cases.

It is an absolute nonsense to imagine, let alone to call for an investigation of any Islamic branch of knowledge away from Islamic *Fiqh* (jurisprudence.) It is actually a way to cap out from the guiding principles of Islam. It can be called anything, but Islamic!

But starting with Islamic priors and reaching conclusions that are compatible with these priors is not sufficient for good economics. Why? This is because a necessary condition of good economics is the existence of a good economist. Good intentions, by themselves, although necessary, are not sufficient to reach good outcomes. This means we have to differentiate the discipline of Islamic economics as a whole from individual undertakings. But the differentiation is not always easy, especially for those who either do not accept Islamic principles, or not educated enough about them!

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Contributions of the Last Six Conferences

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Abstract. This paper was meant to present in one place the record of the first six conferences to preserve the history. While doing that, we have attempted to present and objectively evaluate the contribution that the last six conferences have made. Six areas have been identified for this purpose. These are:

1. Official Recognition
2. Institution Building
3. Setting the Agenda for Contemporary Research in Islamic Economics and Finance
4. Contribution to Research
5. Contribution to Published Literature
6. Encouraging New Writers

In the process of evaluating the contribution to research, a new system of classifying contributions to Islamic economics and finance has been proposed. At the end an attempt has been made to draw attention to areas where more efforts must have been made. This is done in the spirit for setting an agenda for future action.

1. Historical Overview

It is well known that conferences play an important role in mobilizing and contributing to research in their areas of specialization. Until early 1970s the research in the field of Islamic economics was, by and large, restricted to a critique of conventional economics and its institutions. That research showed that Islamic economics has the potential of emerging as a new paradigm. Some leading personalities of the Islamic world realized that potential and decided to give that research a direction so that a new discipline may emerge in due course of time. This effort was led by the then President of King Abdulaziz University, Jeddah, H. E. Dr. Muhammad Omar Zubair. With his efforts and with the active support of the Saudi Government, the first International Conference on Islamic Economics was held in Makkah Al-Mukarramah, Saudi Arabia, in 1976, under the auspices of the King Abdulaziz University, Jeddah. The Conference marked the renaissance of Islamic economics as a modern scientific discipline.

Though it was decided in the conference that similar international conferences on Islamic economics should be convened every two years with specialized seminars held more often, it was not until 1983 when the second International Conference was held in Islamabad, Pakistan. In between a seminar on Monetary and Fiscal Economics of Islam was held in Islamabad in 1978. During the Second Conference a resolution was passed to establish an "International Association for Islamic Economics (IAIE)". The Association was constituted shortly afterwards. From then on it was IAIE which assumed the responsibility of organizing future conferences with the active collaboration of seats of higher learning in Muslim countries. The Islamic Development Bank, Jeddah came on board as a co-organizer.

The Association organized the third International Conference in 1992 with the help of the Islamic Development Bank in Kuala Lumpur hosted by the International Islamic University, Malaysia,. That Conference also made a significant contribution to the ongoing research activity in Islamic economics and banking. By that time a number of research and teaching institutions had been established in several countries. Therefore, at that Conference, a Standing Coordination Committee was established to coordinate research and teaching activities of the participating institutions. Islamic Development Bank offered the necessary infrastructure and the Islamic Research and Training Institute of the IDB was nominated to serve as the Secretariat of that Committee. This Committee held a couple of meetings but unfortunately the purpose of its establishment has not been achieved.

The fourth Conference, was held in 2000 at Loughborough university UK., This was the first time that Association organized such a major activity in a Western country. Loughborough University was chosen for this purpose because it was the first Western seat of higher learning to introduce teaching programmes in Islamic banking. Following its lead several other British, American and other Western universities introduced programmes in Islamic economics and finance at various levels. It is pertinent to note that Prof. John R. Presley who has been leading these efforts and was our partner in organizing the Fourth International Conference was awarded the IDB Prize in Islamic economics for his life time achievements in this field.

In his inaugural address at the occasion of the Fourth International Conference on Islamic Economics and Finance, H.E. Abdallah Hasan Seif, Minister of Finance and National Economy, Bahrain invited the Association to hold the next Conference in Bahrain. This was a very kind gesture and the Association also realized that Bahrain had undoubtedly emerged as the leading center of Islamic finance. Accordingly the Fifth International Conference was held in Bahrain during October 7-9, 2003.

H.E. Maulana Ibrahim, Deputy Governor Central Bank Indonesia who was one of the speakers at the Fifth International Conference informed the Association that Indonesia has embarked upon on ambitious programme of Islamic Banking and being the largest Muslim country in terms of population holds the promise of becoming another important hub of Islamic banking. As such, on his suggestion the Association decided to hold the Sixth International Conference on Islamic Economics and Finance in Jakarta. In order to respond to market demand the Association decided to increase the pace of holding international conferences but with due preparation. Accordingly the Sixth International Conference was held in Jakarta during 21-24 November 2005.

2. Official Recognition

An important aspect of the last six international conferences held under the auspices of the International Association for Islamic Economics with the cooperation of leading universities and research organizations is that all of them received official recognition by the governments of the countries in which these were held. The First Conference held in Makkah al-Mukarmah had full backing of the Saudi government and was fully funded by its Ministry of Higher Education. It was inaugurated by the H.E.Hasan Al al-Shaikh, Minister of Higher Education on behalf of His Majesty King Khalid of Saudi

Arabia. The Second Conference held in Islamabad was partly funded by the Government of Pakistan and was inaugurated by the then President of the country General Muhammad Ziaul Haq. The Third Conference was hosted by the International Islamic University, Malaysia and was inaugurated by Y.B. Dato Seri Anwar Ibrahim, Finance Minister of Malaysia. The Fourth Conference which was the first held in a non-Muslim country also received official recognition. Rt. Hon. Stephen Timms, Financial Secretary to the Treasury, Government of UK delivered his speech in the inaugural session of the conference. In addition the following messages from the UK government officials were received:

From The Rt. Hon. Tony Blair, The Prime Minister, UK

"I am delighted that the 4th International Conference on Islamic Economics and Banking will be held in the United Kingdom, given our role as a major centre for financial services. I wish the Conference and all the participants every success."

From Mr. Howard Davies, Chairman, The Financial Services Authority, UK

"I am delighted that the 4th International Conference on Islamic Economic and Banking has chosen Loughborough as its first venue in the West. The UK has become a major international centre for developing and marketing Islamic financial products. This Conference provides a valuable opportunity for practitioners and regulators to learn from each other."

From Mr. Eddie George, The Governor, Bank of England, UK

"I am delighted that the International Conference on Islamic Economics and Banking is being held in the UK for the first time, and that Loughborough University has been chosen as the venue. Islamic and Western approaches to finance differ in a number of respects, but it seems to me that they have a good deal in common in terms of underlying objectives. What is important is that there should be broader understanding of the motivation behind, and practical application of, Islamic finance, and I hope that the Conference will make a very positive contribution to that process."

His Highness the Prime Minister of the Kingdom of Bahrain extended his patronage to the Fifth International Conference held in Bahrain and the conference was largely funded by the Ministry of Finance and National Economy Bahrain. His Excellency Abdullah Hasan Seif, Ministry of Finance and National Economy delivered his speech in the inaugural session.

The Sixth International Conference also held the full backing of the Indonesian government. The President of Indonesia had agreed to inaugurate the conference but due to his last minute engagement H.E. Jusuf Kalla, Vice President of Indonesia inaugurated the conference, while H.E. Burhanuddin Ahmed Abdullah Governor, Bank of Indonesia delivered the welcome address, the Bank of Indonesia being one of the co-organizer of the conference.

It is also worth noting that the premier Islamic institution of Muslim countries, the Islamic Development Bank, actively supported the first two conferences. Its President, Dr. Ahmed Mohammad Ali delivered the Keynote Address at the occasion of the Second

International Conference. For all future conferences the Islamic Development Bank participated as a co-organizer and also provided most of the logistic support.

3. Institution Building

A unique contribution of these conferences is that it led to the establishment of several institutions in the field of Islamic Economics and Finance. The intellectual awakening created by these conferences led to creation of these institutions. The King Abdulaziz University, which organized the first international conference followed up by establishing the first research centre in the field of Islamic economics in the modern times under the name, "International Centre for Research in Islamic Economics" in 1977. The centre led the research activity all over the globe and in 1983 started the first refereed professional journal in the field of Islamic economics, the "*Journal of Islamic Economics*".

The establishment of the Islamic Research and Training Institute at the Islamic Development Bank was also affected, though indirectly, by the reawakening created by the first conference. The Islamic Development Bank, which was itself established shortly before holding the first international conference, immediately realized the importance of the research activities and constituted a committee which largely comprised of the same leading personalities who were the spirit behind the first international conference for the establishment of a research institute. After due deliberations, the Islamic Research and Training Institute emerged on the research horizon in 1981. This institute has now become one of the most active centres for research and training in the area of Islamic economics and finance. It has produced several hundreds research papers and monographs and has organized hundreds of conferences, seminars, workshops and training programmes in the area of Islamic economics and finance. In 1993 it also started a refereed professional journal, "*Islamic Economic Studies*"

The second international conference held in 1983 in Islamabad led to further institutional development. It was at that conference that the participants decided to establish the "International Association for Islamic Economics" The Association was established in 1984 and thereafter the responsibility of organizing international conferences was given to this Association. In addition to promoting research through holding of international conferences the Association also started a refereed professional journal in 1991, the "*Review of Islamic Economics*".

The second international conference also led to the establishment of the "International Institute of Islamic Economics (IIIE)" at the International Islamic University, Islamabad in 1983 in response to one of the recommendations of that conference. It is pertinent to note that the prestigious international prizes established by the Islamic Development Bank to recognize the contributions made to Islamic economics and banking were awarded to the Centre for Research in Islamic Economics, Jeddah in 1993 and to the International Institute of Islamic Economics in 1999, the two institutions established in response to the recommendations of the first two conferences.

The third international conference which was hosted by the International Islamic University, Malaysia also made a contribution to the institution building. By that time a number of research and training institutions had been established in several countries.

Therefore, at that conference, a Standing Coordination Committee was established to coordinate research and training activities of the participating institutions. The Islamic Development Bank offered the necessary infrastructure and the Islamic Research and Training Institute was nominated to serve as the secretariat of that committee.

4. Setting the Agenda for Contemporary Research in Islamic Economics and Finance

It is worth noting that preparation for all the conferences were very elaborate and spanned over a period of 15-18 months in each case. In the beginning a Steering Committee was always established to oversee the preparations for the conference both academic and administrative. The Steering Committee used to establish several sub-committees, the prominent among which were the Academic committees. These committees were headed by the leading scholars of the field such as Prof. Anas Zarqa, Dr. Umer Chapra and Dr. Mabid Al-Jarhi . The members of these committees were also very prominent scholars. These committees by choosing the themes and areas for papers to be presented in various conferences set the agenda for contemporary research in the field of Islamic economics and finance.

The Makkah conference of 1976, being the first in the series started with a broader agenda. No specific theme was fixed for the conference but the following areas were identified for prospective contributions:

7. Concept and Methodology of Islamic Economics.
8. Survey and Examination of Contemporary Literature on Islamic Economics.
9. Theories of Production and Consumption in an Islamic Community.
10. The Role of the State in an Islamic Economy.
11. Insurance within the Framework of the Islamic Shariah.
12. Interest-Free Banks.
13. Zakat and Financial Policy.
14. Economic Development within the Framework of Islam.
15. Economic Co-operation among Muslim Countries.

For all other conferences a specific theme was chosen and papers were invited so as to build research around that theme. These themes reflected the current developments as well as future needs of research in the discipline. The themes of various conferences are given in Table-1.

Table-1
Themes of Previous Conferences

Conference	Theme
First Conference, Makkah, 1976	General
Second Conference, Islamabad, 1983	Development, Finance and Distribution in Islamic Perspective
Third Conference, Kualalumpur, 1992	Financing Development from Islamic Perspective
Fourth Conference, Loughborough, 2000	Islamic Finance: Challenges and Opportunities
Fifth Conference, Bahrain, 2003	Sustainable Development in Islamic Finance in Muslim Countries
Sixth Conference, Jakarta, 2005	Islamic Economics and Banking in the 21 st Century

5. Contribution to Research

Obviously the most important contribution that these conferences have made is the research produced in the form of papers presented to these conferences. A complete list of papers presented at various conferences is given in Annexure-1. A summary is presented in Table-2 below:

Table-2
Number of Papers Presented in Various Conferences

<i>Conference</i>	<i>Number. of Papers Presented</i>
First Conference	25
Second Conference	25
Third Conference	16
Fourth Conference	24
Fifth Conference	25
Sixth Conference	30
Total	145

These papers covered a wide variety of subjects. However, some areas received more attention than others. In order to evaluate the contribution of these conferences in various areas, I have attempted to classify them in some professional classification systems. For this purpose I reviewed three classification systems i.e. that of the Journal of Economic Literature, the one used by Dr. Nejatullah Siddiqi in his 1976 and the one used by Akram Khan in his three-volume Annotated Bibliography of Islamic Economics (1988-1997). I did not find any of them fully satisfactory. Therefore, benefiting from them, I propose the following classification systems to assess the contribution of writers in the field of Islamic economics and finance.

Table-3
**Proposed Classification System for Islamic Economics
and Finance Literature**

000	Philosophy and History of Islamic Economic Thought
100	Critique of Contemporary Economic Thought and Institutions
200	Economic Theory from an Islamic Perspective
300	Analysis of Classical Economic Institutions of Islamic Economic System
400	Contemporary Financial Instruments and Institutions
500	Monetary and Fiscal Issues
600	Trade, Aid, Sustainable Development and Globalization
700	Basic Needs, Poverty Alleviation and Income Distribution
800	Fiqh and Shariah Issues
900	Miscellaneous

Using this classification system I have classified the contributions of the last six conferences into the areas identified above. These are shown in Table-4.

Table-4
Number of Contribution in Various Areas

	Area	Number of Contributions
000	Philosophy and History of Islamic Economic Thought	6
100	Critique of Contemporary Economic Thought and Institutions	0
200	Economic Theory from an Islamic Perspective	15
300	Analysis of Classical Economic Institutions of Islamic Economic System	12
400	Contemporary Financial Instruments and Institutions	46
500	Monetary and Fiscal Issues	13
600	Trade, Aid, Sustainable Development and Globalization	22
700	Basic Needs, Poverty Alleviation and Income Distribution	21
800	Fiqh and Shariah Issues	6
900	Miscellaneous	4

6. Contribution to Published Literature

In each Conference, a complete record of all papers presented in the conferences as well as discussion papers was kept and after due preparation and editing books were published based on the proceedings of various conferences. These books are one of the most important additions to the literature of Islamic economics and finance and have been widely used and quoted by researchers.

The proceedings of the First Conference were published by the King Abdulaziz University, Jeddah in two volumes, one in English and one in Arabic. The proceedings of the Second Conference were published by the Islamic Foundation, UK, while the proceeding of the Third Conference were published by the Islamic Research and

Training Institute, Jeddah. By the time the Fourth Conference was held in UK, the interest in Islamic economics and finance had spread well beyond Muslim countries. It was, therefore, decided that this interest justifies academic outreach to well known international publishers through whom the literature on Islamic economics and finance can reach most of the Western libraries and research circles. Contacts with some international publishers were made and after seeing the quality of papers presented in the Fourth Conference, Edward Elgar agreed to publish a volume consisting of eleven papers. This volume was issued in 2002. The remaining papers of the conference were published in two separate volumes by the Islamic Foundation, UK. This attracted attention of other international publishers. After the Fifth International Conference held in 2003, successful negotiations with another prominent international publisher, Palgrave MacMillan led to the publication of all papers of the Fifth Conference by them in four volumes. The publication of these volumes by such prominent publishers brought the literature of Islamic economics and finance to the international scene. In subsequent years, these and other prominent publishers continued to publish books on Islamic economics and finance from other authors.

A complete record of the publications emerging from the last six conferences is given in Table-5.

Table-5
Publications Emerging from the First Six Conferences

Conference	Title of Publication	Publisher	Year of Publication	Editor(s)
First Conference	Studies in Islamic Economics	International Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah and The Islamic Foundation, UK	1980	Khurshid Ahmad
	الاقتصاد الإسلامي	المركز العالمي لأبحاث الاقتصاد الإسلامي جده	١٩٨٠	محمد أحمد صقر خورشيد أحمد محمد نجاته الله صديقي محمد انس الزرقا
Second Conference	Distributive Justice and Need Fulfilment in an Islamic Economy	International Institute of Islamic Economics, Islamabad and The Islamic Foundation, Leicester, UK	1988	Munawar Iqbal
Third Conference	Financing Development in Islam	Islamic Research and Training Institute, Islamic Development Bank, Jeddah	1996	M.A. Mannan

Fourth Conference	Islamic Banking and Finance: Current Developments in Theory and Practice	Islamic Foundation, Leicester, UK	2001	Munawar Iqbal
	Islamic Banking and Finance: New Perspectives on Profit-Sharing and Risk	Edward Elgar, Cheltenham, UK, Northampton, MA, USA	2002	Munawar Iqbal and David T. Llewellyn
	Islamic Economic Institutions and the Elimination of Poverty	The Islamic Foundation, Lieicester, UK	2002	Munawar Iqbal
Fifth Conference	Islamic Perspectives on Sustainable Development	PalGrave MacMillan, UK & USA	2005	Munawar Iqbal
	Islamic Finance and Economic Development	PalGrave MacMillan, UK & USA	2005	Munawar Iqbal and Ausaf Ahmad
	Financial Engineering and Islamic Contracts	PalGrave MacMillan, UK & USA	2005	Munawar Iqbal and Tariqullah Khan
	Poverty in Muslim Countries and the New International Economic Order	PalGrave MacMillan, UK & USA	2005	Munawar Iqbal and Habib Ahmed
Sixth Conference	Advances in Islamic Economics and Finance, Volume 1	Islamic Research and Training Institute, Islamic Development Bank, Jeddah	2007	Munawar Iqbal, Salman Syed Ali and Dadang Muljawan
	Advances in Islamic Economics and Finance, Volume 2	Islamic Research and Training Institute, Islamic Development Bank, Jeddah	Forthcoming in 2008	Munawar Iqbal, Salman Syed Ali and Dadang Muljawan

7. Encouraging New Writers

In the process of selection of papers the academic committees of all the conferences gave due weight to encouraging new writers without sacrificing minimum level of quality. This is reflected in the list of writers of the papers given in Annexure-1. At the same time an attempt was made to keep the community of old writers involved either by soliciting commissioned papers/lectures or by appointing them as discussants or panelists in panel discussions. While the list of writers shows many new names, one must recognize that we failed to convert them into accomplish writers which was the initial intention of giving them a chance. The list shows that there are only a couple of names which followed up with more papers in subsequent conferences.

8. Summary and Conclusions

The above presentation shows that the six conferences held so far have made a significant contribution in terms of institution building, promotion of research and producing quality literature on Islamic economics and finance. However, there are certain aspects which did not receive the attention that they deserved.

In Annexure-2 we present the communiqués/recommendations of all previous conferences. While this will help in keeping historical records, a review of the recommendations of various conferences is a more important reason for which these are being presented. It is regrettable that no mechanism has been created to ensure the implementation of the recommendations of these conferences or at least making follow up efforts. The International Association for Islamic Economics, establishment of which was a significant achievement, has not performed up to the expectations associated with it. It has to its credit the organization of the last four conferences, starting a professional journal and the publication of the proceedings of these conferences. However, most of this was done through individual efforts rather than an institutional mechanism. The Association remains a group of dedicated individuals but the number of its members has remained very low. Despite efforts at the occasion of each conference for new membership, no significant result has been achieved due to lack of a follow up mechanism. The Journal of the Association has also been an on-again, off-again experience. No doubt that the lack of funds has been an important reason for these shortcomings but in my view it is a failure to convert a group of dedicated individuals into a dynamic institutional set up.

Due to the tremendous international interest, the number of seminars and conferences being held from different forums has increased manifold in recent years. The series of conferences spearheaded by the International Association for Islamic Economics can no longer be considered as the front runner for attracting international attention. As mentioned above, at the occasion of the third international conference held in Kuala Lumpur a Coordination Committee was constituted to coordinate teaching and research at the global level. Unfortunately this committee has also not been able to perform its functions successfully.

The renaissance initiated by the Makkah Conference created many institutions as mentioned above either directly or indirectly. However, with the passage of time the movement has lost steam and commercial interest have taken precedence over academic excellence. Some institutions have lost their real direction and some have even been closed. Therefore, while we should take genuine credit for the achievements listed above it is time to give more attention to our failures so that the spirit of 1976 can be continued with additional vigor and strength.

**A Complete List of Papers Presented in the
First Six Conferences**

First Conference Papers		
English Volume		
<i>SN</i>	<i>Title</i>	<i>Author</i>
1	Islamic Economics: An Approach to Human Welfare	Dr. Anas Zarqa
2	A Contribution to the Theory of Consumer Behaviour in an Islamic Society	Dr. Monzer Kahf
3	Some Conceptual and Practical Aspects of Interest-Free Banking	Dr. Muhammad Uzair
4	Money, Interest and <i>Qirad</i>	Dr. Mahmud Abu Saud
5	The Relative Efficiency of Interest-Free Monetary Economics: The Fiat Money Case	Dr. Mabid Ali Mohamad Mahmoud Al-Jarhi
6	<i>Zakat</i> and Fiscal Policy	Dr. F.R. Faridi
7	The Political Context of Islamic Economics	Dr. Ijaz Shafi Gilani
8	The Islamic Welfare State and its Role in the Economy	Dr. M. Umar Chapra
9	Economic Development in an Islamic Framework	Khurshid Ahmad
10	Muslim Economic Thinking: A Survey of Contemporary Literature	Dr. Muhammad Nejatullah Siddiqi
11	Contemporary Turkish Literature on Islamic Economics	Dr. Sabahuddin Zaim
Arabic Volume		
<i>SN</i>	<i>Title</i>	<i>Author</i>
1	Islamic Economics – Basic Concepts	Dr. Mohammad Sakr
2	Islamic Economic Doctrines	Dr. Mohammad Shawqi al- Fanjari
3	Meaning of Islamic Economics	Sheikh Manna' Qattan
4	The Just Price in Islam	Dr. Hasan O. Balkhi
5	Social Function and Consumer Behaviour: An Islamic Formulation of Selected Issues	Dr. Mohammad Anas al- Zarqa
6	Economic Role of the State in Islam	Sheikh Muhammad al- Mubarak
7	Role of <i>Zakat</i> in the Solution of Economic Problems	Dr. Yousuf al-Qardawi
8	The Concept of Justice in Taxation and <i>Zakat</i> during the Early Islamic Period	Dr. Atif al-Sayyed
9	Role of Financial and Accounting Theory in the Implementation of <i>Zakat</i>	Dr. Muhammed Saied Abdus Salam
10	Our Approach to a Distinct Theory of Islamic Economics	Dr. Ahmad al-Najjar
11	Insurance and its Place in Economic Life	Sheikh Mustafa al-Zarqa
12	The Position of <i>Shariah</i> on Insurance Contracts	Dr. Hussain Hamid Hassan
13	Insurance and Some Doubts Relating to it	Dr. Jalal al-Sayyad
14	Economic Cooperation between Muslim Countries	Hasan Abbas Zaki

Second Conference Papers		
English Papers		
SN	Subject	Author(s)
1	Labor and Capital Concepts	Ahmed Tabakoglu
2	Poverty, Inequality and the Role of Some Islamic Economic Institutions	Ataul Huq
3	An Institutional Framework for Capital Formation in an Islamic Economy	Aqeel A. Ansari
4	Guarantee of a Minimum Level of Living in an Islamic State-Basis in Shariah, Rationale and Contemporary Implications	Muhammad Nejatullah Siddiqi
5	The Economics of Poverty in Islam with Special Reference to Muslim Countries	M.A. Mannan
6	Distributional Equity in Islam	Zubair Hasan
7	A Macro Theory of Distribution in Islamic Economy	Ausaf Ahmad
8	International Monetary Order and OPEC's Surplus Funds: The Implications for Islamic World	Ilhan Uludag Oksay
9	Effects of the Elimination of Riba on the Distribution of Income	Ali Ahmad Rushdi
10	A Methodology for the Formulation of Urban Development Plans in the Islamic Context with an Application to Al-Madina Al-Munawara	Anis ur Rahmaan
11	Economic Implications of Islamic Land Ownership and Land Cultivation	Ahmad Mustafa Hosssein G. Askari
12	Implications of Islamic Consumption Patterns for Savings, Growth and Distribution in a Macroeconomic Framework	M. Fahim Khan
13	Public Budgeting, Capital Accumulation and Economic Growth in Islamic Framework	F.R. Faridi
14	The Concept of Economic Development in Islam	M. Raihan Sharif
Arabic Papers		
1	Outlines for Courses on Economics in Islamic Perspective	Ali Abd al Rasul
2	Categorization of Needs in Islam and its Impact on Promoting Economic Growth	Abdullah Abd al Aziz Abid
3	Wealth and Children and the Inevitability of the Golden Balance	Ahmed Al Safati
4	The System of Financial Support for Relatives in Islamic Law	Rohi Ozjan
5	Economic Relations Among Muslim Countries and their Role in Economic Development	Abd al Rahman Yusri Ahmad
6	Endowments Relating to Mosques and their Impact on Development and Distribution	Muhammad bin al Hadi Abul Ajfan
7	Islamic Endowment and their Role in Social and Economic Development in Islam	Abdul Malik al Sayed
8	Basic Needs and the Method of their Provision in Islamic State	Abedin Ahmad Salama
9	Towards an Islamic Normative Theory of Distribution	Muhammad Anas Zarka
10	Banking Operations in Islamic Framework	Rafiq al-Masri
11	Interest-free Investment in the Context of the Murabaha Contract	Hasan Abdullah al Amin

Third Conference Papers		
SN	Subject	Author(s)
1	<i>Shariah</i> Compatible Shares: A Suggested Formula and Rationale	M. Anas Zarqa
2	Financing Economic Development from Islamic Perspective	Hatem El-Karanshawy
3	Role of Equity Participation in Financing Economic Development	Rodney Wilson
4	A Simple Model of Income Determination, Growth and Economic Development on the Perspective of An Interest-Free Economy	M. Fahim Khan
5	Causes of Fiscal Problems in Muslim Countries and Some Suggestions for Reform	Munawar Iqbal
6	Is Equity Financed Budget Deficit Stable in an Interest-Free Economy	M Aynul Hasan and Ahmed Naeem Siddiqui
7	The Basic Needs Fulfilment Guarantee in Islam and A Measure of Its Financial Dimension in Selected Muslim Countries	Zubair Hasan and Muhammad Arif
8	Long Term Finance in Islamic Countries: Case Study of Pakistan	M. Akram Khan
9	Financing Economic Development in Islamic Economics: Attitudes Towards Islamic Finance in Small Manufacturing Business in Saudi Arabia	Bandar Al-Hajjar and John Preslley
10	Some Consideration on the Size of the Public Sector in the Islamic Republic of Iran	Iraj Toutouchian
11	Efficiency of the Islamic Approach to External Debt-Management in North Africa and Middle-East	I.O. Taiwo
12	The Survival and Development Strategies of the Minority of Nairobi Muslims in Nairobi	Mohammed S. Mukras
13	The Role of Finance in Development: The Ottoman Experience	Ahmet Tabakoglu
14	Public Borrowing in Early Islamic History: A Review of Some Records	M. Nejatullah Siddiqi
15	Provision of Public Goods: Role of Voluntary Sector (<i>Waqf</i>) in Islamic History	Abdul Azim Islahi
16	The Relevance of the Ottoman Cash <i>Waqfs</i> (<i>Awqaf Al-Naqud</i>) for Modern Islamic Economics	Murat Cizakca

4 th Conference Papers		
Volume-I		
<i>SN</i>	<i>Subject</i>	<i>Author(s)</i>
1	Decision-Making Under Uncertainty: An Islamic Perspective	Sami Ibrahim Al-Suwailem
2	Incentive-Compatible Profit-Sharing Contracts: A Theoretical Treatment	Habib Ahmed
3	Evidence on Agency Contractual Problems in <i>Mudarabah</i> Financing Operations by Islamic Banks	Abdel Fattah A.A. Khalil, Colin Rickwood and Victor Murinde
4	Incentive-Compatible Constraints for Islamic Banking: Some Lessons from Bank <i>Muamalat</i>	Adiwarman A. Karim
5	How Informal Risk Capital Investors Manage Asymmetric Information in Profit/Loss Sharing Contracts	Mohammad Abalkhail and John R. Presley
6	Choice Between Debt and Equity Contracts and Asymmetrical Information: Some Empirical Evidence	Kazem Sadr and Zamir Iqbal
7	Islamic Banking Contracts as Enforced in Iran	Ali Yasserli
8	Islamic Financial Institutions of India: their Nature, Problems and Prospects	M.I.Bagsiraj
9	The Interface Between Islamic and Conventional Banking	Rodney Wilson
10	Alternative Visions of International Monetary Reform	M. Umer Chapra
Volume-II		
<i>SN</i>	<i>Subject</i>	<i>Author(s)</i>
1	An Economic Explication of the Prohibition of <i>Gharar</i> in Classical Islamic Jurisprudence	Mahmoud A. El-Gamal
2	Limited Liability, Moral Hazard and Financial Constraints in Profit-Sharing Contracts	Abdel-Hameed Bashir
3	Social Norms and Trading Rules: The Means to Reduce Moral Hazard in Islamic Financial Contracts	Salman Syed Ali
4	Regulation of the Stock Market in an Islamic Economy	Mohammed Obaidullah
5	Attitudes Towards and the Probability of Applying the Profit/Loss-Sharing Method of Finance by Western Small Business Firms	Abulkhair Jalaluddin
6	Using Secondary Markets for External Debt to Convert <i>Riba</i> Contracts into Equity Investments	Mohammed Akacem
7	On the Relative Efficiency of an Interest-Free Monetary System: Some Empirical Evidence	Ali F. Darrat
8	Islamic and Conventional Banking in the 1990s: A Comparative Study	Munawar Iqbal
Volume-III		
<i>SN</i>	<i>Paper</i>	<i>Author(s)</i>
1	The Elimination of Poverty: Challenges and Islamic Strategies	Ismail Sirageldin
2	Poverty Elimination in an Islamic Perspective: An Applied General Equilibrium Approach	Hafiz Mohammad Yasin and Sayyid Tahir
3	Microfinancial Services and Poverty Alleviation in Bangladesh: A Comparative Analysis of Secular and Islamic NGOs	M. Kabir Hassan and Dewan A.H. Alamgir
4	The Elimination of <i>Riba</i> : A Measure Truly Dedicated to Poverty Alleviation	Seif El-Din I. Tag El-Din
5	The Problem of Risk and Insurable Interest In <i>Takaful</i> : A Jurisprudential Analysis	Mohammad Daud Bakar
6	Latest Developments in the Western Non-Profit Sector and the Implications for Islamic <i>Awqaf</i>	Murat Cizakca

5th Conference Papers		
Volume 1: Islamic Perspectives on Sustainable Development		
<i>SN</i>	<i>Paper</i>	<i>Author(s)</i>
1	Sustainable Development: An Evaluation of Conventional and Islamic Perspectives	<i>Abd al-Rahman Youstri</i>
2	STAKEHOLDERS MODEL OF GOVERNANCE IN ISLAMIC ECONOMIC SYSTEM	<i>Zamir Iqbal and Abbas Mirakhor</i>
3	Economic Development, Openness to Trade and Environmental Sustainability in Developing Countries	<i>Savas Alpay</i>
4	PROBLEMS OF POST-CONFLICT SOCIETY ON IT'S PATH TOWARDS SUSTAINABLE DEVELOPMENT: LESSONS FROM BOSNIA AND HERZEGOVINA	<i>Fikret Hadzic</i>
5	Financial Development and Economic Growth in Some Muslim Countries	<i>Abdel-Hameed Bashir and M. Kabir Hassan</i>
6	Return Volatility, Predictability and Dynamic Relationships in the OIC Stock Markets	<i>M. Kabir Hassan</i>
Volume 2: Islamic Finance and Economic Development		
<i>SN</i>	<i>Subject</i>	<i>Author(s)</i>
1	Islamic Finance and Development	<i>Mabid Ali Al-Jarhi</i>
2	Islamic Financial System and Economic Growth: An Assessment	<i>Habib Ahmed</i>
3	The Role of Islamic Financial Institution in Sustainable Development	<i>Abul Hassan and AbdelKader Chachi</i>
4	Efficiency of Islamic Banks in Malaysia	<i>Mariani Abdul Majid, Nor Ghani Mohammed Nor and Fatin Faezah Said</i>
5	An Analysis of the Relationship Between Interest free Financing System and Sustainable Development: The Case of Iran	<i>Yadollah Dadgar</i>
6	Effects of Implementing Non-interest Banking System on Monetary Policy Controllability and Policy-Goals Links in Iran	<i>Karim Eslamloueyan and Morteza Heidari</i>
7	The Role of Islamic Finance in Industrial Projects in the State of Kuwait	<i>Javed Hussain and Sherifa Marafi</i>
8	The Role of Islamic Banks in Economic Growth: The Case of Jordan	<i>Said Al-Hallaq</i>
Volume 3: Financial Engineering and Islamic Contracts		
<i>SN</i>	<i>Paper</i>	<i>Author(s)</i>
1	<i>Fiqhi</i> Issues in Commodity Futures	<i>Mohammad Hashim Kamali</i>
2	Commodity Derivatives: An Islamic Analysis	<i>Muhammad al-Bashir Muahmmad al-Amine</i>
3	<i>Shari'Ah</i> Alternatives to Government Bonds	<i>Abdul Latif A Rahim Janahi</i>
3	Potential Use of <i>Salam</i> Financing in Malaysia	<i>Saiful Azhar Rosly and Hamdan Hj Ismail</i>
5	Optimal Sharing Contracts	<i>Sami I. al-Suwailem</i>
Volume 4: Poverty in Muslim Countries and the New International Economic Order		
<i>SN</i>	<i>Paper</i>	<i>Author(s)</i>
1	Globalization: Islamic Perspective, Challenges and Prospects	<i>Khurshid Ahmad</i>
2	The Implications of Globalization for Islamic Finance	<i>Rodney Wilson</i>
3	New International Economic Order and its Effects on the Development of Muslim Countries	<i>Toseef Azid and Muhammad Omer Chaudhury</i>
4	Population Pressure, Savings, Investment and Growth In The Islamic World	<i>Hossein Pirasteh and Farzad Karimi</i>
5	Corruption And Development: An Islamic View	<i>Yousif Khalifa Al-Yousif</i>
6	Poverty in Nigeria: Towards an Islamic Solution	<i>Sule Ahmed Gusau</i>

Sixth Conference Papers		
Volume I		
SN	Paper	Author(s)
1	Redistributive Justice in A Developed Economy: An Islamic Perspective	Mabid Ali Al Jarhi & Anas Zarqa
2	Islamic Economics and Finance: Where Do They Stand?	Masudul Alam Choudhury
3	Risk Measurement and Disclosure in Islamic Finance and the Need to Promote Product Innovations	V. Sundararajan
4	Transparency and Market Discipline in Islamic Banks	Noraini Mohd Ariffin, Simon Archer and Rifaat A. Abdel Karim
5	A Design for Islamic Banking Rating System: An Integrated Approach	Dadang Muljawan
6	Banking on Islam? Determinants of Corporate Social Responsibility Disclosure	Sayd Farook, Roman Lanis
7	Stakeholders' Perceptions of Social Responsibility of Islamic Banks: Evidence from Malaysian Economy	Asyraf Wajdi Dusuki and Humayon Dar
8	Evaluating the Social Responsibility of Islamic Finance: Learning from the Experience of Socially Responsible Funds.	Beebee Salma Sairally
9	Evaluation of Islamic Banking Performance: On the Current Use of Econometric Models	Zubair Hasan
10	An Evaluation of Special Finance Houses: A Case Study on Turkey	Savas Alpay
11	Islamic Investment: Evidence from Dow Jones and FTSE Indices	Khalid Hussein
12	An Inquiry into Alternative Models of Islamic Banking	Muhammad Iqbal Anjum
13	Non-Interest Resource Mobilization for Public Projects-The Use of Islamic Endogenous Loans	Rodney Shakespeare
14	Analysis on the Feasibility of Musharakah Mutanaqisah Implementation in Indonesian Islamic Banks	Dodik Siswantoro and Hamidah
15	Necessary Legal Reform to Create Legal Basis for Effective Islamic Asset Securitization (Sukuk) in Indonesia	Reza Djojogugito
Volume II		
1	Income Ratio and the Risk-sharing of Optimal Contracts: The Break-even Theory of <i>Mudarabah</i>	Seif el Din Tag el Din
2	Reviewing the Concept of Shares: Towards a Dynamic Legal Perspective	Faizal Ahmad Manjoo
3	Islamic Law, Adaptability and Financial Development	Habib Ahmed
4	Profit Versus Riba in Exchange Context: Theoretical Foundations for Stable Financial System in Islamic Perspectives	Elmi M. Nur
5	Speculative Capital: An Islamic View	Yousif Khalifa Al-Yousif
6	The Quantum Enigma and Islamic Sciences of Nature: Implications for Islamic Economic Theory	Waleed El-Ansary
7	Consumer Behaviour of Islamic Banking in Indonesia: Quantitative Approach	Adiwarman A. Karim and Adi Zakaria Affif
8	A Review on the Possibility of Using Mosque Institution to Run Microcredit Program Based on the Grameen Bank Group Lending Model	Asry Yusoff
9	Measuring Depositors' Behaviour of Malaysian Islamic Financial System: A Co integration Approach	Sudin Haron and Wan Nursofizan Wan Azmi
10	Islamic Financial Ideology & Chinese Muslim Financial Behaviours	Liu Tianming

11	Basel II and Capital Requirements for Islamic Banks	M. Kabir Hassan and Mehmet F. Dicle
12	Basel II: Implications for Islamic Banking Outlines	Monzer Kahf
13	Cyclical Patterns in Profits, Provisioning and Lending of Islamic Banks and Procyclicality of the New Basel Capital Requirements	Abd. Ghafar b. Ismail and Ahmad Azam b. Sulaiman
14	Securitization : Sukuk and Fund Management Potential to be Realized by IFIs	Muhammad Ayub
15	Sukuk, Securitization and Secondary Markets	Nathif Jama Adam

Communiqués/Recommendations of

First Six Conferences

First Conference Communiqué

Thanks to Allah Almighty, the First International Conference on Islamic Economics was held in Holy Makkah, Safar 21-26, 1396H. (February 21-26, 1976) at the invitation of King Abdul Aziz University and under the auspices of the faculty of Economics and Business Administration.

The Conference discussed all the papers and studies submitted to it on the following issues:

- (1) Concept and Methodology of Islamic Economics.
- (2) Survey and Examination of Contemporary Literature on Islamic Economics.
- (3) Theories of Production and Consumption in an Islamic Community.
- (4) The Role of the State in an Islamic Economy.
- (5) Insurance within the Framework of the Islamic *Shariah*.
- (6) Interest-Free Banks.
- (7) *Zakdt* and Financial Policy.
- (8) Economic Development within the Framework of Islam.
- (9) Economic Co-operation among Muslim Countries.

The Conference expressed its satisfaction at the general standard of these papers and the positive and constructive tone of deliberations, which together contributed to a clarification of the issues and an enrichment of the science of Islamic Economics.

The participants stressed the need for continuing research on various aspects of Islamic Economics, to add to its depth and proper organisation, and to create planned co-operation among scholars from all corners of the world to achieve this objective.

Contemporary civilisation, whether Capitalist or Marxist, despite its material achievements, has led both individuals and societies into conflict, division, anxiety and loss of purpose. Technology has been given preference over man's peace, security and stability.

The Muslim nation has suffered from imperialism and backwardness for generations and its peoples have been forced into an attitude of subservience and imitation. But now this nation has clearly realised the need for originality in thought and practice of true Islam, to realise the reason for its existence, to release its energies and to motivate it for action. It has to concentrate all its positive and constructive efforts in clarifying its course of action and surmounting the attitude of subservience and imitation. This needs to be done if this nation is to save itself from backwardness and humility and to play a leading role in the guidance of humanity.

The participants agreed that the Islamic faith does not merely define the relation of man to Allah, but also provides the *Shariah* that safeguards human interests, harmonizes all aspects of life and pays as much attention to economic affairs as to all other aspects of human welfare.

They agreed that the norms and values of Islam constitute the foundation of the economic system of Islam.

The participants confirmed that this economic system would be ineffective if it is not accompanied by the practice of all aspects of the comprehensive Islamic system.

The participants stated their belief that the Islamic economic system is a unique system based on a well-defined economic philosophy. The basic principles of the system are founded on *tawhid* and are derived from the Qur'an and *Sunnah*.

The participants confirmed that Muslims ought to be the first in adopting this system. They should do their utmost to expound it, rather than waste their energies in forcing it into the mould of alien systems that have led them to false and confused solutions.

Islam is the only means of saving humanity from its present spiritual and material crises and of replacing the civilization of matter with a civilization for man. It is the moral obligation of Muslims to convey the message of this civilization to humanity.

"Verily this is My Way, heading straight; follow it; follow not other paths. They will scatter you away from this (great) path" (6: 153).

To realize these objectives, the Conference approved the following recommendations:

(1) Universities should carefully attend to the teaching of Islamic Economics, supporting research in this area and providing basic facilities for this purpose, whether through specialized libraries, research units, full time research scholarships, publication of periodicals, exchange programmes and the establishment of scientific associations.

(2) It is the duty of all universities and educational institutions of the Muslim world to develop their economics curricula along Islamic lines. This will help create an Islamic outlook in the new generation and leadership and help bring about conformity between the faith and practice of the Muslims.

(3) The King Abdul Aziz University should, as part of its constructive efforts in the academic field for the service of Islam and the *Ummah*, establish an international centre for the study of Islamic economics. This centre should operate under the guidance of a Supreme Council composed of Muslim scholars in *Shariah* and Economics from various countries. This centre should endeavour also to coordinate and support international research at the highest level of scholarship. The centre should direct its efforts to:

(a) the establishment of a specialised library that would collect scholarly works in the field of Islamic Economics in various languages and issue catalogues to research scholars everywhere;

(b) conduct and support theoretical and applied research in various fields of Islamic Economics, publish textbooks in this field for the use of Muslim

universities, and organise training courses for Muslim economic establishments;

(c) provide research facilities and scholarships for visiting Muslim scholars to undertake research in their fields of interest;

(d) promote co-operation in the field of Islamic economic research among various universities and institutions;

(e) publish research papers and periodicals in Islamic Economics;

(f) help establish chairs for the teaching of Islamic Economics, provide scholarships for research in this field, and promote lectures with conferences and regional symposia.

(4) The International Conference on Islamic Economics should be reconvened every two years, with specialised seminars being held more often.

It was recommended that the theme of the next Conference should be "Development in the Framework of Islamic Economics" and that the first seminar be convened within nine months to discuss the subject of "Monetary Policy and Institutions within an Islamic Framework".

(5) A permanent secretariat should be established for the Conference on Islamic Economics with headquarters at the King Abdul Aziz University under the direction of the Chairman of the Conference or his Deputy.

The Secretariat should immediately begin preparations for the following conferences and seminars, implementing the recommendations of the Conference, drafting a charter and rules and regulations for this conference and the Secretariat, which may be presented to the next Conference.

To replace commercial insurance, it was recommended that a specialised committee of Muslim "Ulama" and Economists should work on developing a system of insurance which is free from *riba* and speculation, which would promote co-operation in the Islamic spirit and would conform to the conditions of the *Shariah*.

(6) It was recommended that all Muslim countries should make their laws as well as social and economic institutions conform to the principles of the *Shariah*.

The Conference felt that Commercial Insurance as presently practised does not realise the *Shariah* aims of co-operation and solidarity because it does not satisfy the Islamic conditions for it to become acceptable.

(7) The King Abdul Aziz and other Muslim universities should develop an interim one-year graduate course of study in Islamic *Shariah* specially designed for social scientists to help them in reformulating social sciences including economics to conform with Islamic Laws.

(8) The Conference Secretariat should prepare and publish the reports and recommendations of various committees on the proceedings of this Conference.

(9) The Chairman of the Conference was requested to submit to His Majesty King Khalid Bin Abdul Aziz and His Royal Highness Crown Prince Fahd Bin Abdul Aziz the participants' sincere thanks for the support and encouragement as well as heart-felt appreciation for the sincere efforts and generous support to the Muslim *Ummah* and *Da'wah*.

The Conference expressed its sincere gratitude to H.R.H. Prince Fawwaz Bin Abdul Aziz the Governor of the Province of Makka.

The Conference expressed its deep gratitude to H.E. the Minister of Higher Education, and Head of the World Association of Muslim Youth, Shaikh Husain Bin Abdullah Al-Shaikh for his great help and hospitality.

The Conference expressed its heart-felt gratitude to the Muslim people of Saudi Arabia for their hospitality and warm reception.

The Conference greatly appreciated the very extensive efforts of King Abdul Aziz University and its Acting President, the Steering Committee, the Executive Committee, the various Committees in the Conference, the Faculty of Economics and Administration and the Faculty of *Shariah* at King Abdul Aziz University, and their staff.

Suggestions and Recommendations of the Committees

1. Committee on the Concept and Methodology of Islamic Economics:

-Development of the Islamic Economic concept is based on the following:

- (i) The belief that the universe belongs to Allah and that all wealth belongs to Allah.
- (ii) That Man is a trustee of what he possesses of the bounties of God.
- (iii) That private ownership approved by Islam is within the framework of the proper means of earning and spending and satisfaction of the obligations on wealth.
- (iv) The economic system of Islam achieves social equilibrium and solidarity.

2. Committee on the Survey of Contemporary Literature on Islamic Economics:

(i) Formation of a Committee to compile a dictionary of Islamic

Economics terminology in different languages, (ii) Survey and development of references and *Ijtihad* throughout the history of the Muslim nation to promote Islamic Economics.

3. Committee on a Study of the Theories of Production and Consumption in the Islamic Community:

- Making use of mathematical analyses in the study of Islamic Economics.

4. Committee on the Teaching of Islamic Economics:

-The need for teaching Islamic jurisprudence pertaining to human relations in transactions and its principles in the Faculties of Commerce, Economics and Administration in the universities of Muslim countries.

5. Committee on Interest-Free Banks:

(i) Calling on Muslim Governments to bolster the existing Islamic banks and propagate and extend the scope of interest-free banking.

(ii) Arranging for the training of personnel in Islamic banks so as to achieve higher standards and greater efficiency.

6. Committee on *Zakat* and Fiscal Policy:

- Stressing the obligation of *Zakat* with a view to ensure social justice in Muslim countries.

7. Committee on Economic development in an Islamic Framework:

-Conduct a Comprehensive Survey of experiences in the field of Islamic Economics and encourage participation in scientific research in Muslim countries.

Second Conference Communiqué

Thanks to Allah Almighty, the Second International Conference on Islamic Economics was held in Islamabad on 4-8 Jumada II 1403 (March 19-23, 1983) under the auspices of the School of Economics, Islamic University, Islamabad. The theme of the Conference was 'Development, Finance and Distribution in Islamic Perspectives'. Besides discussing 25 papers presented at the Conference, the deliberations included the holding of two Open Forums on 'Development Strategy in an Islamic State' and 'Teaching of Islamic Economics'. Occasion was also taken to hold two Extension Lectures, one on the subject of "Islamic Approach to Development" and the other on "Recent Developments in Islamic Economics". Five working groups were set up on topics related to the theme of the Conference to give concentrated attention to issues of outstanding importance. These related to

1. Teaching of Islamic Economics
2. Islamic Banking in Theory and Practice
3. Problems of Profit-Sharing and their Solution
4. Issues Relating to *Zakah* and *Ushr*
5. Development Strategy in an Islamic Framework.

The participants agreed that the Islamic faith does not merely define the relation of man to Allah Almighty but also provides comprehensive guidance for all walks of life. Islam stands for the fulfillment of all moral and material needs of all human beings as the vicegerents of Allah on the earth; and ensures the establishment of a just social order. Islam expects its followers to deal with everyone on the basis of '*Adl* and '*Ihsan*. At the same time it makes it obligatory on an Islamic community to end all forms of *Zulm* (injustice and exploitation) to ensure the fulfillment of the basic requirements of a decent life for the entire population and to achieve self-reliance and integrated development of the *Ummah*. *Zakah* and absence of interest-based-transactions are two of the most distinguishing features of an Islamic economy. The discussions in the Conference clearly brought out that an economic system based on Islamic principles should result in dynamic growth, equitable distribution of income and wealth and a total restructuring of the economy.

The participants recognized that the socio-economic conditions prevailing in present day Muslim societies are not in consonance with the Islamic ideal. Large sectors of population in a number of Muslim countries are afflicted with abject poverty, and there are glaring inequalities of income and wealth. Economic exploitation by colonial powers had played an important part in impoverishing the Muslim World on others. Muslims had an opportunity to reorder their economic and social life in accordance with Islamic teachings after gaining independence but in most countries alien models of development were followed with unfortunate results. The participants emphasized the urgent need of re-appraisal of socio-economic policies pursued so far and a reorientation of these policies in accordance with the guiding principles provided by Islam.

The participants agreed that highest priority should be accorded to meeting the necessities of socio-economic life of individuals and of society, achieving collective self-reliance in the Muslim World enabling them to play the role of *Shuhada* 'ala al-Nas. ? This requires pursuit of policies aimed inter alia at providing adequate

employment opportunities so that the people are enabled to meet their economic needs by their own earnings. The *zakah* system would provide necessary assistance to those who are disabled and whose earnings do not suffice to meet their needs. The participants were of the view that if all the factors affecting production, exchange and distribution relations in a society are organized on the basis of Islamic precepts, the *zakah* system alone may normally suffice for providing social security to those who need it. However, it was realized that on account of colonial exploitation in the past and pursuit of inappropriate policies, the extent of poverty in number of Muslim countries was of such a magnitude that *zakah* resources would need to be supplemented by other resources to fulfill the basic needs of the population. At the same time, steps should be initiated to restructure the economic system and bring about such institutional and other reforms are necessary to eradicate mass poverty.

The participants agreed that in view of the clear prohibition of *Riba* by Islam it is necessary to remodel the monetary and financial system in Muslim countries on a basis other than interest. The general view was that the principle of profit-sharing, which is permitted by the *Shariah*, should be the foundation of the alternative system. In this context the participants noted with satisfaction that some experience with interest-fee-banking and already been gained by the working of the interest free financial institutions that are functioning in several countries. They hoped that this process will be accelerated and universalized in the period ahead.

The participants greatly appreciated the work accomplished by Muslim economists since the First International Conference on Islamic Economics held at Makkah in 1976. This work has led to the crystallization of ideas on the concept of economic development in an Islamic framework, the distinguishing features of an Islamic economy, the economic objectives of an Islamic State, the monetary, fiscal and other policy instruments to achieve those objectives, and issues relating to stability, growth and equilibrium in an Islamic economy. Considerable work has also been done to work out practical alternatives to substitute the interest-based monetary and banking system. In this context, the participants were highly appreciative of the Report on the Elimination of Interest submitted by the Council of Islamic Ideology to the Government of Pakistan in June, 1980 which contains a detailed blueprint for replacing interest in all sectors of the economy by techniques which are permitted by the *Shariah*.

The Conference participants appreciated the progress made in analytical work relating to Islamic economics. They also noted with satisfaction the progress made in the establishment of institutions concerned with teaching and research in the field of Islamic Economics, namely the International Centre for Research in Islamic Economics at King Abdulaziz University, Jeddah; the Islamic Research and Training Institute establishment by the Islamic Development Bank at Jeddah; the Training Institute for Islamic Banking and Economics established by the International Association of Islamic Banks at Lefkosa in the Turkish Federated State of Cyprus and the School of Economics at their Islamic University at Islamabad. In addition, arrangements exist for teaching and research in about two dozen Universities in Muslim Countries. Full-fledged departments of Islamic economics have been started in four Universities (Islamic University, Imam Muhammad Bin Saud University, Riyadh, Ummul Qura University, Makkah, Islamic University of Omm Durman).The participants warmly welcomed the establishment of

an International Institute of Islamic Economics in the Islamic University, Islamabad by the President of Pakistan, as announced in his inaugural address.

The Conference felt that the progress made so far needs to be consolidated and advanced further. In particular, there is a need for greater coordination between the theoreticians, policy makers and practitioners for promoting Islamic Economics. Towards this end, and to best utilize the talents of Muslim economists residing in different countries in the world, the Conference recommends that an International Association of Muslim Economists be formed with a permanent Secretariat. The Conference established a Committee to take all necessary steps for incorporation and promotion of this Association.

Third Conference Communiqué

Thanks to Allah Almighty, the Third International Conference on Islamic Economics was held at Kuala Lumpur on Rajab 23-25, 1412H (January 28-30, 1992) under the joint sponsorship of the International Islamic University, Malaysia, Islamic Development Bank, Jeddah and the International Association for Islamic Economics. The Conference theme was Financing Development from Islamic Perspective.

The Conference regards development to be high priority task for all Muslim countries and communities. The Ummah of which these countries and communities are parts is required by Allah to communicate His message to humanity and demonstrate Islam by its living example. This the Ummah cannot do unless it has the strength and resilience which comes from development. At present a majority of the over one billion Muslims are in a state of poverty, illiteracy and suffering which is quite destructive of Islamic living and is sure to keep the Muslim Ummah weak, dependent and ineffective. Yet, the Muslim countries are, by the grace of Allah, also endowed with rich resources, human and natural, which constitute the potential for the Ummah effectively playing its God assigned role. Every Muslim individual, group, community and country is therefore called upon to make all possible efforts to achieve the aspirations and goals of development based on freedom, stability and justice.

Means and policies necessary to develop to the level of material and moral standards required in the light of the above must be explored by Muslim economists, *shari'ah* scholars, and other professionals and knowledgeable persons in each field of knowledge.

The Conference calls upon all concerned to contribute towards creation of the proper environment for the flowering of development efforts and required activities. The foremost characteristic of this environment is shura with all the meaningful freedom it requires, e.g. freedom of thought, expression and association, etc. Along with this freedom is the need to institute mechanisms that will ensure responsibility and accountability in decision making in the context of a broad based participative system. Without these, pragmatic and prudent policies for development cannot be expected when they are most needed especially to overcome rampant inefficiencies and significant wastage of public resources.

Financing development by interest bearing loans from abroad has already led many countries into severe crises and it is high time Muslim countries drastically reduce their

reliance on this mode of finance. It leads to conflict and ill-wills among nations, contributes to instability as debt servicing is unrelated to the debtor country's ability to pay and, also, reduces the efficiency of investment by affording opportunities for financing non-productive and uneconomic projects, even corrupt expenditures. The same applies to domestic borrowing with the additional disadvantage that it increases the inequities and disparities in the distribution of income and wealth. Debt financing of budget deficits has been especially instrumental in creating imbalance, accelerating inflation followed by its evil consequence.

The Conference calls upon Muslim countries increasingly to sue Islamic modes of finance, rely on their own resources and those generated by cooperation among Muslim countries. External resources, whether private or official, should be welcome on a participation basis. Simultaneously it urged Muslim countries to improve their investment climate and provide adequate guarantees to investors so that increased investment flows in while outflow of capital is checked.

The Conference considered the various Islamic modes of finance being practiced by Islamic financial institutions e.g. *murabaha*, *mudarabah*, *musharakah*, *salam*, *istisna'*, leasing, etc. The Conference, in endorsing these modes felt uncomfortable with the predominance of murabaha and urged all concerned increasingly to adopt sharing-based as well as other suitable alternative modes of finance wherever feasible.

It felt a strong need for developing suitable financial instruments on the basis of these and other contracts which are free of interest and other non-permissible features. It also urged the creation of a secondary market for *shari'ah*-compatible financial instruments in order to facilitate mobilization of resources for development. In this regard, there is a special role to be played by the Central Banks of Muslim countries by way of extending needed assistance to Islamic financial institutions while guiding and supervising them without sacrificing public interest. This Conference calls upon the Governors of the Central Banks to play a positive and active role in the promotion and strengthening of Islamic finance. Whereas in the past Islamic financial institutions felt discriminated against, it is hoped they will receive normal treatment in the future especially with respect to the Central Banks' function as the lender of last resort.

The conference notes with satisfaction the valuable individual and collective efforts being made in this regard, especially those by some Muslim governments which are trying to get rid of interest and switch over to Islamic finance. We are also hopeful about similar moves in other Muslim countries and urge Muslim economists, *shari'ah* scholars, bankers and experts in all relevant fields to fully cooperate with those practicing Islamic finance.

There is great importance attached to the practice of Islamic finance in Muslim countries as it is only after making significant progress in this regard that we can hope the world at large to listen to us when we call upon it to eschew interest and adopt the alternatives. It will also be in the fitness of things for the international financial community in general and the international financial institutions in particular to take favorable notice of Islamic finance as it represents the aspirations of a sizeable section of humanity. In fact, humanity will greatly benefit if interest which is prohibited by the three major world religions and endorsed by none, is abolished and replaced by alternatives that ensure fairness and equity.

The Conference also feels that *Zakah* can play a significant role in the realization of the social and economic goals of Islam and its implementation should go hand in hand with other developmental efforts.

This Conference assures all that in seeking to serve humanity in general, it is not a matter of confrontation with anyone but a search for peace in a harmonious and balanced vision for the economy of man based on individual initiatives inspired by social goals and with the aspiration to please Allah, the Lord of all mankind, the Creator, the Sustainer.

The Conference also expressed its gratitude to the host institution, the International Islamic University of Malaysia and the two other sponsoring institutions, the Islamic Development Bank and the International Association for Islamic Economics for their efforts in making the Conference a success. It was especially thankful to the people of Malaysia, Honorable Prime Minister, Dato' Seri Dr. Mahthir Mohammad, the Finance Minister and President of IIU, Dato' Seri Anwar Ibrahim, the Education Minister, Datuk Amar Dr. Sulaiman Hj. Daud and Tan Sri Dato' Jaffar Hussein, the Governor of the Central Bank of Malaysia for their unqualified support and encouragement. The overseas delegates to the Conference have a special word of thanks to the Rector, IIU, Dr. AbdulHamid Ahmad Abu Sulayman, Dean, Kulliyah of Economics and Management, Dr. Syed Abdul Hamid Al Juand and the staff and students of IIU who worked hard to ensure the delegates comforts.

Fourth Conference Communiqué

1. By Allah's help, the 4th International Conference on Islamic Economics and Banking was held at Loughborough University, U.K., during 13-15/5/1421H = 13-15/8/2000. It was attended by more than 150 participants from 29 countries including the U.K.¹ The theme of the Conference was "Islamic Finance: Challenges and Opportunities in the 21st Century". The Conference was jointly organised by the International Association for Islamic Economics, U.K.; Islamic Research and Training Institute of the Islamic Development Bank, Jeddah; The Islamic Foundation U.K., and Loughborough University, U.K.

2. Inaugural speeches were delivered by H.E. Abdulla Hassan Saif, Minister of Finance and National Economy, Bahrain; Rt Hon. Stephen Timms, Financial Secretary to the Treasury, UK; H.E. Dr. Ahmed Mohamed Ali, President, Islamic Development Bank; H.E. Dr. Mohamed Omar Zubair, President of the International Association for Islamic Economics, His Worshipful Councillor Neville Bird, the Lord Mayor of Charnwood, Prof. Khurshid Ahmad, Chairman, Islamic Foundation; and Prof. Harry Thomason, Pro Vice-Chancellor, Loughborough University. In addition, the following letters of support were received from officials of the Government of the United Kingdom.

From The Rt. Hon. Tony Blair, The Prime Minister, UK

"I am delighted that the 4th International Conference on Islamic Economics and Banking will be held in the United Kingdom, given our role as a major centre for financial services. I wish the Conference and all the participants every success."

From Mr. Howard Davies, Chairman, The Financial Services Authority, UK

"I am delighted that the 4th International Conference on Islamic Economic and Banking has chosen Loughborough as its first venue in the West. The UK has become a major international centre for developing and marketing Islamic financial products. This Conference provides a valuable opportunity for practitioners and regulators to learn from each other."

From Mr. Eddie George, The Governor, Bank of England, UK

"I am delighted that the International Conference on Islamic Economics and Banking is being held in the UK for the first time, and that Loughborough University has been chosen as the venue. Islamic and Western approaches to finance differ in a number of respects, but it seems to me that they have a good deal in common in terms of underlying objectives. What is important is that there should be broader understanding of the motivation behind, and practical application of, Islamic finance, and I hope that the Conference will make a very positive contribution to that process."

(1) Algeria, Bahrain, Bangladesh, Belgium, Brunei, Egypt, Germany, India, Indonesia, Iran, Italy, Jordan, Kingdom of Saudi Arabia, Kuwait, Lebanon, Libya, Malaysia, Morocco, Nigeria, Pakistan, Poland, South Africa, Switzerland, Syria, Turkey, UAE, UK, USA & Yemen

3. Twenty-three papers, six case studies and two distinguished lectures were presented and discussed.

On Finance

4. The participants noted with satisfaction the positive trends in Islamic banking and finance that have taken shape during the last decade or so. In particular, the following trends are noteworthy.

The trend of establishing new Islamic banks and financial institutions, new branches of existing institutions, as well as new Islamic windows in conventional banks, continues unabated. This provides the market with the necessary competition, the industry with one of the prerequisites of financial innovation and customers with better services.

Islamic Banking is no longer a local business. New technology and globalisation have brought it international competition and have also created the opportunity to reach new clients across the globe.

Important institutions and activities supportive of Islamic finance have emerged, including the development of Islamic accounting and auditing standards. Also notable is the ongoing cooperation between OIC Fiqh Academy and other *Fiqh* Academies and several Islamic financial institutions to develop standards of conformity with the Shari[ah].

Islamic banking and finance has become the subject of research and study from several angles, contributing to the maturity and depth of the discipline. Several prominent institutions of higher learning in both Muslim countries and the West have established degree programmes and granted numerous PhDs in Islamic economics.

A number of countries tried and are still trying, with varying degrees of success, to Islamise their entire financial system. These efforts must continue and deserve our full support. Some other countries have successfully used Islamic modes of finance to attract more financial resources in place of deficit financing. This trend needs to be strengthened, as it would reduce macroeconomic imbalances and the severity of the external debt problem.

We call on Muslim countries to take advantage of the opportunities Islamic finance can bring to their economies especially in mobilising dormant financial resources and providing vital financial services to a large segment of their economies that prefer only Islamic finance.

5. Islamic banking and finance has been progressing in terms of growth and the scale of operations. However, it is still far below its full potential. We note below some of the reasons for this:

The Islamic banking and finance market needs more competition. Ironically, restrictions on establishing new Islamic banking and financial institutions in many countries mar the market with monopolistic tendencies that hinder efficiency and innovation. Both the

Shari[ah and economics strongly disfavour granting monopolistic advantage to any public or private institution in the provision of financial services.

Several Conference papers have analysed in-depth Islamic participatory contracts from the perspective of agency problems and optimality. The participants recognised the very promising potential of further research in this area for both the theory and application of Islamic finance

6. Islamic banking requires proper regulation and supervision as much as conventional banking does. As Islamic banking is a growing subsector, if it is insufficiently regulated and supervised, it would leave a gap in the banking system. Certain differences in regulatory and supervisory approaches must be recognised, however, in order to make it effective in the case of Islamic banking. It is, therefore, advisable to develop internationally recognised standards of Islamic banking supervision and enforce them through cooperation among the monetary authorities of Islamic countries. The Islamic Development Bank should assume an active role in coordinating and guiding such a process.

7. Efforts to develop new Islamic financial instruments require further strengthening. The current attempts to establish new Islamic funds, to construct an Islamic money market and to develop Islamic instruments to finance government activities, all in cooperation with monetary authorities and Islamic financial institutions, are commendable and should continue.

A way to strengthen the movement towards establishing an Islamic financial market is to bring the financial market authorities in Islamic countries into a coordinated effort directed towards proper regulation of Islamic financial instruments and their cross listings. This would enable trading in them across the borders with ease. The Islamic Development Bank would be an ideal vehicle for enabling such coordination.

On Poverty

8. The participants were dismayed by the widely acknowledged fact of increasing disparities of income and wealth between nations as well as within nations. Add to this the disturbing persistence of absolute poverty –we still have about a billion human beings subsisting on less than a dollar a day. All this is equally applicable to many Muslim countries.

The situation is morally unacceptable. With all the growth and technological breakthroughs that recent years have witnessed, humanity must find ways to ensure two square meals a day for every member of the human race. Participants agreed that it is a moral imperative on all economists, both Muslim and non-Muslim, to play an active role in poverty eradication and in reducing inequalities by researching facts and suitable policies and educating public opinion.

One important factor that can make a significant contribution to the realisation of the above goal is to promote maximum employment and to provide participatory and microfinance and skill generation programmes.

9. Zakah, *waqf*, family mutual support and other well-known Islamic transfer schemes place responsibilities for care for the poor on the individual, the family and the community. This provides a solid foundation for mobilising resources and building programmes for poverty elimination. To be effective such programmes should utilise the best available experience and accumulated human knowledge. Available research highlights the correlation between widespread poverty and lack of development. Countries that have succeeded in moving into sustainable development with reduced poverty have been able to achieve this mainly through quality education that is available to everyone, efficient institutions, democratic practices and the adoption of the Rule of Law. These ingredients, needless to say, are very much encouraged in Islam.

10. The Conference participants would like to express their appreciation to Loughborough University for their hospitality and excellent facilities and services. The participants would also like to thank the sponsors of this Conference, Abu Dhabi Islamic Bank, UAE; Faisal Finance, Switzerland; The International Investor, Kuwait; Shamil Bank of Bahrain; and The Pakistani Channel Ltd, UK for their support and encouragement.

Fifth Conference Communiqué

By the Grace of Allah, the Most Merciful, the 5th International Conference on Islamic Economics and Finance - *Sustainable Development and Islamic Finance Muslim Countries* was held in the Kingdom of Bahrain during October 7 – 9, 2003. The Conference was jointly organized by the Ministry of Finance and National Economy, Bahrain, Islamic Development Bank, Islamic Research and Training Institute, University of Bahrain and the International Association for Islamic Economics, UK.

The Conference attracted considerable interest as 6 addresses by Their Excellencies the dignitaries were made, 4 Conference Speeches by industry and academic leaders were delivered, one Distinguished Dinner Lecture was given, and 26 papers and 52 discussant reports were presented on various topics. Total of 199 participants attended the Conference, of which 93 came from outside Bahrain. The Conference is pleased to pass the following resolutions.

1. The participants are grateful to His Highness the Prime Minister of the Kingdom of Bahrain for his Patronage and the people and leadership of the Kingdom of Bahrain for their gracious hospitality, the Ministry of Finance and National Economy of Bahrain for its sponsorship, the University of Bahrain, the International Association for Islamic Economics and the Islamic Development Bank, Islamic Research and Training Institute, their leadership and staff for co-sponsoring the event and for working hard with devotion, which ensured highly quality of papers and discussants' reports and for the excellent arrangements made by the event organizer, which made the Conference a great success.

2. The participants noted that the theme of *Sustainable Development and Islamic Finance Muslim Countries* for this Conference was indeed a timely choice. Various presentations emphasized that development strategies must be in conformity with the Islamic family values, justice, and social harmony. Hence it would not be desirable to concentrate only on economic variable.

3. The presentations highlighted the fact that appropriate form of finance plays a vital role in sustainable development. Participants noted with satisfaction that the expanding trend of Islamic finance as an alternative system of financial intermediation all over the world is encouraging. Islamic commercial banks, investment banks, mutual funds, insurance companies, and other non-banking financial intermediaries are spreading fast. Many governments as well as the IDB have started issuing Islamic financial instruments for resource mobilization. Infrastructural support institutions such as AAOIFI, IFSB, IIRA, IIFM, GCIBFI have been established.

4. The participants noted with appreciation that the Kingdom of Bahrain has played an important role in realizing these achievements. The sustainability of these achievements depends on strong research, teaching and training support, particularly in the Kingdom of Bahrain as most of the institutions have graciously been hosted by the Kingdom. The industry and its support institutions require a stable supply of trained professionals and continued applied research concentrating on the challenges faced by the industry. Hence there is an urgent need for establishing Research and Teaching Programs in Islamic Economics, Banking and Finance, at the University of Bahrain, with plans to award degrees in Islamic Economics and Finance. This will serve as the backbone for the future growth of the industry around the world and also consolidate the position of Bahrain as a leader in Islamic banking and finance.

5. Several presentations emphasized that the Islamic financial system contains inbuilt features which can promote sustainable economic development. The system requires risk sharing which helps spread financial and business risks to a larger segment of market participants. Islamic finance is also asset-based and it can play an effective role in controlling speculation. Hence Islamic finance carries a great potential for enhancing financial stability. Since finance can only be provided against real economic activities, services and goods, Islamic finance can help in controlling unproductive allocation of resources which leads to a pyramid type of debt creation. Furthermore, Islamic finance concentrates on the nature of projects and business units rather than looking just at the borrower's so-called "credit worthiness". These features can help in enhancing efficiency in resource allocation. Hence it is desirable for Muslim countries to introduce the implementation of Islamic finance as a vehicle for promoting sustainable development. This requires institutional development, suitable reforms in the financial sectors and the undertaking of appropriate legislation to facilitate the promotion of Islamic banking and finance.

6. A number of papers emphasized that there is a great need to develop technical capabilities in credit, project and investment analysis by the Islamic financial institutions. They need to develop credible risk management, internal control and corporate governance systems. They need to refine their products both in terms of Shari'ah and the market. They need to remain alert on a continuous basis regarding the rapidly changing regulatory, information and technological environment. They need to effectively present their position to international forums, particularly, the Basel Committee, and the Financial Stability Forum. In this respect, the participants noted with appreciation the role of the IDB in strengthening the Islamic financial industry. The IDB is requested to continue extending this support and help Islamic financial institutions and Muslim countries to evolve a common strategy to overcome the current and future challenges in the existing international market environment.

7. A number of presentations emphasized the fact that sustainable development is a multi-faceted agenda. Muslim countries must re-assess their resources and national priorities with a view to evolve and adopt a viable self-reliance strategy, while at the same time, participating in international markets. They must cut their non-developmental expenditures so that resources can be allocated to health, education, water, and other basic and social infrastructure. Development can be sustainable only if it does not create macro economic imbalances. It is necessary to take into account all factors that contribute to human well-being including non-economic and social variables.

8. Some presentations presented case studies in poverty alleviation. It was emphasized that the institutions of Zakah and Awqaf need strengthening as these vital institutions have great potential in alleviating poverty which is a major requisite for sustainable development.

9. The participants noted that sustainable development also requires keeping the environmental balance. In the same manner, moral and ethical values, family and social harmony and integrity, and eliminating crime are of critical importance for human development. The participants urge the governments and non-governmental institutions to promote developmental strategies that can be morally, socially, financially and environmentally sustainable.

10. The participants also took note of the level of economic cooperation among the Muslim countries. They felt that there is a need for improvement in accordance with the aspirations of the people. There is an urgent need for institutional development in the member countries of the OIC so that the flow of financial resources can be redirected to the Muslim countries. The governments of Muslim countries, the Islamic Development Bank, the Islamic financial institutions and the support institutions have a major role in creating an environment of trust and confidence, in providing suitable Islamic products and in alleviating fears and risks. An appropriate environment for investors' confidence can be created by strengthening rule of law, by implementing effective accounting and auditing systems and by strongly dealing with the evil of corruption.

11. Finally, the participants urged for initiating the preparations for organizing the Sixth International Conference on Islamic Economics and Finance with an appropriate theme that expresses the aspirations of the Ummah and the challenges that it is facing currently.

12. In view of the great success that this conference has accomplished, participants recommend considering the Kingdom of Bahrain to be one of the harbors to host International Conferences for Islamic Economy in future also.

Sixth Conference Communiqué

The Sixth International Conference on Islamic Economics and Finance has been held during 21-24 November 2005 in Jakarta under the theme of “Islamic Economics and Banking in the 21st Century”. The Conference was jointly organized by Bank Indonesia, the Islamic Research and Training Institute, IRTI, a member of the IDB Group, and the International Association for Islamic Economics, in partnership with the Indonesian Economists Association. The Conference is the sixth in a series of conferences that started in 1976 in Makkah Al-Mukarramah. More than 300 participants from 38 countries have discussed 30 papers on different topics of Islamic economics, banking, and finance.

The inaugural session of the Conference was held in the Vice Presidential Palace and was addressed by H. E. Jusuf Kalla, Vice President of Indonesia. The Vice President emphasized the importance of formulating practical solutions in Islamic economics and finance that can be implemented for poverty reduction and improving social welfare. Dr. Ahmed Mohamed Ali, President, IDB Group, reiterated the commitment of the IDB Group to continue to support the development of Islamic economics and finance. Burhanuddin Ahmad Abdullah, Governor, Bank of Indonesia emphasized the importance of this conference as well as earlier conferences in the development of the discipline of Islamic economics and finance.

The Conference started with a plenary session under the Chairmanship of Professor Khurshid Ahmed, Chairman of The Islamic Foundation, and Rector of the Markfield Institute of Higher Education. Dr. Mabid Ali Al-Jarhi, President, International Association for Islamic Economics, gave a welcome address in which he reviewed the different stages of development of Islamic finance and how it can be assisted to enter into a take-off stage.

H. E. Dr. Muhammad Omer Zubair, former Rector of King Abdulaziz University, and Conference Chairman reminded participants of the lessons learnt from the first conference in the series held in Makkah Al-Mukarramah in 1976. Maulana Ibrahim, Deputy Governor, Bank of Indonesia, and Chairman of the Steering Committee Reviewed the Conference program Dr. Munawar Iqbal, the Secretary General of the Conference reviewed the ground rules for sessions and some administrative matters. Dr. Abbas Mirakhor, Executive Director, International Monetary Fund, gave a keynote address in which he stressed role played by the prevalence of trust in the spread of Musharakah finance.

The conference held several plenary and parallel sessions in which papers dealing with topical issues in Islamic finance were presented and extensively discussed. Other side sessions were held to discuss teaching of Islamic economics and finance. Professor Bacharuddin Habibi, former President of Indonesia gave a dinner speech outlining Indonesia’s road towards economic development, stressing its enormous potential and drawing lessons from which the Islamic Ummah can benefit in the same field. Professor Khurshid Ahmed gave another dinner speech in which he reviewed major developments in Islamic economics during the last thirty years and shared his reflections on the further course of development and the challenges posed by globalization.

During the conference the participants made the following recommendations.

1. Scholars are urged to give balanced attention to all branches of Islamic economics rather than concentrate on the currently popular field of Islamic finance. In particular, more attention should be given to the methodology of Islamic economics.
2. The Islamic finance industry should try to rid itself of the products that are at variance with Maqasid al-Shari`ah and do not therefore enjoy wide consensus among Shari`ah scholars. In addition, finance modes that encourage consumerism, are based on gimmicks to provide personal loans or involve eventual trading of future against present money must be avoided.
3. Islamic countries are called upon to provide the legal and institutional framework that encourages the use of Musharakah and Mudarabah finance. That include equal tax treatment of interest- and non-interest based finance, and strengthening the legal enforcement of financial obligations.
4. Islamic banks and financial institutions must strive to play a significant role in accelerating economic development through greater involvement in financing industrial and agricultural activities, in a way that does not avoid risk sharing with entrepreneurs.
5. Islamic governments are requested to provide the enabling environment in which risk sharing can expand and Islamic finance can operate competitively and effectively on equal basis with other types of finance. In particular, banking regulation and supervision must be tailored to cater to the specific requirements of Islamic banks
6. Islamic governments are strongly advised to use the Islamic modes to finance their activities and to avoid interest-based debt finance, the excessive expansion of which could expose the whole economy to instability.
7. Islamic countries must give due regard in their economic development policies to values and strategies derived from Islamic economics. In particular, attention needs to be given to sustainable development, self-reliance, basic and uplifting of the conditions of the poor and the disadvantaged. Social equity and the eradication of poverty must be given higher priorities.
8. Government and non-government institutions must be allowed to compete to strengthen Zakah collection under strict rules of disclosure and transparency. Institutional arrangements should be put in place to use the proceeds to transfer productive resources to the poor in the form of micro projects, in order to enable them to break out of poverty. All other Islamically lawful means of redistribution must be employed for the same purpose.
9. The world is quickly becoming dominated by large units and economic blocks. Therefore, serious and practical plans must be formulated to gradually bring the economies of Muslim countries to economic integration and put to systematic implementation.

10. The participants noted that the transformation from conventional to Islamic economics at both the institutional and national level is possible through a proper plan within a reasonable span of time. They therefore encourage governments and institutions to consider formulating and implementing such plans.
11. Human resources with skills and knowledge in Islamic economics and finance are necessary for the working of Islamic economic institutions. Therefore, it is necessary to encourage and support the establishment of educational and training institutions that are capable of producing such skilled human resources.
12. Training in Islamic finance commonly provided on ad hoc basis must give way to systematic training that is based on well prepared training material supported by the use of information technology.
13. Islamic universities, educational institutes, and business enterprises are called upon to establish an entity that is capable of producing textbooks and training material of general acceptability among the academic and professional communities.
14. The participants called upon the International Association for Islamic Economics to do its best to hold the Conference regularly, within intervals not exceeding three years. In addition, they call upon other organizations that hold conferences on Islamic economics and finance to coordinate with the Association for the sake of avoiding duplication and insuring quality.
15. The participants noted with appreciation IRTI's initiative to promote teaching of Islamic economics and finance through different means including distance learning and video conferencing. IRTI is therefore encouraged to continue to pursue its programs in this respect with added vigour.
16. The participants took note of the invitation of King Abdulaziz University to hold the Seventh International Conference on Islamic Economics in Jeddah in 2007. They express their deep appreciation to the University as well as the Saudi Arabian Government, and call upon the International Association for Islamic Economics and the IRTI to join hands with the university in making the next conference successful.
17. The participants expressed their deep appreciation to the people, government, and Bank of Indonesia for providing gracious hospitality that was instrumental in the successful conclusion of the conference. The organizers of the Conference have been called upon to express the participants' deep sense of gratitude to H. E. the Vice President of Indonesia for hosting the inaugural session in the Vice Presidential Palace and gracing it with his presence.

مساهمات المؤتمرات الستة الأخيرة

الأستاذ الدكتور منور إقبال

المستخلص: تأمل هذه الورقة تسجيل حصيلة المؤتمرات العالمية الستة التي عقدت قبل هذا المؤتمر من أجل المحافظة على السجل التاريخي للحدث. وأثناء القيام بهذه المهمة نحاول تقديم وتقييم مساهمات هذه المؤتمرات بكل موضوعية. لقد تم تحديد ست مجالات من أجل تحقيق هذا الغرض وهي:

١. الاعتراف الرسمي.
٢. بناء المؤسسة.
٣. تحديد جدول أعمال الأبحاث المعاصرة في الاقتصاد الإسلامي والتمويل.
٤. المساهمة في البحث.
٥. المساهمة في الكتابات المنشورة
٦. تشجيع كتاب جدد.

للقيام بعملية تقييم المساهمة في مجال البحث لقد تم اقتراح تصنيف جديد للمساهمات في الاقتصاد الإسلامي والتمويل. وفي الختام حاولت الورقة لفت العناية لمجالات تحتاج إلى جهود أكبر، لقد تم القيام بهذا لغرض تحديد جدول عمل للمستقبل.

Comments on Dr. M. Iqbal's Contributions of Last Six Conferences

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1. CRITICAL MISSION OF MUSLIM ECONOMISTS

Dr. Iqbal has given a clear picture of the accomplishments of these last conferences. I would like to match these achievements against the goal: what are we trying to accomplish as Muslim economists? The mission that we are trying to fulfill started as a historical necessity. When Muslims struggled for freedom from colonization all over the world, it was necessary for them to take a stand on how they would organize the country after liberation. One of the important elements in the demand for freedom was that idea that Muslims would be free to practice their religion, which offered a complete social, political and economic system. Muslim leaders all over the world appealed to Muslims to participate in the struggles for liberation in the name of Islam. Our vision was that the Islamic system would eliminate oppression and injustice, provide equal opportunities for all, eliminate poverty, and in general be far superior to capitalism and communism.

The crucial question that faces us as Muslim economists is: are we ready for the challenge of constructing an ideal Islamic system? Can we give appropriate advice to governments which wish to Islamize their systems? My fear is that we are currently unable to do so. The diversity of opinions among Muslim economists is extreme. We do not have any agreement on even the definition of "Islamic Economics," and no clear model of what an ideal Islamic economic system would look like in concrete and practical terms. To get a clear idea of how critical the problem we face is, it is sobering to look at the ideas of a critic of Islamic economics. Sohrab Behdad (1994) writes that

Similar to other utopias, the Islamic ideal world would be a just and humane society, without the exploitation, domination, alienation, and other social ills that have afflicted the contemporary capitalist and socialist societies. [However, in practice, the Iranian revolution did not succeed in creating such a system.] Frustrated by conflicts between the Parliament and the Ulema, one of the followers of Khomeini said: "Ten Years after the Islamic Revolution, ... [we] ask you ... to present to the world the unadulterated Muhammadan Islamic view on economics." In June 1989 Ayatollah Khomeini died, unable to define his version of Islamic economic order. It has become apparent that an Islamic economic system is not capable of presenting a viable social alternative.

He goes on to say that having failed to present any distinctive Islamic system, with any clear advantages over the capitalism, Iran has gone back to follow World Bank and IMF, and abandoned their initial claims that an Islamic system would help the poor and the oppressed, or indeed that there exists a distinct Islamic economic system.

An equally dangerous example for us is the history of how Christians legitimized interest. This is detailed in Jones (1989). After complex maneuvers quite similar to what Muslims are currently engaged in, the public gradually came to realize that there was no

difference between “Christian” system and interest, and stopped using complex means to accomplish simple goals. To explain this in the Islamic context, consider the tremendously successful “Sukuk.” This is a very complex legal maneuver which basically replicates what a standard Western bond issue does with much greater simplicity. It does not offer any social benefits, or further any Islamic goals of any type. Ultimately, people will ask, why should we go through this complex dance, when exactly the same thing can be done in a much easier way? In general, a group of Muslim economists/fuqaha are working on attempting to replicate Western financial structures by studying loopholes in Islamic laws. If they are successful, we will find ways to legitimize all Western financial methods. Then we will successfully replicate the Western system within Islamic forms. But this really means that there is no Islamic system as such – obviously an imitation Western system will produce what it currently does: exploitation, injustice and economic misery.

This shows that the task facing us as Islamic economists is very critical. Unless we succeed in providing a genuine alternative to Western models, the idea of Islamic economics will be swept away. All the claims that we made for providing justice and ending exploitation and misery will be shown to be false. Currently, I believe too much effort is being made on forms and laws, and insufficient attention is being paid to the spirit and the heart of the Islamic economic system. After substantial study of the two systems, I have come to the conclusion that the central difference between them is that the western system is based on greed and competition, while the Islamic system is based on generosity and cooperation. The practical problem that faces us, both as Muslims, and as economists, is how to get from here to there? We need to find ways of Islamizing the economy which conform to both the spirit and the form of Islamic law, instead of just the form, which is taking up most of the current efforts of Islamic economists. Before we discuss practical suggestions for this, we pause to contrast the spirit of Islamic and Western financial systems.

2. CONTRAST BETWEEN EAST AND WEST:

Just as political control is a means to establish worship and encourage good deeds:

Q22:41 (Allah will help) Those who, if We give them power in the land, establish regular prayer and give regular charity, enjoin the right and forbid wrong.

so economic striving is a means to purchase paradise:

Q9:111 Allah hath bought from the believers their lives and their wealth in return for Paradise.

On the strength of these prescriptions, our visionary leaders promised a just system, which would end exploitation and misery, provide equal economic opportunities to all, end the evils of both capitalism and communism, and provide justice in all dimensions of life, social, political and economic.

These ideals of Islam are in stark contrast to existing social, political and economic systems. Weber (1930, Chapter 2) writes that the ‘spirit of Capitalism’ is the pursuit of wealth as an end in itself, to the point of being ‘absolutely irrational.’ Keynes, who was

an architect of modern economic thought, as well as the global financial institutions (IMF and World Bank), expresses the fundamental ideas behind current Western financial systems very clearly:

“When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession — as distinguished from the love of money as a means to the enjoyments and realities of life — will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease ... But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.” from "The Future", *Essays in Persuasion* (1931) Ch. 5, JMK, CW, IX, pp.329 - 331, *Economic Possibilities for our Grandchildren* (1930); as quoted in "Keynes and the Ethics of Capitalism" by Robert Skidelsky

This Keynesian idea, that first we must become wealthy, then we can afford to be moral – first we must worship the gods of greed and usury, in order to become free of economic necessity – is at the heart of modern western economic systems and thought. This idea is in direct conflict with Islamic teachings. Men were told to be generous and give to others out of whatever they had, and not to strive to become rich so as to be able to be generous. The Quran mentions that the Ansar

Q59:9 love these who flee unto them for refuge, and find in their breasts no need for that which hath been given them, but prefer (the fugitives) above themselves even though they are themselves poor. And whoso is saved from his own avarice such are they who are successful.

Avarice and greed are condemned, as is the accumulation of wealth:

Q104:2 [Woe unto him] who amasses wealth and counts it a safeguard:

The West has promoted the idea of greed and acquisitiveness so much that it has come to appear natural, and many have forgotten that it was not always this way. Today, the Muslim student asks us what career to choose so that he can make the most money. In the past, people chose to become doctors so that they could serve mankind; today they go into the profession so that they can make money from the pain and illness of others. Even Muslim economists justify assumptions of selfishness using ayat from the Quran, and argue that Islamic Banks must pursue profits to survive in a competitive world, and cannot afford to pursue social goals. The question is: what can we do to change this state of affairs? What are our responsibilities as Muslims and as Muslim economists?

3. PATHWAYS TO PROGRESS

I believe that as a whole, Muslims have been trying to solve economic problems on the basis of wrong assumptions and misunderstandings regarding the Western economic systems. Just like the wrong medicine administered on the basis of a misdiagnosis will fail to cure the disease, so our attempts at building an Islamic economic system have not been very successful on either a theoretical or a practical front. Three commonly held ideas are, I believe, major errors and obstacles in the path to progress:

1. Western economic theory is, on the whole, a sound way of analyzing economic affairs of men, just like Western Physics provide good theories about natural laws governing the world and Western Engineering provides excellent machines and physical structures.

This idea leads to the concept that Islamic Economics = Western Economics + Zakat – Interest. That is, with minor changes required by Islamic laws, we can adopt Western economic theories and institutions and financial structures to our purposes. My article entitled “A Prelude to Islamic Economics,” disputes this idea. I argue that Western economic theory is fundamentally flawed. In general Western social science is based on a false understanding of the nature of human beings; this cannot be compared with Western physical science which deals with particles and laws of nature. This means that Islamic economics cannot be built by making modifications, minor or major, to western economic theories. We must build from scratch, on grounds traced by Muslim pioneers, starting from fundamental principles.

2. Current Western social, political and economic institutions represent a good way of dealing with modern problems. We need to find ways to imitate these within the Islamic legal structure.

In fact, Western institutions in all areas arise out of secular modern ideologies which are fundamentally incompatible with the Islamic worldview. We cannot adopt their institutions into an Islamic framework since their spirit is not compatible with ours. This makes our task doubly difficult, since we cannot go back to our past for solutions either. Modern problems are genuinely new problems, and require new solutions; however, we cannot use Western solutions. We can look to our traditions for guidance and learn about the spirit of an Islamic approach to solutions, but we must devise creative new solutions. I have argued this at length in my paper “Islamic Economics: A Survey of the Literature.”

To explain this further, consider the idea of an Islamic Bank. Note that banks have not always existed in the west. Usury was considered a vile enterprise and a flagrant manifestation of unchecked greed; only the despised Jews were moneylenders in Medieval Europe. The Bible states that “the love of money is the root of all evil.” Gradually, as religious thinking was replaced by secular, the pursuit of wealth for its own sake was legitimized in the West. Bernard Shaw was able to write that “the lack of money is the root of all evil.” This led to the Keynesian idea above that only wealthy people can be moral. This led to legitimacy of Banks, whose main purpose is to help people make money. The wealthy are instructed in ways to increase their wealth, and this is the purpose of all western financial institutions.

The pursuit of wealth for its own sake is condemned in Islam. The wealthy are advised to use their wealth to purchase the benefits of the Akhirah. In contrast, Islamic Banks imitate Western Banks in advising clients to increase their wealth. The only difference is that they recommend Halal means of doing so, instead of Haram. In this way, they achieve compliance in form with the Shari'ah, but not in the spirit. Unless we try hard to achieve the spirit, we will fail to achieve an Islamic system. In my article "Islamic Economics: A Survey of the Literature," I have discussed the bare-bone outlines of an alternative financial system which would comply with the spirit of Islamic economic teachings rather than just with the form. Much more effort in this direction is needed than is currently being made.

3. Western methodologies for acquiring knowledge, their pedagogical methods and educational institutions are the best possible, and we must imitate them to make progress.

The Muslims invented the concept of higher education and gave it to the whole world. Goody (2007) has documented how the Muslim universities of Spain were copied by Europe, and how this knowledge was suppressed in the historical accounts¹. Similarly, in other cultures, education was regarded as a luxury good, to be given only to a special few. Muslims invented the concept of universal education, as well as education for women, and gave it to the whole world; see Shalabi (1954). In the meantime, Reuben (1996) has described how the American universities were forced to abandon the idea that education was meant to develop character, and resulting damage done to higher education. Today, youth in American universities can learn how to create atom bombs, but nothing about the ethics of killing innocents. They can learn how to cut out and replace hearts but nothing about the feelings of love, compassion, and the fear of God that are needed to purify the hearts. There are many aspects of Western methodology, both in teaching and in social science, which are in conflict with Islam. A detailed discussion is given in my article "Islamic Economics: A Survey of the Literature." Here I deal with only one; the idea that a scientist must be a neutral and detached observer. Our methodology is to struggle to change ourselves and others, to bring the world in conformity with the orders of Allah. This struggle is meant to bring about inner spiritual transformation, and bring us closer to God:

Q29:69 And those who strive in Our (cause),- We will certainly guide them to our Paths: For verily Allah is with those who do right.

The Prophet Muhammad (May Allah shower his peace and blessings upon him) was the best teacher in all of human history; with his example before us, it is shameful to look to other models for education. The effect of his training transformed people who were near savages (burying their daughters alive and killing each other over minor issues) to models of civilized behavior for all time to come. Today this type of training is not available anywhere in the world, including Muslim countries. Because of the general decline in morals, the world is beginning to look like Jahilliya. More than 600

(1) It is amusing to note that the gowns and caps used in graduation ceremonies are not native European costumes – these were borrowed from Muslim graduation ceremonies which involved putting on the headgear of an Imam to symbolize the completion of education. Today, in this, as in many other areas, we are borrowing from the Europeans what they borrowed from us.

mothers kill their own children in the USA every year, and trillions of dollars of are spent on killing innocents and destroying infrastructure, putting to shame the savagery of earlier times. Our only hope is to re-learn our traditions, which contain complete guidance on how to achieve spiritual transformation. At the core is the idea that all our prayer, and our striving, and our living and our dying should be devoted solely to Allah, the Sustainer of the worlds.

Q13:11 ... Verily, God does not change men's condition unless they change their inner selves ...

God has entrusted this Ummah with the mission to convey his message to all of mankind. Today, with a general decline in morals, character and integrity, this has become an urgent need. Instead of the passive and detached observer role of the Western scientist, we must become passionately engaged in actively solving the problems facing the Ummah.

All praise is for Allah alone; may He guide us all to the right path, and make us among those who sell their lives and wealth for his pleasure.

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The Experience of the Islamic Foundation UK in Promoting Islamic Economics

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Abstract. This paper gives a synopsis on the experience of the Islamic Foundation UK in promoting research in Islamic Economics, teaching it and disseminating it worldwide using the medium of English language. It covers the establishment of the Islamic Economics Unit as the first Research Centre on Islamic Economics in the World and its activities that include publications, organisation of essay competitions, seminars and conferences and other activities that contribute to the service of Islamic economics.

Introduction

The last three decades of the twentieth century have witnessed a phenomenal interest in Islamic banking and financial services. The type and range of products now available in the West have also grown significantly. A large variety of different home financing products, based on a number of different underlying Islamic template contracts is now available. Home finance is no longer the only Shari'ah compliant product in the retail market. The availability and uptake of current accounts, as well as numerous other financial product advisory services are rapidly gaining popularity.

More than thirty years ago, the First International Conference on Islamic Economics was organised by King Abdul Aziz University in Makkah Al-Mukarramah in February 1976. It was the first of its kind in the history of Islamic economic thought. The objective of the conference was to promote and develop Islamic economics as a rigorous academic discipline. One of the major contributions of the conference was the proposal to establish an international centre for research in Islamic economics under the aegis of King Abdul Aziz University, Jeddah.

Based on the recommendation of that conference, the International Centre for Research in Islamic Economics was set up in 1977 (Ahmad, 1980). This is now known as the Islamic Economics Research Centre which is the main organiser of this conference. Soon after returning from the first international conference in 1976, Professor Khurshid Ahmad, who was at that time the Director General of the Islamic Foundation, UK, and who was one of the main organisers of the first conference, opened the first research centre on Islamic economics at the Islamic Foundation under the name: "The Islamic Economics Unit". The establishment of this Unit in Leicester was in line with informal discussions in the first conference, that while the research centre in Jeddah would mainly be responsible for conducting research and publication in Arabic, the Islamic Foundation would undertake similar research, seminars and publication programmes in English.

The Role of the Islamic Foundation in Promoting the Discipline of Islamic Economics: An Overview

The Islamic Foundation was established in 1973 in Leicester in the UK as an educational and research organisation devoted to developing a better understanding of Islam in the Western world. Since its inception, the Islamic Foundation UK under the leadership of Professor Khurshid Ahmad initiated high class academic research and intellectual rigour with spiritual reflection (Rahman, 2004). It was understood very early that the success of the promotion of Islamic economics as an academic discipline would depend heavily on introducing the subject of Islamic economics, banking and finance at universities and higher education institutions and facilitating research in Islamic economics. Therefore, all its efforts were directed towards achieving the following objectives: Promoting the teaching of Islamic economics; undertaking and commissioning research on Islamic economics, banking and finance; introducing Islamic economics and finance to mainstream academia and the banking and finance professions; organising conferences, seminars and orientation courses to disseminate the ideas of Islamic economics, banking and finance.

As a result, within in a short span of time, the Islamic economics unit of the Islamic Foundation became one of the major centres of research in Islamic economics in the world. It will not be an exaggeration to say that in many respects Islamic financial institutions in the UK and US came about as a result of a series of international workshops, training programmes, seminars, conferences and several brainstorming sessions organised during the 1990s by the Islamic Foundation UK in collaboration with (IRTI) of (IDB) Jeddah, and the International Association of Islamic Economics.

In due course many economists and scholars were inspired with the Islamic Economic's thought process and started to engage themselves in academic debate and produced several books and articles in the area of Islamic economics and finance. Many of these researches and monographs have been published by the Islamic Foundation and widely distributed throughout the world which has helped to create a better understanding and appreciation of Islamic economics not only in the Muslim world but also in the West.

It is heartening to note that within only a few decades, Islamic banking and finance have gained worldwide acceptance. This is not a small achievement by any criteria, considering that at one time it was not only western bankers who were sceptical about the viability of Islamic banking but many Muslim economists in Muslim countries also had doubts and reservations. However, by and large, many Muslim Scholars, economists, jurists and bankers gained confidence in the concept and it is due to their rigorous efforts today that Islamic economics is recognised as an academic discipline and Islamic banking is considered a viable alternative to conventional banking. The success of Islamic banking proved the fact that there is no incompatibility between adhering to Islamic Shari'ah and making profits; rather Islamic banking if processed professionally could actually be more profitable.

To promote the discipline of Islamic economics, banking and finance in the British academia, the Islamic Foundation successfully negotiated and finally succeeded in October 1995 to introduce the teaching of Islamic economics as one of the MA modules in the department of economics at the university of Loughborough. The Foundation not only sponsored the salary of the research fellow appointed but also gave a grant to enrich the library with the necessary books and materials.

However, the event which could be regarded as a landmark in the history of Islamic Banking in the West was the two-day international conference which the Islamic Foundation in collaboration with Loughborough University organised in September 1995 at the Foundation premises. Around 50 representatives of different Islamic organisations, banks, and institutions from home and abroad participated and around a dozen leading professors, teachers, lawyers and executive directors presented their papers at the conference. The chief guests at the conference were Mr Eddie George (Governor, Bank of England), Mr Ahmad Mohammad Don (Governor, Bank Nagara, Malaysia) and Dr Abbas Mirakhor (Executive Director, International Monetary Fund, Washington). In his keynote speech, Mr Eddie George said, "We welcome competitive innovative and financial market and banking practice to enhance the services that London can provide for the users of those services – both domestically and internationally. And that is the context within which we, at the Bank of England certainly seek to understand Islamic Banking." In conclusion he also said, ".....we have to work together with the Islamic Banking community to identify and solve any problems that may exist". (*New Horizon*, London November 1995). One of the main outcomes of this international conference was the formation of a 7-member follow-up committee to initiate meaningful dialogue between Islamic and traditional bankers and bring the two sectors closer. (*Islamic Foundation Newsletter*, No.11 December 1995).

A good number of Muslims in the UK who belong to an affluent minority were frustrated at being unable to access an interest (*riba*)-free banking system. It was felt that such access would invariably help to release some of the Muslim resources into the wider community. To fulfill this desire, the Citizens' Organising Foundation, under the Chairmanship of Professor Khurshid Ahmad organised an important meeting on April 23 1999 with Sir Eddie George, Governor of the Bank of England and Mr Howard Davies, Chairman of the Financial Services Authority. Following this meeting, Howard Davies of the FSA agreed to meet again with the leaders of the Islamic financial community scheduled to be held on September 8, 1999 to discuss the issue of a giving permission to establish an Islamic Bank in the UK. At this meeting, chaired by Professor Khurshid Ahmad, Howard Davies confirmed that the British government had given indication that it would be prepared to allow Islamic banks to operate in Great Britain if any application is made and it fulfils the minimum criteria for authorization (*IF Newsletter*, 2000). As a result, the first Islamic commercial bank started operation in 2003. Later many Islamic financial institutions came into being.

The Contribution of the Islamic Economics Unit at the Islamic Foundation

The Islamic economics unit at the Islamic Foundation, set up in 1976 has played a significant role by providing technical know-how in the area of Islamic economics to the academic community in the UK as well as abroad. It maintains contact with all those interested in the development of Islamic economics. The following sub-sections provide a glimpse of the activities of the Islamic economics unit.

1. Islamic Economics Research and Publications

The Islamic economics unit of the Islamic Foundation is a global facilitator of independent research and has accumulated a wealth of experience in the field of Islamic economics banking and finance. It also undertakes research projects and engages in constructive dialogue with academic and financial institutions. In addition, the unit provides advice to the community in the area of Islamic finance such as Islamically acceptable wealth management, alternative mortgages and investments. This unit has published twenty-seven highly accomplished books on various aspects of Islamic economics, banking and finance. Some of these books are based on the proceedings and papers of the international conference seminars.

2. International Conferences/ Workshops/ Orientation Courses

Since 1991, the Islamic Economics Unit, in addition to international conferences and seminars, has organised an annual international orientation course on Islamic economics, banking and finance. The annual orientation courses were held in collaboration with (IRTI), Jeddah and Loughborough University, UK. These programmes have attracted trainers and participants from Europe, the United States, Africa and Asia. The main aim of these programmes is to provide a central platform and communication channel for researchers, academicians, business leaders and financial industry practitioners to meet and discuss critical issues and ideas relating to Islamic banking and finance. In addition, it provided a net-working opportunity for the participants and served as a platform to provide further knowledge and research, both on theoretical and practical levels. These international programmes were well received by the participants from all over the world. Among the topics and areas covered at these events were Shari'ah Law, Islamic accounting standards, alignment with Basel II, risk management, capital adequacy, legal issues in Islamic finance industry, Islamic capital market, Takaful and Retakaful, Islamic Money Market, Islamic Asset Management, Product Branding and Market Development, Training and Development of Human Capital, Reporting new research and Latest Findings in Islamic Banking and Finance.

In addition to the epoch-making banking conference held in 1995, the fourth international conference on Islamic economics was held in August 2000 at Loughborough University, entitled "Islamic Finance: Challenges and Opportunities in the 21st Century". This was jointly organised by the International Association of Islamic Economics, IDB Jeddah, the Islamic Foundation and Loughborough University. More than 300 delegates from all over the world consisting of representatives from universities and research institutes, bankers, lawyers, government officials, community leaders and students participated in this conference, the first of its kind ever held in the West.

3. Academic Support to Researchers

The Islamic economics unit provides academic support to people engaged in research in the field of Islamic economics, banking and finance. The unit also focuses on the economic issues of Muslim countries. To this end, it provides facilities and support services to students and visiting scholars who are pursuing research in the area of economic and financial development from an Islamic perspective. Furthermore this unit continuously procures new publications study materials for building an Islamic economics resource centre at the Islamic Foundation library.

4. Islamic Economics as an Academic Discipline

The trustees of the Islamic Foundation had the foresight many years ago to visualise that the success of the Islamic banking movement would depend heavily on investment in education, research and development. With this in view, as mentioned earlier the Foundation entered into a partnership with Loughborough University UK and started MSc as well as PhD programmes in Islamic banking and finance in 1996, the first of its kind in the Western world.

A further step in the promotion of Islamic Economics as an academic discipline was the establishment of the Markfield Institute of Higher Education (MIHE) in 2000 - an academic project of the Islamic Foundation UK. The degrees of MIHE were initially validated by Portsmouth University and later by Loughborough University (IF Newsletter, 2000). The purpose of this project was to contribute towards the global development of human capital that was required to support for future growth and development particularly in the area of the global Islamic banking and financial industry. This gave the Islamic Foundation a stature and recognition across the world to the extent that its students come from more than seventeen different countries in Europe, Asia, and Africa. Later the purpose-built complex of MIHE in Markfield was formally inaugurated by His Royal Highness, the Prince of Wales in 2003 (*IF Newsletter*, 2003).

MIHE now offers a wide range of courses. It provides an opportunity for students to pursue Post-Graduate Certificate and Diploma, MA, MPhil and PhD courses in Islamic Banking, Finance and Management. This institute has now been recognised as an excellent institution for producing high-calibre young graduates, professionals and researchers for the benefit of Islamic banking and finance industry (MIHE, 2006).

5. Promotion of Islamic Economics through Journals and Periodicals

- a. The *Review of Islamic Economics* is a bi-annual journal jointly published by the International Association of Islamic Economics and the Islamic Foundation UK. It provides a forum for academics and practitioners to interact and contribute intellectually to the development and promotion of Islamic economics on a global stage.
- b. The *Muslim World Book Review (MWBR)* and *Index of Islamic Literature*. The quarterly publication of *MWBR* which started in 1986 gave special place to Islamic economics and banking by highlighting and reviewing recent relevant

publications. The *Index of Islamic Literature*, a companion volume to *MWBR* devoted a special section to Islamic economics citing the latest publications on Islamic Economics as well as articles from academic journals and edited books. Both these journals played a leading role in informing the academic community about the latest research and publications in the emerging field of Islamic economics and banking.

6. Essay Competition

In an attempt to draw the attention and participation of students and scholars all over the world towards the discipline of Islamic economics, in 1994 The Islamic Foundation initiated its first international essay competition on Islamic economics, banking and finance. This essay competition lasted for several years and hundreds of students from home and abroad participated in this noble initiative. A total of eight prizes were given every year and presented to the winners at special prize giving ceremonies in Leicester and London. This essay competition initially not only internationalised the subject but attracted a number of young and talented scholars who later in their life played quite significant roles in augmenting the discipline of Islamic economics, banking and finance all over the world.

7. *Encyclopaedia of Islamic Economics*

The Encyclopaedia of Islamic Economics is coordinated by the Islamic Foundation UK in association with the Centre for Islamic and Maghreb Studies, London. This is a unique effort carried out by Muslim academic organisations and the project will run into 5 volumes with an expected completion date of 2010.

Conclusion

The Islamic Foundation is delighted to have been able to cover such a vast field of research over recent years. Thanks go to the dedicated team of staff led by Professor Khurshid Ahmad, the doyen of Islamic economics and the Chairman of the Islamic Foundation. Without this dedication the Islamic economics unit would not have grown to the level it has reached today. It hopes to take the lead worldwide in the coming years to monitor, coordinate and initiate research, both theoretical and practical.

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تجربة المؤسسة الإسلامية ببريطانيا في تشجيع الاقتصاد الإسلامي

الدكتور محمد مناظر أحسن

المدير العام للمؤسسة الإسلامية ببريطانيا

المستخلص: تقدم هذه الورقة عرضاً مختصراً عن تجربة المؤسسة الإسلامية في بريطانيا في تشجيع البحث العلمي في الاقتصاد الإسلامي، وتدريبه، ونشره في جميع أنحاء العالم باستخدام اللغة الإنجليزية.

وتتعرض الورقة لإنشاء وحدة الاقتصاد الإسلامي التابعة للمؤسسة باعتبارها أول مركز بحوث اقتصاد إسلامي في العالم. كما تتعرض لبعض أنشطتها التي تشمل البحوث والمطبوعات، وتنظيم المسابقات البحثية، والحلقات الدراسية، والندوات والمؤتمرات، وغير ذلك من النشاطات التي تصب كلها في خدمة الاقتصاد الإسلامي.

Experiences of IIIE: 1983-2007

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Abstract. At the dawn of the fifteenth century Hijri, two universities International Islamic University of Islamabad (IIUI) and International Islamic University of Malaysia (IIUM) were launched with the mission of integrating the Islamic world view and all modern branches of knowledge. An important portion of this mission was the production of a body of knowledge to be known as “Islamic Economics.” This would provide an alternative to conventional modern economic theory which is based on interest and on the concept of *homo economicus*, both of which are alien to Islamic ideals. The object of this note is to review the experience of International Institute of Islamic Economics (IIIIE), one of the key departments of IIUI. Our goal is to learn from this experience so as to advance the project more efficiently in the future. We will discuss the successes so as to be able to build on them, and also the failures, so as to avoid them.

1. The Vision of the Founders of IIIE

There was much excitement and enthusiasm at the founding of the International Institute of Islamic Economics (IIIIE), as an integral unit of the International Islamic University of Islamabad (IIUI). In Pakistan, General Zia-ul-Haque had promised to move to an Islamic system. There was ferment and activity all over the Islamic world. It appeared that with the start of an Islamic system, there would be need for large numbers of scholars with training in both modern systems of governance, law, politics, and economics, and also knowledge of the traditional methods of Islam. The IIUI website states that:

“The foundation of the Islamic University, Islamabad was laid on the first day of the fifteenth century Hijrah i.e. Muharram 1, 1401 (November 11,1980). This landmark of the beginning of the new Century symbolizes the aspirations and hopes of the Muslim Ummah for an Islamic renaissance. The desire to produce scholars and practitioners, imbued with Islamic Learning, character and personality, and capable to meet the economic, social, political, technological and intellectual needs of the Muslim Ummah was the *raison d’être* of this University”

Some of the specific goals of IIUI, taken from documents, are listed below:

1. **Institution Development:** To develop an International Islamic seat of higher learning, research, instruction and training in various branches of knowledge.
2. **Character Development:** To produce a balanced and harmonious human personality, duly informed of and embedded in the Islamic world view and infused with Islamic idealism To develop Islamic character and personality among the students, teachers and the supporting staff in the University

3. **Development of Scholars:** To produce scholars fully aware of the human intellectual and scholastic heritage, including the most current developments in human knowledge. To highlight and define the relevance and implications of Islam for the whole gamut of human thought and action.
4. **Islamization of Knowledge:** To re-construct human thought in all its forms on the foundations of Islam To encourage and promote education, training and research in Islamic Learning, social, natural, applied and communication sciences, and other branches of knowledge
5. **Action Orientation:** To take practical steps for ideological , moral, intellectual, economic and technological developments ideas, principles in accordance with the norms of Islam and to take necessary steps for developing practical solutions of contemporary problem.
6. **Knowledge Base for Problems of Muslim Ummah:** To provide a sound intellectual and scholastic foundation for the ideological, moral, intellectual, social, economic and technological development of the Muslim Ummah within the framework of the values, ideals, principles and norms of Islam.
7. **Islamically Trained Professionals:** To produce skilled personnel for effective implementation of Islamic norms and values and management of Islamic institutions, primarily in Pakistan and, as far as possible, in other parts of the world.
8. **Promotion of Unity in Ummah:** To foster cooperation and promote mutual understanding among the institutions working for the advancement of Islamic learning and knowledge in different parts of the world for the realization of common objectives.

There is no doubt that this extremely ambitious list of projects covers the gamut of problems of facing the Ummah currently, and represents a far sighted and visionary attempt at their solution. Below we will discuss the successes and failures of IIIIE in light of these goals, and discuss how to improve the situation in the future in the light of this experience.

2. Progress Report on Eight Goals

As described in the introduction, this institution was designed to strive for the achievement of eight goals, carefully chosen for their importance and relevance to current issues. In this section, we discuss each of these goals separately, and assess progress towards these goals. We also make suggestion for further improvements.

2.1 Institution Development

Because of the central importance of knowledge in Islam, institutions for learning developed from the earliest times, and have played a leading role in guiding the fortunes of the Ummah. In this regard, the development of a world class educational institution firmly founded on Islamic principles is a task of high priority for the Ummah as a whole. There are many dimensions along which IIUI represents a tremendous achievement in this direction. There are very few places in the Islamic world which offer simultaneous deep and thorough grounding in both traditional Islamic sciences as well as the modern ones. Central to this project are the following departments, all of which are active and functional, and have made numerous contributions to the academic environment in the Muslim world:

1. **Arabic:** The restoration of Arabic to its central place as the common language of all Muslims has been recognized by many as essential to the project of developing unity of the Ummah and consolidating and building up the traditional base of Islamic knowledge. The Arabic Department has performed extremely well in training all IIUI students in the language, as well as fostering scholarship and research essential for furthering the development of language skills.
2. **Usuluddin:** Central to Islam is knowledge of the basic principles of our religion. These are provided by this department in an efficient and competent manner. The goal is not only to provide book learning, but also to instill Islamic values and character in the students.
3. **Shariah and Law:** The technical aspects of Islamic law are central to the Islamic Sciences. IIUI is unique in providing a program in law which simultaneously teaches modern law together with Islamic Law.
4. **IIIE:** The school of Islamic Economics simultaneously teaches contemporary modern economic theory and also all relevant material from the corpus of Islamic knowledge.
5. **Islamic Research Institute:** IRI has a mission of promotion of research in all areas relevant to Islam, including economics. It has achieved an enviable record, having organized numerous international and national conferences on relevant to current issues facing the Ummah as a whole. The IRI journal *Islamic Studies* has achieved international prominence, and has a unique position in publication of research which integrates the latest Western research into the framework of Islamic thought.
6. **Dawah Academy:** The responsibility of the Muslim Ummah is to invite to the good and prevent evil. Knowledge by itself is a hujjah against you, unless it is acted upon. The Dawah academy provides a means for translating the knowledge acquired into action. Numerous well thought and coordinated program at local, national and international levels have been carried out by the Dawah academy for presenting the Islamic worldview to large and diverse types of audiences.

Each of the departments mentioned above has substantial accomplishments to its credit, which we cannot pause to list here. The goal of mentioning them is to give a picture of the environment within which IIIE operates, which is the focus of this note. With respect to the goal of institutional development, it is clear that IIUI is virtually unique within the Islamic world in offering this broad range of academic departments, which are coherent and integrated within an Islamic perspective. We should be extremely grateful to Allah for breathing life into these dreams and visions of Muslims committed to the project of the uplift of the Ummah. At the same time, we should not lose sight of our own shortcomings and failures, and strive to work harder to remove these and make further improvements and progress. In light of this, we make some suggestions regarding fruitful direction for further work.

Directions for Future Development: Secular models of institutions have different people with different goals working together under a common set of rules, and motivated solely by money. Islamic models focus on unity of purpose, and the fact that the Ummah is like one body. This spirit existed at the start, and many people who joined the university did so with a sense of purpose, and the motivation to serve the Ummah. For various reasons, this spirit appears to have dissipated in time. To strengthen the institution, it is necessary to take positive steps to achieve this unity of purpose and commonality for all members of the community, including faculty, staff and students. Specific steps to achieve this are listed:

1. The idea that we are all together in a common endeavor with the high goal of serving the Ummah, with respect to a crucial necessity, must be inculcated in all staff and faculty. There must be explicit programs to achieve this goal, since the help of Allah is with the united group Muslims – it is withdrawn when the Muslims are divided between each other. *“8:46 And obey Allah and His Messenger, and fall into no disputes, lest ye lose heart and your power depart; and be patient and persevering: For Allah is with those who patiently persevere.”*
2. One important tool which has been given to the Ummah by Allah is “shoora”: *42:38 Those who hearken to their Lord, and establish regular Prayer; who (conduct) their affairs by mutual Consultation; who spend out of what We bestow on them for Sustenance;* The process of consultation is an excellent method for promoting cooperation, universal participation in the decision making process, as well as creating a sense of responsibility for the overall project. Our current institutional structures are based on British patterns, which are hierarchical, authoritarian and very much in conflict with the egalitarian traditions of Islam. This neglect of the orders of God and our own administrative traditions exacts heavy costs.

2.2 Character Development

An essential component of any Islamic university should be character development. This is at the heart of the teachings of Islam, and was central to the mission of our Prophet Mohammad s.a.w. Many different types of efforts were made to implement this at IIUI and at IIIE. The main structured method was expected to be the course requirements of Usuluddin. Teaching of courses on Islamic characteristics, by teachers who should model the required behavior, was expected to be the medium of character change. In addition to this, numerous initiatives were taken by many individuals of exceptional character and vision, which IIUI has managed to attract throughout its existence. These initiatives involved talking to students at hostels, inspiring them in classes, engaging students in projects of social relevance, having Islamic retreats and camps for training students, having talks by Islamic community leaders both local and foreign, special projects related to current events affecting Muslims. Students also responded to these initiatives by organizing their own events for furthering Islamic awareness.

Overall the efforts made along this dimension by personnel at IIUI are inspiring, and a model for other institutions. Nonetheless, it is essential to further strengthen and build upon these methods, especially in view of the following two facts:

Western Failure: Reuben (1996) writes that “Late nineteenth century colleges had the explicit goal to build character and promote morality (understanding of duties to family, community, country and God) while at the same time contributing to the advancement of knowledge. These two goals proved to be incompatible.” In a historical process traced by Reuben, universities tried many different methods for character building before finally abandoning the goal and turning purely to the pursuit of knowledge. This historical study of development and evolution of Universities in the USA is an illuminating book which contains many useful lessons for structuring higher education in Pakistan.

Central Islamic Mission: It should be obvious that the central Islamic mission of education is to build character. This character is displayed in the 'Amal Saleh which are the result of strong faith. The Quran and Hadeeth are full of exhortations towards development of essential characteristics like trustworthiness, truthfulness, concern and compassion for the oppressed and the poor, justice and fair dealing even with the enemy, etc. The Prophet s.a.w. created these characteristics in his followers, creating moral exemplars for all mankind out of people who used to bury their daughters and fight blood feuds over trivial matters. Islam provides us with the tools to achieve such transformations.

Directions for Future Development: The mission to build character is a central need of the present times. All over the world, there is tremendous parental concern at damage done to character by modern educational institutions. While a broad range of initiatives has been utilized for this purpose at IIUI, the only systematic and structured method under use is that of teaching courses in Usuluddin. All other initiatives have been ad-hoc and non-systematic, dependent on personal initiatives of various community leaders. IIUI has been fortunate in attracting inspiring personnel, and they have contributed greatly to its development. Having interviewed many IIIE students and alumni, I found that character development was directly related to inspiring teachers.

Many studies and research show that most learning takes place outside of classrooms. Thus systematic real activities to promote character should be designed and made an integral part of the curriculum at IIUI. To design such activities, we will have to look outside Western concepts of universities, since they have abandoned this mission long ago. Our tradition is full of different methods for character development, and we will have to study our heritage, and creatively adapt these methods in a systematic way to be an integral part of the training offered at IIIE and IIUI. In particular we should focus on attracting inspirational individuals of exceptional character as means of promoting the desired changes.

2.3 Development of Scholars

A great deal of thought was put into designing a curriculum at IIIE which would lead to development of scholars capable of combining the best of both Eastern and Western traditions, and leading the way to the development of Islamic solutions to modern problems, especially in the economic domain. The four year B.Sc. Economics programs launched in 1984 incorporated both the latest developments in modern economic theory as well as a solid base for the traditional Islamic sciences. The far sighted vision of the planners is evident from the fact that the Higher Education

Commission has recently adopted a similar pattern as template for all universities within Pakistan.

From among the students and faculty of IIIE, many have produced research of high caliber. There has been considerable cross-fertilization. IIIE scholars have gone on to IDB/IRTI, IIUM, Loughborough and other notable institutions both within and without the Islamic world. IIIE has also received visits of different durations from notable scholars in Islamic Economics from throughout the Islamic world. Students who trained at IIIE have been inspired by the vision of an Islamic economic system. Those who moved outside academia have contributed in different ways to the Islamization of their respective institutions, by providing access to relevant research.

In addition to research done by IIIE students and faculty, the organization of large number of research seminars at local, national and international level has done much to stimulate interest in topics of importance to Islamic Economics among a much broader audience. Numerous seminars have been organized on diverse topics such as Awqaf, Zakat, Islamic Insurance, Accounting and Auditing Standards, Islamic Economics, and others. Research produced for these seminars has been collected in form of proceedings, and has also stimulated interest and further research in these areas.

Directions for Future Development: Although achievements have been considerable, there is still some distance to go towards the lofty goals set by the initiators of this project and required by the needs of the Ummah. We have been unable to achieve a critical mass of dedicated scholars jointly pursuing advanced research projects in Islamic economics on a sustained and long-term basis. Although this ideal has been achieved from time to time, it has not been sustained sufficiently long to produce the desired results. As a consequence of this shortcoming, we have not been able to produce enough advanced scholars within IIIE itself. This is a chicken-and-egg type problem. Scarcity of advanced scholars in Islamic Economics means that we do not have enough on our faculty. This leads to difficulties in producing such scholars from our own students, since we do not have sufficient advisors for all who wish to pursue advanced research. Several steps have been taken to improve the number of Ph.D.'s on the faculty, and to improve research orientation and Ph.D. advisory facilities in the recent past. Hopefully, with these concerted efforts and the passage of time, the problem will resolve itself.

2.4 Islamization of Knowledge:

In my view, despite excellent efforts at providing the best of both the Eastern and Western traditions at IIIE, the main project of Islamization of Western Knowledge has not been very successful. However, this is not due to local issues at IIIE, but a general problem facing the Ummah as a whole. In the past, Muslims have successfully encountered and adapted bodies of knowledge of different types from many different civilizations, notably Greek, Roman, Persian, Indian and Chinese. For over a hundred years, Muslims have been unsuccessful in assimilating Western knowledge into an Islamic framework – the project for Islamization of knowledge has been a failure in many ways. Many prominent Muslims have acknowledged this failure, and discussed the reasons for it and solutions to the problem, which is one of the critical problems facing the Ummah at this juncture. In my view there are two major problems which

have created, and continue to create difficulties in the project of assimilating useful insights from Western body of knowledge.

1: Those who have not studied the history of Western social sciences do not understand how deeply the rejection of God is built into the heart of this body of knowledge. Furthermore, because Western writers have not highlighted this aspect, even those who study Western accounts fail to pick this up. In adapting Western knowledge, we have to reject the poisonous elements while accepting valid discoveries. It is like getting honey out of a beehive; we must avoid getting stung.

2. Similar problems were faced in assimilating Greek philosophy, which had lots of nonsense relating to Greek mythology, Greek Gods, erroneous natural philosophy and logic, etc. Muslims were able to successfully adopt useful material and reject and avoid the falsehoods and errors. Today, the Muslims lack the self-confidence to do the same with the Western body of knowledge; there is a general inferiority complex generated by a century of losses on the battlefield. We are so dazzled by the magnificence of Western technological achievements that we are inclined to accept anything that prominent Western scientists say on their authority alone, without engaging our own minds, observations, and traditions to assess validity.

3. In doing this we run against the laws of God; the knowledge of the Quran is more precious than all the knowledge acquired by the West. According to a tradition narrated by Sa`eed ibn Sulaym radiyal-laahu `anhu: "If a person who has acquired knowledge of the Quran considers another person who has been gifted with something else to be more fortunate than himself, he has shown disrespect to the blessings of Allah ta`aalaa bestowed on him on account of his learning of the Quran." In according Western knowledge greater respect than it deserves, we are unable to be discriminating, rejecting the bad, and selecting the good. This leads to great problems with the project of Islamization of knowledge.

Specifically, Western conceptions of economics are built around the pursuit of wealth as the solution to all human problems, and the conception of man as selfish and greedy. Both of these are antithetical to Islamic concepts, and cannot be integrated within an Islamic worldview. Because of too much respect for Western intellectual traditions, Muslim economists have failed to reject these concepts and as a result have been unable to create a version of the Western knowledge base which is compatible with the teachings of Islam. There are signs that Muslims are rejecting the atheistic elements of Western teachings, and acquiring more and more confidence in our own heritage, traditions and scholarship. This is also impacting favorably on the Islamization of knowledge project at IIIE and IIUI generally, and can be expected to lead to more positive results in the future.

2.5 Action Orientation:

Western methodology encourages social scientists to adopt a neutral attitude of a passive observer, for the fear the engagement with issues will lead to bias. Islam condemns knowledge which is not put into application as 'useless' and as a Hujjah against the scholar. Several steps have been taken at IIIE to translate the knowledge and research generated here into practical efforts to transform the economic system and bring them in line with Islamic teachings. In addition to working out the theory of an

Islamic economic system, IIIE has made systematic efforts to prepare concrete and detailed steps required to make a transition from a conventional to an interest free economy. Numerous workshops and research projects culminated in *IIIIE's Blueprint of Islamic Financial System*, prepared jointly by a team of researchers from IIIE headed by Dr. Syed Tahir.

IIIIE has been active in the efforts to Islamize the economy of the Pakistan. Faculty members have participated in preparation of reports demonstrating the feasibility of transition to an Islamic system on many different fronts, including elimination of interest from Government loans, Islamic Insurance, Islamic Banking etc. They have also participated in legal and political struggles to achieve these ends. They have also conducted training programs for relevant professional audiences from the financial sector to introduce them to Islamic methods. One of the most important and successful initiatives has involved the training of senior officers from the Banking Industry. A wide range of assorted training programs has introduced Islamic views, methods and alternatives to conventional systems to different target groups including Awqaf, Banking, Insurance, and other officials from the government and the private sector.

Directions for Future Development: While the faculty and the institution have actively participated in bringing about social transformation, this is not an integrated part of the curriculum at IIIE, and hence students do not receive training along this line. It is not typical in the Western academia to engage students in projects to improve the world, and emulating Western models, we have also not built this aspect into the curriculum. This appears a major deficiency. The central difference between Islamic and Western teachings in economics is that Muslims sell their lives and wealth to buy the Hereafter, while the West teaches us to use wealth for luxury and accumulation. Western views have been so widely advertised that our students also assume that the purpose of their study is to get jobs and make money so they can enjoy life. Apart from explicit teachings on Islam on the value of knowledge, we must inculcate a sense of mission in our students. This can be done by actively engaging them in projects for social welfare and Islamization, and making this an integral part of the curriculum. Within the general framework of the imperative to do *Amr bil M'arood* and *Nahi anil Munkir*, we must require our students to work in teams or individual to carry out projects of Islamic value. These could involve poverty relief, promotion of Islamic values, digging wells, microcredit, provision of potable water, recycling of garbage, or promoting social awareness of important issues facing society from an Islamic point of view. Actively engaging in such projects will develop compassion for the weak and oppressed, and striving for justice. According to Hadeeth, association with the poor also helps develop character. By struggling to solve real social problems, students will acquire a holistic perspective, and will be motivated to learn economics in terms of how it applies to solve real problems. This will provide them with a depth of understanding currently lacking in their theoretical studies.

2.6 Knowledge Base for Problems of Muslim Ummah:

Modern economic systems raise a plethora of problems which cannot be adequately handled within the traditional formulations of Fiqh. One of the specific objectives of IIIE was to develop the knowledge base necessary to address current and urgent problems facing the Ummah along the economic dimensions. Substantial progress has

been made in this regard. One aspect of the task is to systematize and gather existing knowledge, and make it available for easy application to the new problems facing us. IIIE has been instrumental in preparation of wide-ranging bibliographies (by Akram Khan) which have listed most available research in English and Urdu language for this purpose. Since this research was widely scattered and not readily available at any single source or computer base, this was a tremendous service to researchers in the area. Research monographs, and outcomes of proceedings of research conferences on a wide range of issues, have been published at IIIE separately or in collaboration with others. In particular, Dr. Munawar Iqbal who has long been associated with IIIE from the beginning, has been particularly prolific. He has published, authored or edited collections of works on the virtually the entire spectrum of issues relevant to the application of Islam to current economic problems.

In recognition of the achievements of IIIE on many different frontiers, the IDB Prize (in Islamic Banking) for the Year 2000 was awarded to International Institute of Islamic Economics of the International Islamic University, Islamabad. The Selection of the IIIE for the Award is:

- § In recognition of the leading efforts that the IIIE made towards the application of basic concepts of Islamic financing.
- § In appreciation of the contribution of the IIIE towards developing the subject on scientific basis.
- § In appreciation of the Institute's leadership role for developing the areas of Islamic Banking, Islamic Economics and Islamic Finance through teaching, research and training programmes.
- § In recognition of the valuable services rendered by the Institute for the reform of interest-based banking in Pakistan in accordance with the principles and Ahkam of the Shari'ah, especially training of bank employees for using Islamic financial instruments.
- § In appreciation of the Institute's role in preparing various technical and academic reports on Islamic banking, which have facilitated the way for Islamic banking in Pakistan.
- § In appreciation of the services extended by the Institute to the Government of Pakistan, the Council of Islamic Ideology and the Federal Shariat Court of Pakistan for the elimination of Riba from the economy.

Directions for Future Progress: Meager resources, both in terms of personnel and finances. have been a major obstacle in the past. The goal of provision of knowledge to the Ummah requires substantial resources. Fortunately, IDB/IRTI have launched a project to gather all relevant materials on Islamic Economics in a computer database. By collaborating with them, we can overcome some of these resources constraints. Additional recent efforts are underway to increase budget allocations for research activities, working papers, and output of publications, including books and a journal.

2.7 Islamically Trained Professionals:

With rapid growth of the Islamic Financial Industry, a serious shortfall in trained professionals has been created, and the gap is projected to become even larger. IIIE has taken timely steps to ensure the development of suitably trained professionals, with knowledge of both the Shariah requirements as well as the modern finance theory. Far

sighted vision of the planners of IIIIE has placed the institution in a unique position to address this need. Fully trained professionals for Islamic Financial industry require training along many dimensions:

1. Islamic character, trustworthiness, and integrity.
2. Sense of mission for propagation of Islamic teachings and leadership for changing existing systems to conform to Islamic principles and ideals.
3. Knowledge of Arabic, Shari'ah, and Fiqh relevant to financial affairs, together with the ability to access Islamic sources and develop rulings for new situations.
4. Knowledge of modern economic theory, finance, and business practices.

Very few institutions in the world have the capability of providing training in all these dimensions. As already discussed earlier, IIIIE is well equipped to provide such training.

Specific steps have been taken to fulfill the projected need. A Department of Islamic Banking and Finance has been established which offers Certificates, Diplomas, Master's as well as advanced degrees in the area. Many training programs for all levels of banking officials have been designed and run in the past. For the future, steps are underway to develop of a systematic set of training programs of short, medium and long duration to fulfill the emerging needs of the Islamic financial industry. These steps are being co-ordinated with the State Bank of Pakistan as well as many international institutions (including IDB/IRTI) with interests and expertise in these areas.

2.8 Promotion of Unity in Ummah:

IIIIE has played its role in this vital area using many different avenues for promotion of the exchange of ideas. Students and faculty from IIIIE have visited many famous institutes within (and without) the Islamic world, and promoted collaborative efforts to build up the Islamic knowledge bases along the required dimensions. IIIIE has also been host to faculty members and students from throughout the Islamic world, and has retained a strong international character from the beginning. The vision that the Ummah transcends national boundaries has been part of its charter, and has been reflected in numerous international conferences organized or attended by IIIIE faculty and students. Our faculty have conducted training programs in Sri Lanka, and delivered talks to visiting delegations from many foreign universities on aspects of Islamic Economics and Finance. We have been approached by universities from all over the Islamic World, as well as outside, for joint collaborative efforts. Unfortunately, very limited resources have prevented IIIIE from more extensive efforts at international linkages.

Recognition of this resource limitation has led to a unique and innovative program based on Video-Conferencing equipment, which was installed at IIIIE in 2004 with partial financing and support from IDB. This equipment makes it possible to conduct joint classes and seminars with overseas institutions equipped with suitable equipments. IIIIE is unique in Pakistan in that joint classes with students and faculty from Iran, London, Jeddah, and Jordan have been conducted on a regular basis. This unprecedented landmark is a quiet revolution which bodes well for future efforts at furthering collaboration and cooperation among Islamic scholars.

Directions for Future Progress: One important initiative which would be extremely helpful is to create a student exchange program with sister universities throughout the Islamic world. Students from IIUI should spend one or two semesters at comparable universities from throughout the Islamic world. A broad based exchange program would not only help solve problems of resource constraints by enabling sharing and exchange of expertise, but would promote a sense of the unity of Ummah among students and faculty. Discussions have been initiated towards this in the past, but have not reached successful conclusion. In view of the importance of the objective, more efforts to create viable exchange programs are required.

3. Concluding Remarks

A broad overview of the experiences of IIIIE has been provided in the above essay. Because of the extensive range of activities, a detailed datewise and programwise account which was originally planned, was not carried out. Such a document would obscure the forest by looking at the trees. While recommendations for progress have been made for each of the several targeted goals separately, it is worth recapitulating the major issues here. As already detailed, a tremendous amount of work has been done, and landmark achievements have been made. This is especially remarkable in view of the meager resources which have been available to IIIIE for most of its history. Critical issues for future development are summarized below. In my view the most important limitations on further progress lie in our over-reliance on Western models of education.

10:58 "In the bounty of God and in His grace (that is, the Quran), then, let them rejoice: it is better than all that they may amass!"

We must look to our own traditions of education, which are often better than the models we are copying from the West. Utilizing Western institutional models, we have opted for rigid, hierarchical, and authoritarian administrative structures, in preference to the strong egalitarian and cooperative administrative structures of Islam. This has been tremendously harmful in many ways. The development of ideals, ownership and responsibility, and spirit of working together with sacrifice for the common cause of service to the Ummah, has been lost. We must remove these hangovers of our colonial past, and recover our Islamic heritage to progress.

Since Western institutions do not have any provision for character building, we have also not put in any systematic mechanisms. While informal mechanisms have been of help in this dimension, we need to look to our very strong heritage to devise more systematic, well planned, and integrated schemes for character development within the university environment.

Islam has a tremendously strong tradition of the value placed on knowledge, the importance of seeking knowledge, the value of the scholars ink in relation to the martyrs blood, etc. These need to be impressed upon the student. Unfortunately, our typical students continue to be infused with the Western idea that education is for a degree, degree is for jobs, and jobs are for money – this downgrading of knowledge is antithetical to the Islamic spirit, and we need to infuse our students with the value of knowledge according to our traditions, and remove them from the Western money oriented spirit.

Western models of social science require the stance of a neutral observer. I have recommended that we develop action oriented study schemes, motivate students by involving them in project for social welfare and poverty relief, and develop passion and commitment for service of mankind for the sake of Allah. Again this will require rejecting Western models and looking to our own heritage for inspiration.

We have already discussed how over-valuing Western intellectual traditions and under-valuing our own heritage have created formidable obstacles in the path of the project of Islamization of knowledge. Similarly, training Islamic professionals requires training along certain dimensions which are not at all part of the Western models – these have been discussed earlier.

Western concepts of unity along lines of the nation are alien to Islam, but have been absorbed unconsciously by the Muslim masses. We must work actively to combat this influence and promote the unity of the Ummah as a whole, as well as the concept that the Ummah is meant for the benefit of the entire human race. We must work to promote the good, prevent the evil, and spread the message of Allah to the entire human race, which is mission entrusted to this Ummah. For those who take up this call as the central mission of their lives, Allah has promised his help: *7:7 O ye who believe! If ye will aid (the cause of) Allah, He will aid you, and plant your feet firmly.* With the help of Allah, all things can be accomplished, while nothing is possible without it.

تجارب المعهد العالمي للاقتصاد الإسلامي: ١٩٨٣-٢٠٠٧م

أ.د. أسد زمان

مدير المعهد العالمي للاقتصاد الإسلامي - باكستان

المستخلص: في مطلع القرن الخامس عشر الهجري شهد العالم الإسلامي ميلاد جامعتين عالميتين وهما؛ الجامعة العالمية الإسلامية في إسلام آباد، والجامعة العالمية الإسلامية بماليزيا. لقد تمثلت الرسالة التي حملتها هاتين الجامعتين في إضفاء الصبغة الإسلامية على مجالات العلوم المختلفة، فكان من ذلك ظهور مصطلح "الاقتصاد الإسلامي". وقد كان الهدف من إيجاد هذا العلم هو طرح بدائل اقتصادية لما هو سائد من نظريات اقتصادية مبنية على أساس ما أنتجه الإنسان من مبادئ وأفكار ونظريات. هذه الورقة تحاول الوقوف على تجربة المعهد العالمي للاقتصاد الإسلامي الذي يمثل أحد الأقسام الرئيسية بالجامعة العالمية الإسلامية في إسلام آباد. الهدف الرئيس من الورقة هو كيفية الاستفادة من هذه التجربة لدعم مشروع الاقتصاد الإسلامي في المستقبل. وسوف تقف الورقة على جوانب النجاح لتقويتها والأخذ بها، ثم عوامل الفشل لتجنبها.

Secondary Databases and their Use in Research in Islamic Economics

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Abstract. The use of secondary databases is an efficient and economic means by which to analyze data in empirical research. The speed and relatively low cost of secondary databases in the field of Islamic economics make them ideal for good research outcomes. However, no or little attention has been paid to the use of secondary data in the experimental research in Islamic economics. The aim of this paper is to stimulate the interest of Islamic economics and finance researchers in using secondary data, either as a substitute or complement for primary data, bearing in mind both the benefits and shortcomings of doing so. It is suggested that secondary databases not only offer advantages in terms of cost and effort, but also that in certain cases their use may overcome some of the difficulties that particularly afflict Islamic economics researchers in the gathering of primary data. In order to help Islamic economists respond to this call for greater consideration of the potential offered by secondary databases, the wide variety of forms that such data may take is indicated and a number of themes regarding their use and promising role discussed.

1. Introduction

As scholarly activity in the area of Islamic economics and finance has grown in recent years, the “sustained and cumulative” normative contribution of the Islamic economists has been augmented by the introduction of “Islamisation of social sciences”. Bringing with them an orientation towards empirical research, they “open vistas not accessible by other modes of inquiry” (Frederick, 1992, p. 245). As a consequence, empirical research has been gaining foothold, at least by publishing empirical studies in the academic journals such as *KAAU: Islamic economics* published by Islamic Economics Research Centre, King Abdulaziz University, Jeddah; *Journal of Cooperation* published by Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC); *Islamic Economics Studies* published by Islamic Research and Training Institute of the IDB, Jeddah; *Review of Islamic Economics* published jointly by International Association of Islamic Economics and The Islamic Foundation, UK and IIUM *Journal of Islamic Economics and Management* published by International Islamic University, Malaysia.

Obviously, one of the main problems in promoting empirical research and its contribution in the field of Islamic economics is lack of data from the primary sources. The majority of empirical studies to date have been in the form of questionnaire surveys, perhaps because they are “typically the quickest and easiest of the tools to use”, if publication is the goal (Bain, 1995, p. 14). Whether the form of questionnaire survey to do empirical study is the most appropriate way of making progress in Islamic economics, banking and finance is a moot point; interviews, for example, may provide greater depth, although access can be formidable. Even questionnaire studies have been criticized on a number of grounds – some of which apply to interviews too – thus casting doubt on the contribution that an empirical perspective has yet made to the development of the field (Liedtka, 1992).

Positive criticisms of existing questionnaire surveys include poor questionnaire design, the use of convenience rather than random samples, low response rates and a failure to address the issue of non-response bias (Randall and Gibson, 1990), and the use of poor scenarios (Weber, 1992). All these are standard issues in survey design, but Islamic economics entail particular difficulties. Suggestions have been made for coping with these difficulties, for example randomized response techniques (Dalton and Metzger, 1992) and the detection of social desirability response bias (Fernandes and Randall, 1992), but little use seems to have been made so far of the available tools.

On the other hand, there is a significant need for empirical research in Islamic economics and finance. Many important issues faced by the Islamic finance industry can only be addressed by experimentation. Experimental work is complex and expensive to perform and cannot be done without data. However, collection of primary data individually by research students, researchers and academicians is a somewhat difficult task. It is time consuming and expensive, therefore many serious researchers do not undertake empirical studies due to these problems. One possible way forward is not to become embroiled in the difficulties relating to the collection of good primary data, but rather to use secondary data; that is, data that already exist.

The aim of this paper is to consider the possibilities afforded by secondary data. It does so by identifying the sources of secondary databases and their use in Islamic economics research. The paper is organized as follows. Section 2 indicates the variety of forms that secondary data may take and discusses their promising role. Section 3 focuses on different sources of secondary databases in the area of Islamic economics and finance. Section 4 provides a number of issues relating to the use of secondary databases, including some of the advantages and disadvantages of doing so. Finally section 5 concludes the possibilities afforded by secondary data.

2. Secondary Data

Secondary data can be defined as data collected by others, not specifically for the research question at hand (Stewart, 1984; Frankfort-Nachmias and Nachmias, 1992). The use of secondary data has increased over the past few years. Firstly because developments in technology and the increase in managerialism mean that more data are becoming available. Secondary data are also helpful in designing subsequent primary research and, as well, can provide a baseline with which to compare primary data

collection results of the researcher. Therefore, it is always wise to begin any research activity with a review of the secondary data (Novak, 1996). Furthermore, the secondary data are already produced for other purposes; they are a cheap source for evaluators, and offer the potential of a large and varied data set which can provide insights into many aspects of the program.

The assembly of secondary databases is not a new enterprise. They were pioneered by the United Nations in the 1950s. Their work was taken further by Kravis (1960, 1962) and Kuznets (1955, 1963), who developed analytical underpinnings. In the 1970s and 1980s, other international agencies added to the supply of secondary data sets: the International Labour Office (ILO) (van Ginneken and Park, 1984). The 1990s saw further construction of such databases, again involving international agencies such as ILO, World Bank, IMF and SESRTCIC etc. The ILO published a compendium (Tabatabai, 1996), as a contribution to the International Year for the Eradication of Poverty. The World Bank, which has for years published income distribution data in its annual *World Development Report*, has advanced secondary databases both in scale and in form of dissemination. In 1990 came the development of secondary databases from Statistical Departments as well Central Banks of the Muslim countries. Later the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC) had constructed a widely used panel database for 57 Muslim countries adding information on education, population, political variables, trade policy and income distribution etc.

Most of these secondary databases are essentially organized with collection of computer-readable information in a defined subject area which may be defined in a single subject (for example Islamic economics) or problem oriented (for example environment, pollution) etc. Therefore, secondary databases have come to play an increasing role in empirical research in Islamic economic.

2.1 Types of Secondary Databases and their Role

There has been rapid development in Islamic banking and the financial industry globally over the last three decades. In view of this, there has been an increase in the quality of published information in this field. But there is no specialized indexing service exclusively in the area of Islamic economics and finance, therefore, it is difficult for any researcher or economist to locate or obtain information on this discipline without going through various secondary sources. Some writers of research methods simply list possible sources of data, while others attempt to classify them in some way. The type of secondary databases and their role (in brief) are discussed below.

2.1-1 Bibliography, Indexes and Abstracts

The bibliographic information in the area of Islamic economics and finance is scattered. A few bibliographies include published and unpublished materials such as monographs mainly in Arabic, English and Turkish languages. The coverage of the bibliographies is not wide (Ali and Ali, 1994). Among the earlier studies, one of the first works was by Khan (nd) which was produced in the early 1970s as an annotated bibliography along with a glossary of terms used in Islamic economics. This bibliography contains

information of 139 items in English and Urdu in addition to a compiled glossary of economics terminology. Later Khan updated the same work and published as a monograph. This work contains a total of 749 items.

After more than 10 years' work on production of bibliographies, Khan (1983) published another revised version of Volume 1 with a supplement. The publisher was the Islamic Foundation, UK and published in the year 1983. This volume represents items up to the year 1983 and contains a total of 749 items plus 121 items in the supplement. Subsequently, Volume 2 of this bibliography (Khan, 1991) was published in 1991 representing contemporary items up to 1988. These bibliographies are properly annotated with an author index and as such should be a better guide to researchers in finding out what they need.

The serious bibliographic works in the field of Islamic economics has also been contributed to by Siddiqi (1978). This is a survey of contemporary literature and contains 700 items with an index related to the books in Arabic, English and Urdu languages. Another work in this area was a survey of contemporary literature in Turkish language by Zaim (1976). It was published as a chapter in monograph, entitled: *Studies in Islamic Economics*, edited by Ahmad (1976). This book contains a selection of conference papers of the First International Conference on Islamic Economics organized by the King Abdul Aziz University, Saudi Arabia and held in Makkah from 21st to the 26th February in 1976.

Islamic Economics: A Bibliography was prepared by Khan (1984). It was published by the Islamic Research and Training Institute of the IDB and included items from 1955 to 1984, containing more than 600 items in English. Mannan (1984) also compiled abstracts of all publications including books, monographs as well as articles published in the *Journal of KAAU: Islamic Economics* of the Islamic Economics Research Centre in the English language up to the year 1984. This compilation of abstracts gives researchers an overview of works carried out by the International Centre for Research in Islamic Economics and is still helpful for researchers interested in the field of Islamic economics. Furthermore, information on more than 200 PhD/MPhil dissertations with abstracts in the area of Islamic economics, and banking procured by Islamic Economics Research Centre, KAAU, Jeddah is easily accessible online. (<http://islamiccenter.kau.edu.sa/english/>).

Another serious bibliography compiled by Siddiqui (1985) and published in Karachi was exclusively devoted to Islamic banking. Researchers will find that items in this bibliography are also found in the other bibliographies on Islamic economics mentioned earlier. In the UK, Presley (1988) compiled *The Directory of Islamic Financial Institutions*. It listed 506 institutions with coverage commencing in the 1950s. The London-based Institute of Islamic banking and Insurance (1999) also published the *Directory of Islamic Insurance (Takaful)*. This listed more than 50 Islamic insurance companies including a brief introduction and their global addresses.

Later in 1993, the Islamic Research and Training Institute of IDB, published a serious work in the field of Islamic Economics entitled: *A Bibliography of Islamic Economics*. Its database on Islamic Economics Bibliography up to the year 1992 is a modest

contribution to systematization of bibliographic control of literature on Islamic economics. The bibliography has five parts, providing maximum convenience to the users by including several types of indexes (for example descriptor index, subject index, author index and corporate author index). This facilitates the search for information from any angle and arranges records in all sections according to the classification number, call number and so on.

Khan (1995) compiled a bibliography consisting of 1,621 items in the English language covering the early 1970s until 1993. Entries are drawn from published and unpublished sources, including books, articles, dissertations and conference papers. It includes author and subject indexes, and an appendix listing the most important journals devoted exclusively to the theory and practice of Islamic economics.

Islahi's (2005) book, *Contribution of Muslim Scholars to Economic Thought and Analysis* is a remarkable contribution in the area of history of Muslims' economic thought covering the period 632-1500 AD. One of the recent compilations on the subject of Islamic banking and finance was Tahir's (2007) work entitled "Islamic Banking Theory and Practice: A Survey and Bibliography of the 1995-2005 Literature". Tahir (2007) gave a classified bibliography of the Islamic banking and finance literature produced during 1995 up to 2005. The study provides a useful basis for understanding what direction research and practical activity took in the period 1995-2005 and what direction it may take in the years to come. This bibliography is unique in a number of ways and is destined to be an immense help to all students and researchers in Islamic economics.

There is no doubt that these bibliographies provide researchers at least first hand information of the literature on Islamic economics and finance. Some of the writers of these bibliographies have rendered a pioneering service by developing a classification for Islamic economics. These classifications were based on the classification used in the bibliographies produced by the American Economics Association. Bibliographical, indexing and abstracting services play an important role in repackaging the information reported in the primary sources of the researchers. These databases are very helpful to researchers in a particular area of investigation. Some database services are now in machine readable format and some are now also available through online information retrieval databases. As bibliographies are indispensable aids to research particularly in the field of Islamic economics, it is extremely necessary that their updating process should be continued.

2.1-2 Full Text Databases

A relatively new trend in electronic databases is the creation of full text search and retrieval on systems that traditionally have provided bibliographic databases. A full text database contains abstracts with entire text documents such as wire service stores, Islamic legal cases of the Pakistan Federal Shari'ah Court's legal decision/rulings on *Riba* (Ahmad, 1995), Islamic Banks' encyclopaedia articles (IIBI, 2001), journals (such as the *Journal of KAAU: Islamic Economics*, *IRTI Islamic Economics Studies*) or books (for example IRTI-IDB books on Islamic economics, banking and finance).

Islamic law was the first economically successful application area for full text databases in Muslim countries. This is because lawyers often require the full texts of cases together with applicable statutes, Islamic rulings based on Islamic laws and so on. Legal databases related to contracts in Islamic banking and finance keeping growing as the body of knowledge expands with new cases. Along with the expansion of cases comes new statutes and regulations (Hasan, 1984; Niazi, 1990; Kamali, 2001).

Academic research based on this secondary information forms the backbone of the field of Islamic economics. It provides the theoretical framework in which the discipline functions. There are wide varieties of full text databases available with abstracts in the area of Islamic economics which have reached a vast potential for further theoretical as well as empirical research. They range from newspapers and journals full text to encyclopaedia of Islam and Islamic legal databases. These theoretical resources have led Islamic finance and banking to become one of the most professional and fastest-growing industries in the world.

2.1-3. Numeric Economic Databases

Numeric databases provide mostly numeric data such as statistics, financial data, census information, economic indicators, etc. This section focuses on the types of numeric data which Islamic economists like to use. The section also defines the terminology associated with their use.

(i) Time Series Data

Economic data measures phenomena such as real gross domestic product (denoted GDP), interest rates and money supply and so on. These data are collected at specific points in time. Financial data, on the other hand, measure phenomena such as changes in price of stocks. These types of data are collected frequently. In some instances they are collected daily or even hourly. In all these examples, the data are ordered by time and are referred to as time series data. The underlying phenomenon which may be measured (for example GDP or wages) is referred to as a variable. Time series data can be observed at many frequencies. Commonly used frequencies are: annual, quarterly, monthly, weekly or daily. Time series data run from period $t=1$ to $t=T$. Here T is used to indicate the total number of time periods covered in a data set. To give an example:

If we were to use annual real GDP data from 1980 to 2007 (a period of 28 years) then $t=1$ would indicate 1980, $t=28$ would indicate 2007 and $T=28$. Hence, Y_1 would be real GDP in 1980, Y_2 real GDP for 1986, and so on. We use the notation, Y_t , to indicate an observation of variable Y (for example Real GDP) at time t .

The time series databases are generally presented in chronological order. Work with time series data often requires special tools such as *Microfit*, *Win Rat*, and *PC Gives*.

(ii) Cross-sectional Data

In contrast to the above, in empirical study in the area of Islamic economics, an Islamic economist often works with data characterized by individual units. These might refer to people, companies or countries. An example might be data pertaining to many different people within a group, such as the wage of all workers in a certain company or industry. With such cross-sectional data, the ordering of the data typically does not matter.

Observations in a cross-sectional data set run from individual $i=1$ to N . By convention, N indicates the number of cross-sectional units (for example the number of people surveyed). For instance:

An Islamic economist might wish to use the survey sample $N=1,000$ workers in the steel industry. The survey might ask each individual various questions such as how much they make or whether they have accounts in an Islamic bank. In this case, Y_1 will be equal to the individual's wage or the holder of the Islamic bank account reported by the first worker, Y_2 the wage reported by the second worker and so on. Here, the notation Y_i , indicates an observation on variable Y for individual i .

Similarly, an Islamic economist may ask $N=100$ representatives from manufacturing companies about their profit figures in the last month. In this case, Y_1 will be equal to the profit reported by the first company, Y_2 the profit reported by the second company, through Y_{100} , the profit reported by the 100th company.

(iii) Panel Data

Some data sets will have both a time series and a cross-sectional component. These data are referred to as panel data. An Islamic Economist may like to work on issues related to growth. In this case, he or she would use panel data. For example:

GDP for many Muslim countries from 1980 to present is available. A panel data set on $Y=GDP$ for six Gulf Coordination Council (GCC) countries would contain the GDP value for each country in 1980 ($N=6$ observations), followed by the GDP for each country in 1980 (another $N=6$ observations) and so on. Over a period of T years, there would be $T \times N$ observation on Y .

Alternatively Islamic economists might like to work with large panel data sets to be created by asking many individuals questions such as how much they make every year for several years.

Here notation Y_{it} is to indicate an observation on variable Y for unit 'i' at time t . In the economic growth example, Y_5 will be GDP in country 1, year 1, Y_6 GDP for country 1 in year 2 etc. In the economics example, Y_5 will be the wage of the first individual surveyed in the first year, Y_6 the wage of the first individual surveyed in the second year and so on.

Studies have been published using secondary databases. These studies range from history of Islamic economic thought, theorising of Islamic economics, studying sources of income inequality, population growth rate, poverty levels, employment and wages,

livelihood systems, environment, sustainable development and so on to the theory and practices in Islamic banking and finance and many other aspect of Islamic economics and finance. In addition, these databases have been used to determine the impact of Islamic banking in the modern financial market as well as how it will become viable in future in an alternative finance industry in its own merits and right, rather than merely a trade. Therefore, the databases discussed above offer the researcher a wealth of information with regards to individual and group discharge data without the worry of too many variables in the databases. These secondary databases provide the most comprehensive sampling of Islamic economics and finance in respect of economy of the Muslim countries and Islamic banks.

3. Sources of Secondary Data

Databases for secondary analysis in Islamic economics research are available from a variety of sources. Secondary data can be obtained from individual researchers, research institutions or commercial data supply companies. Far more common, however, is the use of secondary databases from public sources in Muslim countries. Typically, these databases are purged of any sensitive information and can allow users to be identified directly.

On the other hand there are a wide variety of secondary databases available in the field of Islamic banking and finance from private sources. It is difficult to list them all here. However, a majority of secondary databases contain bibliographies and abstracts, and also index full text (machine readable format) information along with numerical and reference data. A description of some useful secondary databases for research on Islamic economics and finance is provided below:

3.1 Governmental Bodies of Muslim Countries

Governments of Islamic countries are important publishers of data because national income and expenditure accounts, census and other systematic social statistics are important. Most Governments in Muslim countries have traditionally derived their data from administrative records. More recently developing countries have used sample surveys in line with the USA which led the world in such practice of data collection (Hakim, 1982). There are also many semi-governmental and other official bodies which produce large amounts of data. Many of these data series stretch back a considerable distance into the past. Examples of public secondary databases from a number of Muslim countries' government archives that hold promise for research in the area of Islamic economics include the following:

3.1-1 Statistical Databases of the OIC Member Countries

The Department of Statistics of the Muslim Countries or member countries of the Organization of the Islamic Conference (OIC) provide broad statistical information available on databases including national account statistics, energy statistics, consumer expenditure, annual survey of the industries, livestock statistics, agriculture, income and savings. These are example of public databases. These data from public databases are easily downloadable from most Muslim countries' statistical department websites. (A

list of the statistical department of the Muslim countries with their websites addresses is given in **Appendix I.**)

3.1-2 Online Databases of the Central Bank of the Muslim Countries

Central Banks of most Muslim countries provide free online access and downloadable for a vast amount of data related to financial institutions and banking within their countries. ULRs of central bank websites belonging to the OIC are given in **Appendix II.**

3.2 Islamic Economics Research Centre, King Abdulaziz University, Saudi Arabia (<http://islamiccenter.kaau.edu.sa/english/index.htm>)

In the history of Islamic economics, the first conference on Islamic Economics was held under the auspices of King Abdulaziz University in Makkah in February 1976 (Safar, 1396 AH). The conference provided an opportunity for worldwide Islamic economists and Islamic Shar'iah scholars to meet and discuss contemporary topics on Islamic economics. Recommendations based on the outcomes of the conference were that the University should establish an International Centre for Research on Islamic Economics (since renamed Islamic Economics Research Centre in 1977 (1397 H)).

Research and publishing are the main pillars of the centre's activities. In this regard, the centre issued about 100 titles of books, research papers and monographs in Arabic and English. They also published an Arabic and English journal, the *Journal of Research in Islamic Economics*. The first volume of this journal was issued in 1983 (1403 H) and continued until 1985 (1405 H). In 1989 (1409 H), the journal was re-launched as the *Journal of the King Abdulaziz University: Islamic Economics*. The journal has two issues a year and 2007 saw the publication of volume 20. Some articles published in the journal were the outcome of empirical research based on the secondary data which are cited by many researchers in their research and publications as resource materials in the Islamic economics research.

The centre has been conducting and supporting theoretical and applied research in the various fields of Islamic economic and allied areas since 1979. From the year 1979 (1399 H), the centre announces research proposals every year suggesting a large number of research topics in Islamic economics. Many contributions from the Arab and Islamic world as well as Europe and America conducted their research under the supervision and sponsorship of the Islamic Economics Research Centre.
(<http://islamiccenter.kaau.edu.sa/>).

A number of these research works were translations from English to Arabic and vice versa. Some completed research projects were based on secondary databases with bibliographies, abstracts and indexes (e.g. Siddiqi, 1978; Zaim, 1976; Siddiqui, 1985; Mannan, 1984; Islahi, 2005). Furthermore, many papers published in different issues of the *Journal of the KAAU: Islamic Economics* were empirical studies based on secondary databases (e.g. Al-Osaimy and Bamakharamah, 2004; Shahimi, Ismail and Ahmad, 2006; Yusof and Majid, 2007) which the researchers can use as secondary source. The

centre provides worldwide information support facilities for research and academic communities in the area of Islamic economics.

3.3 Islamic Research and Training Institute of IDB (<http://irti-srv2/irtipms>)

The Islamic Research and Training Institute Information Centre (IRTIC) became operational in 1985. IRTIC was established based on a decision in the fifth Islamic Summit conference held in Kuwait, with the objective of collecting, processing, storing and disseminating information on priority areas of development to OIC member countries using the latest information technologies and tools. These include: Islamic Banks' Information System (IBIS), IDB Database on Experts (IDBDE), Trade Information and Promotion System (TIPSys), Awqaf Databank and IRTI Newsletter. In addition to these facilities, IRTIC has launched Online IRTIC Publication Management System. This system contains bibliographies, abstracts and full texts of books, monographs, seminars proceedings, visiting scholars' research series and occasional papers published by IRTIC in Arabic, English and French since its beginning with free online access facility. The system can be accessed through the internet at this website: <http://irti-srv2/irtipms>. Furthermore, the annual reports of both IDB and IRTI, statistics of IDB member countries including member countries facts figures-2007, key socio-economic statistics on IDB member countries -2007 and information on pocket data card -2007 are available online.<<http://www.isdb.org/irj/portal/anonymous>>

The IRTIC journal, *Islamic Economic Studies* has been published biannually since its first issue in Rajab 1414 H. Currently, all articles published in *Islamic Economic Studies* are available online as full text articles with abstracts. Many academic papers published in different issues of the *Islamic Economics Studies* were empirical studies (for example Ahmed; 2002; Hassan, 2003; Bashir 2003; Donsyah, 2004; Hussain, 2004) based on secondary databases. The results of these studies may be used by researchers as references of secondary sources for further research. *Islamic Economic Studies* is included in the Abstracting Service CD-ROM indexing of the *Journal of Economic Literature* published by the American Economic Association. (<http://www.irti.org/irj/portal/anonymous/IRTIJournal?guest user=irti en>).

In order to give priority in facilitating empirical research, a Task Force was established in 2006 by the IDB to study IRTIC's role as a knowledge bank. On the basis of the recommendations of the Task Force, the IRTIC will now be able to play a leading role in the acquisition, codification, collection, storage, creation, development, enhancement, sharing and transfer of knowledge and data both for the Bank Group and IDB member countries (<http://www.irtipms.org>).

3.4 SESRTCIC Databases (http://www.sesrtcic.org/stat_database.php)

The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC) has developed a new Statistical Data Collection and Dissemination Software System in collaboration with the National Statistical Institute of the Republic of Turkey. These databases may be accessed at the centre's website: http://www.sesrtcic.org/stat_database.php. The data dissemination side of the system

allows users of the centre's database to download data in a more efficient and convenient way. The centre's Basic Social and Economic Indicators (BASEIND) database provides data on 169 socio-economic variables under 15 categories for the 57 member countries of the OIC dating back to 1970. The content of this database is regularly updated and enriched essentially on the basis of information collected from the national statistical sources. Special reports prepared by SESRTCIC on environmental, science and technology, poverty and agricultural indicators which are also available at the SESRTCIC website.

3.4-1 Statistical Yearbook of the OIC Countries

Every year, SESRTCIC publish a statistical year book for OIC countries. The centre also publishes yearly "Information Report Series" on OIC countries in the English language. SESRTCIC is launching the first electronic reference library within the OIC system. This project is being carried out with the financial support of the IDB. It is expected to be instrumental in laying down the base of a more technologically-advanced tool for the library services and enables an enhanced and detailed research and browsing facility to all users.

3.4-2 Journal of Economic Cooperation

The *Journal of Economic Cooperation Among Islamic Countries* is a journal of applied research in development economics published by SESRTCIC. It gives special attention to those papers which deal with the potentials for and possibilities of promoting and expanding economic and technical cooperation among the OIC Member States at regional, communal and/or international levels. The journal appears quarterly in English in January, April, July and October. An Arabic version of selected articles appears once a year. The journal is indexed and abstracted in *Journal of Economic Literature/Econlit*. The journal's abstracts were available online from 1987, but all articles published in the journal since 1990 are available full text online.

3.4-3 Roster of Statistics Experts

SESRTCIC also publish rosters for environment experts and statisticians. The rosters facilitate communication between statisticians as well as environment experts in the OIC member countries. Rosters are significantly useful for exchanging information and experiences within the Islamic world and promoting technical co-operation activities among member countries. They also play an important role in facilitating the flow of information between the centre and the National Statistical Organizations of OIC countries and other statistical institutions around the world.

(Source: http://www.sesrtcic.org/stat_database.php)

3.5 The United Nations, World Bank and ILO

The assembly of cross-country data sets namely United Nations Economic Commission for Asia and the Far East on income distribution was pioneered in 1967. In the 1970s and 1980s, other international agencies added to the supply of secondary data sets: International Labour Organization (Lecaillon et al, 1984; van Ginneken and Park, 1984)

and the World Bank (Jain, 1975). The 1990s saw further construction of such data sets. The ILO published a compendium (Tabatabai, 1996), as a contribution to the International Year for the Eradication of Poverty. The World Bank, which has for years published income distribution data in its annual World Development Report, has advanced secondary data sets both in scale and in form of dissemination. The Deininger and Squire (DS) data set has been made freely available at the World Bank's Website².

3.6 Financial Databases

Financial data of companies or stock related information are now easily available in the form of secondary databases. A number of items of quite detailed information, admittedly for the whole company, are available, as are some data on the company divided into geographical or business segments. Other sources of data can be used in tandem.

While significant progress has been made in the collection of financial data and security prices as exemplified in the development of DataStream International³, Bloomberg.com⁴ and the Centre for Research in Security Prices (CRSP)⁵ of Chicago University databases have had a tremendous impact on the field of Islamic finance. The DataStream, Bloomberg and CRSP databases include data from companies listed in the Dow Jones Islamic Indexes, FTSE Islamic Indexes. They also include data from Shari'ah indexes from different Stock Exchanges around the world, data from the Islamic mutual funds' return index as well as data from dividend and price earning ratios. The savings and investment related information of many Islamic banks is also available in the databases.

3.7 Islamic Banks and Companies

In order to conduct performance and business related study of the Islamic banks or business corporations, most important sources of secondary data will be Islamic banks and corporations themselves. Much material is publicly available, particularly in the annual report and accounts. Some of these are "texts", such as the Chairman's statement and other information on operating activities, which again can be analysed at more than one level (Gowler and Legge, 1986), perhaps using the tools of content analysis.

3.8 Exclusive Databases on Islamic Banking and Finance Information

A number of research centres and commercial organizations are working in the areas of Islamic banking and finance information and research. These institutions have been providing databases and information on Islamic banking and finance. Some of the important databases in the field of Islamic banking and finance studies are given below:

3.8-1 IPF Databank (<http://ifptest.law.harvard.edu/ifphtml/>)

The Islamic Finance Project DataBank (IFP DataBank) is a comprehensive collection of research information pertaining to the increasingly important field of Islamic finance. It aims to assist academics, researchers and professionals who require relevant academic information related to Islamic economics and finance, and pertinent Shari'ah rulings and

sources. Information from these databases is collected from publicly available sources, private firms and other important sources. The largest section of the IFP DataBank is devoted to bibliographic data from publications, including articles, books, book chapters, conference papers and theses. A number of records contain originally prepared abstracts.

3.8-2 *IBF Net: The Islamic Business and Finance Network* (<http://www.iiibf.org>)

The Islamic Business and Finance Network offers its members an excellent opportunity to keep abreast of new events through a network of industry professionals. They can access a rich e-library and discuss matters of importance on its Online Forum containing over 5,000 members. This network has an e-journal and scholar database. Its e-library provides research assistance in the area of Islamic laws, economics, business and finance.

3.8-3 *General Council of Islamic Banks and Financial Institutions (CIBAFI) Database* (<http://www.cibafi.org/>)

The General Council of Islamic Banks and Financial Institutions (CIBAFI) has prepared a directory of Islamic financial institutions and important personalities in Islamic finance. This information is available as an online secondary database.

3.8-4 *Islamic Finance Information Service (IFIS) Databases* (<http://ifis.securities.com>)

Islamic Finance Information Service (IFIS) of Internet Securities International (ISI) provides Islamic finance industry information. This database is designed to meet the requirements of Shari'ah compliant finance industry participants and researchers. The IFIS includes following information in their databases.

- § Islamic financial guidelines and legal content from regulatory bodies
- § League tables for Islamic bonds, deals and transactions detailing structure of issues, issuers, term sheets and conditions
- § Rankings of the top industry players
- § A database on top global law firms involved in Islamic finance
- § Shari'ah rulings, financial market information, current news, events, academic and research papers.

Access to the IFIS website is at <http://ifis.securities.com>

3.9 Collection of Shari'ah Rulings

Databases on collection and compilation of Shari'ah rulings are made available from some organizations or Islamic banks. For example Dallah al-Baraka Research Centre⁶ has been involved in research relevant to the collection of fatwa rulings of its Shari'ah board. The International Islamic Fiqh Academy (IIFA) has undertaken efforts to pass major rulings in Arabic language on Islamic banking⁷. These efforts are compiled in book volumes accessible through the libraries of many Universities and Institutions. Al Rajhi Research Centre in Riyadh and the Kuwait Finance House in Kuwait have

completed research projects on collection and compilation of fatwa rulings passed by their Shari‘ah board members.

3.10 The Press

Newspapers are the most robust online information sources. There are over 200 online newspapers published by 57 OIC members’ countries. These newspapers cover exclusive economic news and share price index data from national, provincial, local and sectoral perspectives. Their usefulness depends on inter alia and the extent and perspective from which they are viewed.

Many magazines and newsletters exclusively devoted to Islamic banking and finance news are being published in different parts of the world. Table 1 provides a selected list of Islamic finance magazines and newsletters that have appeared in the last two to three years.

Table (1). Recent List of Islamic Finance Magazines and Newsletters

	Magazine title	Frequency	Website
1.	<i>Business Islamica</i>	Monthly	http://www.islamica-me.com
2.	<i>Islamic Business & Finance</i>	Monthly	http://www.cpifinancial.net/
3.	<i>Capital</i>	Monthly	Http://www.capital-me.com
4.	<i>Islamic Finance News</i>	Weekly	www.islamicfinancenews.com
5.	<i>Journal of Muamalat and Islamic finance research</i>	Yearly	http://fem.kuim.edu.my/jmifr/
6.	<i>Investors Magazine</i>	Monthly	http://mosgcc.com/english/
7.	<i>Islamic Finance Today</i>	Quarterly	http://www.pioneer-publications.com/
8.	<i>Islamic Finance.de - Executive News</i>	Monthly	http://www.islamicfinance.de/
9.	<i>Middle East Insurance Review</i>	Monthly	http://www.meinsurancereview.com/index.asp
10.	<i>Islamic Finance Digest</i>	Occasionally	http://www.klbs.com.my/subpage8.htm
11.	<i>Halal Journal</i>	Monthly	http://www.halaljournal.com/
12.	<i>New Horizon</i>	Monthly	http://www.newhorizon-islamicbanking.com/
13.	<i>Al Huda</i> (from Jan. 2007)	Fortnightly	http://www.alhudacibe.com/
14.	<i>Islamic Banker</i>	Monthly	London, UK
15.	<i>American Journal of Islamic Finance</i>	Monthly	http://ajif.org/index.asp

3.11 E-journals Management Groups

Information on accessibility of web-based databases became very popular from 2001. The *EBSCOhost*, *Emerald*, *EconLit*, *ProQuest*, *Ingenta*, *JSTOR*, *Standard and Poors* (S&P), *Swets* and other groups launched e-journals which help researchers make better informed procurement of abstracts and full text databases. These databases provide economic and law related articles in primarily PDF formats. Among the vendors that provided image-based documents in the area of economics and finance, *EconLit*, *JOSTOR* and *Swets* deserve special mention. These e-journal management groups function as electronic archives with indexes for journal back issues. These are issues that, for the most part, have never existed in digital form. In the respect of online availability of abstracts of the PhD thesis, the University Microfilms Inc (UMI) launched its services long before e-journals. Faced with the task of digitizing masses of documents, they chose to compromise creating a solution that was economically feasible, contractually permissible and true to the authentic look and feel of the original print articles.

There are vast numbers of secondary databases. Researchers in the area of Islamic economics, banking and finance are likely to find the information they are looking for in one of the above mentioned sources of existing databases. However, once a researcher decides to use a specific secondary database, they are subjected to the methods and limitations chosen by the original researchers. For instance, variables are predetermined and the method of data collection and data entry are fixed. Therefore, it is crucial that a researcher considers using a secondary database to the best of its potential uses.

4. Using Secondary Data

Usually the research design in the area of Islamic economics, banking and finance will be such that the researchers will not be required to collect their own data but can test their research hypotheses using databases mentioned above. They can also use databases already existing among the wealth of data available in the public realm. These data might be small, simple, micro-level data such as a public opinion poll, or a survey of social attitude or preference attitudes towards investment in the different type of products or Islamic funds. Or they may be more extensive and complex data, such as Current Population Surveys or the Panel Study of Income Dynamics. Alternatively, many macro-level data sets (geographically aggregated data such as the County Business Patterns or the Islamic Financial Statistics) are also available. Regardless, the challenge with secondary data is to assure the researchers themselves that the data appropriately addresses their research questions in such a way that the researchers do not have the dilemma of altering their hypothesis to fit the data.

4.1 Advantages of Secondary Data

There are a number of advantages of using secondary data in research:

- Secondary data analysis can be carried out rather quickly when compared to formal primary data gathering and analysis exercises.

- When good secondary data is available, researchers save time and money by making good use of available data rather than collecting primary data, thus avoiding duplication of effort.
- Using secondary data provides a relatively low-cost means of comparing the level of well-being of different political units (for example states, departments, provinces and counties). However, it should be kept in mind that data collection methods vary (between researchers, countries and departments) which may impair the comparability of the data.
- Depending on the level of data desegregation, secondary data analysis lends itself to trend analysis as it offers a relatively easy way to monitor change over time.
- It informs and complements primary data collection, saving time and resources often associated with over-collecting primary data.
- Persons with limited research training or technical expertise can be trained to conduct a secondary data review (Beaulieu, 1992).

4.2 Disadvantages of Secondary Data

The disadvantages of using secondary data in research are as follows:

- Secondary data helps to understand the condition or status of a group, but compared to primary data they are imperfect reflections of reality. Without proper interpretation and analysis it does not help to understand why something is happening.
- The researcher reviewing the secondary data can easily become overwhelmed by the volume of secondary data available, if selectivity is not exercised.
- It is often difficult to determine the quality of some data.
- Sources may conflict with each other.
- Because secondary data are usually not collected for the same purpose as in the original research, the goals and purposes of the original researcher can potentially bias the study.
- Because the data were collected by other researchers, and they decide what to collect and what to omit, all information desired may not be available (Israel, 1993).
- Much of the data available are only indirect measures of problems that exist in countries and regions.
- Secondary data can not reveal individual or group values, beliefs or reasons that may be underlying current trends (Beaulieu, 1992).

4.3 Understanding the Nature of Data

The fact that the researcher has not been involved in gathering data means that effort needs to be expended in understanding the nature of the data and how they have been assembled. This is as much to appreciate what the data do not reveal as what they do reveal. This might appear to be an obvious point for something technical such as accounting numbers, but it applies just as much to other data. Without a proper appreciation of the underlying method, there is a danger that the researcher will misuse the data, perhaps drawing unwarranted conclusions. A particular problem is the risk of bias – deliberate or unintentional – in the data, which means that they should be evaluated carefully (Stewart, 1984).

To understand the nature of the data being used, the researcher may need to expend effort in processing them into a form suitable for his or her own purposes. This can sometimes be quite simple. For example, in the case of a study conducted by Hassan and Latiff (2006) which was concerned with the relationship between the Islamic charities and corporate sectors, investigating Islamic charitable (voluntary) organizations' choice of banker. The study meant simply working through a directory of charities and making entries on an analysis sheet, from which they derived an aggregate summary. Sometimes in some cases the process may be in the opposite direction, with the researcher disaggregating, and then reanalysing, the published material.

4.4 Theory and Data

One consequence of the loss of control over the generation of secondary data is that, notwithstanding the researcher's attempts to manipulate the data into a suitable form, having been generated for another purpose they are likely to address less adequately than desired the theoretical concerns of the researcher. This raises the issue of the relationship between research and theory development, which has worried a number of reviewers of empirical research using primary data too (Randall and Gibson, 1990; Robertson, 1993).

For example, the research of Hassan and Latiff (2006) on Islamic ethical investors, referred to earlier, was unable to address a number of topics, such as equal opportunities (it is a matter of corporate social responsibility), that had been mentioned in the literature simply because they were not included in the information intermediary's service at that time. The information service did not offer relevant criteria of ethical screening which could be used to exclude companies from investment portfolios. Thus secondary data are likely to map only approximately onto the researcher's ideal research questions, hypotheses or concepts, and the researcher needs both to bear in mind the extent of that approximation and to make readers aware of it when the results are written up for publication.

Hakim (1982), has an interesting alternative perspective on this issue, suggesting that relying on secondary data rather than gathering primary data can actually benefit the development of theory. "One advantage of secondary analysis is that it forces the researcher to think more closely about the theoretical aims and substantive issues of the study rather than the practical and methodological problems of collecting new data. The time and effort involved in obtaining funds for and organizing a new survey can be devoted instead to the analysis and interpretation of results" (Hakim, 1982, p. 16). This point is particularly likely to have some validity if there is a fixed time budget.

In fact that secondary data exist prior to the conduct of the research means that they can additionally play a serendipitous role in the initiation of research in Islamic economics and finance. This is particularly important given the relatively small amount of empirical research that has been conducted in Islamic economics and finance to date. An over-reliance on published research for providing ideas for new studies might lead to an undesirably narrow and somewhat incestuous development of the Islamic economics literature. Other sources of inspiration are needed, and secondary data are particularly useful because by their very nature they contain the seeds of the solution to

the question that they stimulate in the mind of the researcher in the area of Islamic economics and finance.

An example of work prompted by data is previously mentioned research conducted by Hassan and Latiff (2006) on the relationship between bank and Islamic charitable (voluntary) organizations. While consulting a UK publication entitled *Charities Digest*, Hassan and Latiff (2006) noticed that the entries for many charities contained information on their bankers. This led to their wondering which bank, if any, had an unusually large number of the larger charities as customers. This was not a profound thought perhaps, but one which, prompted by secondary data, led to a successful small project exploring one aspect of the relationship between the corporate and voluntary sectors. The data in *Charities Digest* were used to form estimates of the market shares of the banks including an Islamic bank. The estimates were then subjected to statistical analysis.

If secondary data do not prompt a particular research endeavour, consulting secondary sources may be particularly useful in the early stages of research in Islamic economics and finance for generating sensible hypotheses. The knowledge and understanding of this particular area of Islamic economics can both constrain and stimulate research questions in a better way than if reliance is placed upon existing academic literature in Islamic economics alone, even if those data are not subsequently fundamental to the prosecution of the research. Furthermore, if the secondary data are the outcome of some non-academic process there is less likelihood that analysis of them will be deemed irrelevant by practitioners; some non-academic party has already deemed them worth collecting. Against this positive view of secondary data, though, should be set the risk that the availability of good data can come to dominate the research agenda of Islamic economics and finance.

Stock market studies in accounting and finance might be a case in point, where the availability of large data sets over a long time frame holds a strong attraction for researchers, particularly those (for example Dow Jones Islamic Indexes, FTSE Islamic global indices and so on) wishing to prove themselves capable of using Islamic ethical screening research tools. The danger is that the nature of the database – what it includes and omits – comes to exert too strong a hold over the development of the academic agenda of Shari‘ah rules application in financial market. In particular, there is a risk that theory development is stunted or misdirected. However, data-driven research might be deemed preferable to methodology-driven research – which should be the case in some areas of Islamic banking and finance.

4.5 Databases and Islamic Economist – An Alliance

There has been much progress over the years as a result of enormous increase in the secondary databases available in the area of Islamic economics and finance, the ability of a researcher to process them and in his or her understanding of their limitations. Especially noteworthy have been the development of various longitudinal micro data sets (such as SESRTCIC Databases, income distribution data in the annual World Development Reports, national sample surveys from the government of Muslim

countries and others), the computerization of more standard databases and their move towards easy accessibility at the micro, individual responses level.

While significant progress has been made in the collection of Islamic financial data and security prices, researchers are still in infancy as far as their ability to interrogate and get reasonable answers about other aspects of firm behaviour. Most of the available micro data at the firm level are based on legally required responses to questions from various regulatory agencies that do not have research interests exactly in the same mind as the researcher.

There have been a number of extensive longitudinal micro data sets of secondary sources that have opened a host of new possibilities for analysis and also raised a whole range of new issues and concerns. After a decade or so of studies that try to use such data, the results have been somewhat disappointing. The encounters between Islamic economists and their data are frustrating and ultimately unsatisfactory because the data are incomplete and imperfect. There are at least three interrelated and overlapping causes of difficulty:

- (i) the theory is incomplete or incorrect;
- (ii) the units are wrong, either too high a level of aggregation or with no way of allowing for heterogeneity of responses; and
- (iii) the data are inaccurate on their own terms, incorrect relatives to what they purport to measure.

The average applied study in Islamic economics has to struggle with all these possibilities.

At the macro level and even in the usual industry level study, it is common to assume away the underlying heterogeneity of the individual actors and analyse data with the framework of the representative firm or average individual. This process ignores the aggregation difficulties associated with such concepts. In analysing micro data, it is much more difficult to evade this issue and hence much attention is paid to various individual effects and heterogeneity issues. This is where longitudinal data can be of help in their ability to control and allow additive individual effects. On the other hand (as is the case in most other aspects of economics) there is no such thing as a free lunch in the area of research Islamic economics: going down to the individual level exacerbates both the problems with the left-out variables and the importance of errors in measurement. Variables such as age, land quality or the occupational structure of an enterprise are much less variable in aggregate. However, ignoring the secondary data at the micro level can be quite costly.

The use of secondary data allows for the possibility of conducting longitudinal research in Islamic economics and finance. It is not just a question of cost and effort, although those are important considerations; if Islamic economists are only just starting genuinely longitudinal studies based on primary research it will be some time before useful results are forthcoming if secondary data are not used too.

5. Conclusion

Secondary data are already available and have been collected for some purpose other than the problem at hand. Secondary databases in the field of Islamic economics come from sources internal to the universities, Islamic economics research institutes and Islamic banks or companies such as accounting and sales records, and from external sources such as government of the Muslim countries, industries, and Islamic finance industry research sources.

This paper has indicated that there are a number of advantages (such as cost and availability) and disadvantages in the use of secondary data. The precise balance of which will tend to be contingent upon certain features of the situation being considered, not least the particular type of secondary data and the feasibility and cost of gathering primary data. But as a general rule it seems to be the case that researchers are not as aware as they might be of the potential of secondary data for providing valuable insights into a whole range of questions in a cost-effective manner.

The most of the empirical studies in Islamic economics and finance to date have drawn upon primary data, particularly in the form of responses to questionnaire surveys, although there are some examples of the use of secondary data. The secondary databases discussed in the study can potentially offer the researchers an opportunity to analyse different variables in Islamic economics and finance research.

The aim of this paper has been to stimulate and guide further use of secondary data by Islamic economic researchers. Perhaps a heightened awareness of the value of secondary data will encourage some researchers to conduct empirical research who have been holding back because they do not have the necessary resources to do good primary research or are intimidated by the problems of primary data collection in a sensitive field such as Islamic economics. There is certainly plenty of material out there. For this reason this paper has paid more attention than most on research methods to indicate the various types of secondary data that exist. It also reflects on areas which may serendipitously stimulate potential researchers to initiate new avenues of research in Islamic economics and finance which might not be obvious from the studies published to date.

While it has to be admitted that for some research questions secondary data will be but poor proxies for, or at best complements of, primary data, there are also situations in which secondary data may have attributes which render them highly attractive when compared with interview or questionnaire results. There are two particularly valuable features of secondary data that seem worthy of reiteration:

- (i) the possibility of eavesdropping, providing unobtrusive access to sensitive situations or to the past, perhaps for the conduct longitudinal studies;
- (ii) the way in which secondary data not only facilitate the pursuit of the empirical research agenda but also expand it as researchers perceive in databases interesting research issues or novel avenues of enquiry.

Even in a new academy shaped by the forces of globalization, it is believed that the effective research in the field of Islamic economics and finance will be that which is acknowledged by those in a field (Siddiqi, 2006). What qualities of research lead to such approval? Four important aspects of research findings which influence that external judgment come quickly to mind: (i) the quality of research design, (ii) use of information or data sets in the empirical evidence, (iii) dissemination and publication of the findings and (iv) the potential for having a beneficial impact on others. The databases discussed in this study are excellent examples of secondary data and therefore recommended to be used by the Islamic economists to further their studies in the field of Islamic economics and finance.

Notes

1. The webpage sources/URLs cited in the paper were accessed by the author during October to November 2007.
2. <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20701077,pagePK:64214825,piPK:64214943,theSitePK:469382,00.html>
3. <http://www.datastream.com/>
4. http://www.bloomberg.com/markets/index.html?Intro=intro_markets
5. <http://www.crsp.com/>
6. Website for free down loading: <http://www.abg.bh/English/downloads2.htm>
7. Website <http://www.oic-oci.org/>

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استخدام قواعد البيانات الثانوية في البحث في الاقتصاد الإسلامي

د. أبو الحسن

زميل أبحاث

معهد ماركفيليد للتعليم العالي - ليستر - المملكة المتحدة

المستخلص: يمثل استخدام قواعد البيانات الثانوية لتحليل المعطيات في البحث التجريبي أداة فعالة واقتصادية وذلك للميزات والخصائص التي تتصف بها. فالسرعة والكلفة البسيطة في استخدام هذه القواعد في حقل الاقتصاد الإسلامي تجعلان منها أداة مثلى في تحقيق نتائج بحثية جيدة. على الرغم من هذا فإن استخدام البيانات الثانوية في البحوث الميدانية لم تعر له العناية اللازمة، هذا إن وجدت، في مجال أبحاث الاقتصاد الإسلامي.

هذه الورقة تهدف إلى تحفيز ولفت أنظار الباحثين في الاقتصاد الإسلامي لأهمية استخدام المعطيات الثانوية كمكمل أو كبديل للمعطيات الأولية، آخذين في عين الاعتبار المزايا والسلبيات التي ترافق عملية الاستخدام هذه. فمن المؤمل أن مزايا استخدام قواعد البيانات الثانوية سوف لن يكون مقصوراً على مسألتي الكلفة والجهد، بل في بعض الحالات يؤدي استخدامها إلى التغلب على الصعوبات التي تعترض سبيل الباحثين في الاقتصاد الإسلامي في عملية جمع البيانات الأولية. من أجل مساعدة الاقتصاديين المسلمين للوقوف على الإمكانيات الهائلة التي تتيحها هذه القواعد فسيتم التعرض للأشكال المتنوعة لهذه القواعد، وطرائق استخدامها في مجالات متنوعة مع مناقشة دورها الواعد.

Culture Of Islamic Economics In Turkey

Ismail Yurdakok

Abstract. After the Council of Ministers' Decree dated Dec. 16, 1983 non-interest finance houses took permission for establishing in Turkey. This was an important date because concept of "non-interest" took place the first time in Turkish laws. In the period of 25 years, especially in last three years have been very successful term for these institutions. Another successful organization has been Musiad (Independent Businessmen's Association) founded on May 5, 1990 in Istanbul. The members of this association as the representatives of an economic/business life depends on (Islamic) ethics and their main characteristics are to defend a non-interest economic values in Turkey.

Although especially in last ten years a decreasing is seen in studies and translations on the theory of Islamic economics, but if we look at the studies of last thirty years totally, valuable efforts are noticeable. "Economic Philosophy of Ghazali" was published in 1984 (and in 2002) in Istanbul that it was Sabri Orman's doctorate dissertation. Sabri Orman also translated Abdu al-Aziz's Duri's 'Muqaddema fi al-Tarikh al-Iqtisad al-Arabi' into Turkish in 1991 and he wrote an article "Sources of the History of Islamic Economic Thought" in Istac Journal of Malaysia and collected some articles in a Turkish book: "Iqtisad, Tarih, Toplum" (Economics, History and Society), in 2001. Study of Ibrahim Erol Kozak on opinions of Ibn Khaldun on economics (a study of 350 pp.) was published in 1984 (and in 1999). Ensar (Ansar) Foundation organized conferences on Islamic economics in 1984-85 and the texts of these conferences were published. Umar Chapra's books were translated into Turkish in 1977, 1987 and last 2002 (A Strategy for Development with Justice and Stability.) Books and booklets of The Islamic Foundation of Leicester were translated also into Turkish from 1983. Cengiz Kallek is also a prolific author: "Market and State in the Period of the Prophet (Muhammad)" (in Turkish) in 1992; "The History of Islamic Economics Thought" in 2004; "Kharaj", "Maks", "Thoughts of Mawardi's on Economics" as detailed entries in the Diyanet Islam Ansiklopedisi produced by Kallek. Abdullah Ograk also wrote a master thesis on "Mawardi's Thoughts on Economics" in 1997 that Mawardi's opinions especially are important for today's tax-payers that he supports them against 'state.' He even estimates the distance of production to markets and puts conditions for payable capacity of tax-payers (in al-Ahkam al Sultani, p. 184.) The details will be given in the paper and mentioned new studies.

Introduction

'Very high inflation', 'development' and 'candidacy and to be a member of European Union' have been the most circulated talks in last thirty years in Turkey. Heavy economic crisis in 1994, 1999 and 2001 left unforgettable traces in the history of State and families. In 'Dark Wednesday' January, 26, 1994 foreign exchange rapidly increased and an economic quake hit all companies. Foreign debt had reached 62 billion dollars at the end of 1993. Paying of interests had reached to 25 % of the State's budget. State Treasury was paying an interest of over 1000 % nightly for gather money from the financial markets. (1) Moody's and Standart and Poors decreased the credit note of

Turkey and in the night of 26 January interest rates of deposits reached to 88% from 74%. Annual interest rate jumped up to 130 % from 70 %. (2) In reality from the last years of 1980s to 2003 Turkey was paying the foreign debt instalments taking new debts with higher rate of interest. After 1991 malpractice and embezzlements were the main characteristics of ten years to 2002. In this period all of the sources say that approximately \$100 billion was stolen from the State's budget. In the first ten nights of February 2001 the nightly interest rates reached 5000 % and the economic system collapsed. After that, an independent man Kemal Dervis deputy president of World Bank was invited and appointed as deputy prime minister. After one year successful crisis administration Kemal Dervis left his post and after November 2002 general elections, Tayyip Erdogan government continued the economic policy of Kemal Dervis. After six years under the Erdogan's government Turkey's economy now is in the healthiest position of last thirty years.

Especially in two decades (1977-97) Turkish intellectuals looked for solutions for problems of economy. Turkish socialists and communists offered a socialist system especially after 1961 because new Constitution of 1961 had permitted to write and propagate the socialist opinions. But socialism remained an utopia of a marginal leftist intellectuals although they produced articles in their dailies and magazines and sometimes organized conferences. Participants of their meetings were always limited. And after collapse of iron curtain in 1989 the majority of the leftist intellectuals became the supporters/defenders of the new social order (neo-capitalism)

It is reality that 'non-interest system' was frequently mentioned by Necmeddin Erbakan in the media, tv programs in his long political career. From 1974 Necmeddin Erbakan became deputy prime minister in different cabinets upto 1978, and then opposition leader till 1996, and prime minister in 1996-97. The concept of 'non-interest system' as the main political slogan of Erbakan parties (Milli Nizam Partisi 1970-71, Milli Selamet Partisi 1973-80, Refah Partisi 1983-98, Fazilet Partisi 1998-2001 all banned by Supreme Court of Turkey) was expressed in party meetings and press conferences. The harm of interest in an economy was written in the brochures of declarations before every election and was mentioned in election speeches in radio and televisions. Another Turkish conservative politician Turgut Ozal deputy prime minister 1980-82, prime minister 1983-89 and president 1989-93 was one of participants of the Ist Science and Technology Congress in Mecca in 1976 (3). Ozal was a candidate for parliament membership from Erbakan's Milli Selamet Partisi in 1977 and had helped for opening of first non-interest bank of Turkey after 1983. In this paper, first, theoretical studies in last thirty years in Turkey, are surveyed and useful statements from the conferences and sentences from the books and articles that protect their freshness are quoted. A sufficient literature (on Islamic economics studies in Turkey between 1977-2007) are listed. They are the best that have been written in this period. In the second part interest-free banking culture in Turkey has been that these banks got permission in last days of 1983 and they have completed approximately a quarter century in Turkey. Unsuccessful initiatives of some companies that they collected great funds from the nation in 1990s and their collapse gave negative impact to the culture of Islamic economics are noted in the third part. 'Musiad's struggles for Islamic ethics in business life and world wide cooperation as a businessmen association is seen in the fourth part.

1- Theoretical Studies

Another right-wing politician Tansu Ciller minister of economy (1991-93), prime minister (1993-95), and deputy prime minister of Erbakan's government (1996-97) had done a press conference as an academician on September 1989 with the other academician Murat Cizakca and they both offered progress of Turkish non-interest banks and said: "Models of Islamic banking and risk capital should be used for decreasing of financing costs; risk capital institutions are widespread in US and Canada and there are structural similarities between these institutions and non-interest banks. This system will be very useful for private sector of Turkey as long term non-interest financing resources. If Turkey wants to develop risk capital system, the cheapest way is to change the investment policy of Islamic banks and their putting funds with the ways of *mudarabah* and *musharakah*. Risk capital system will prevent monopoly of (conventional) banks and put a competition and a pressure for decreasing the interest rates."(4)

"Non-disciplinable banking system of Turkey" was pointed out as one of the main problems by Ali Coskun as he was the president of Business World Foundation in 1991 (he would be minister of industry in Tayyip Erdogan government 2002-2007) saying: "this banking system is encouraged and provoked by a usurious (system) and the other important reason is a non-preventable squandering that causes deficits of public finance. All groups of the community live with extravagance and almost a demonstration economy is seen clearly."(5) In those days incomes of high interest was going to 100,000 persons that they had got high bank accounts. Although this reality was mentioned frequently in media and reports but more than ten years upto 2001 this system continued; and approximately 70 million Turkey's population worked for that one or two thousand users in the period of 15 years.(6) 'Muslim-man type' and 'type of Muslim society' was coined in that years by Besir Hamidogullari(7), 'model of Muslim man' by Sabahattin Zaim (8) 'man of Islam' by Hayreddin Karaman (9) in the conferences of Islami Arastirmalar Vakfi (Foundation of Islamic Researches) and Ensar Vakfi (Ensar Foundation) and early thoughts were expressed on Islamic economics from 1983. All of the participants agreed that "consumption is not the engine of Islamic economics", "advertisements have not an injection policy for extravagance culture in Islamic economics", "non-interest loan and anti-inflationary monetary policy are the main characteristics of Islamic State's monetary and credit system", "speculative deeds and exploitations are squandering natural and human sources and both are alien to Islam" (10) "Homo Islamicus' is that type of man who would find solutions for the crisis", says Besir Hamidogullari an academician from Ankara University, "There is a different 'Islamic production form' that does not permit for producing of products of luxury and showoff. Islamic economics is a social economics from the foundation." He mentions the sentences of John Kenneth Galbraith and asks like Galbraith: "Affluent for whom?"

Prof. Hamidogullari also asks "What is real development?, 'quality of inter-human relations', 'which dimensions are seen in statistical charts and which are not seen?', 'growing of an economy with hormones and a kind of growing cancers in an economy.'" He narrates sentence of Ivan Illich: "schools are only factories give diplomas (in Western world)" and points: " 'forgotten solidarity in the myth of

economic growth', 'brutish growth', 'pharaohs (bosses) of consumption'" in his paper in 1984. In those days every Turkish intellectual was complaining from much extravagance behaviours of the individuals and the State (it is also an ongoing problem now, although even religious scholars used to give sermons against extravagance.) There are two examples in the magazines of that year, one of them; in June 1991, Yoji Okabe the President of Sumitomo Bank of Japan had visited Istanbul and said to a journalist: "Turkish people build very large and luxury houses. We have not got a chance like this. I went this morning to shopping with my wife, I looked at the people at the street their costumes like in fashion show; everybody has got smart and up-to date costumes and very expensive jewelleries." Mrs. Okabe also says: "Turkish women wear really expensive jewelleries. But my opinion is jewellery does not provide you much things. There are more pleasant things than to carry jewelleries."(11) In another magazine in Sept., 1989, Paul McMillan a western citizen who works in Istanbul says: "Descartes's sentence changed in Turkey now. Descartes had said "cogito ergo sum (I think, therefore I am)" but now in Turkey "I spend, therefore I am"(12)

Prohibition of *kantz* (accumulation of money) was also discussed in that conference. Emin Isik (Islamic studies faculty member) stated that "Muslims buy gold because of high inflation, to protect the value of their money (wealth), whereas to buy gold and to hold in an idle inactive position is also prohibited like interest. That is taking active capital (gold) from the market and to change this to a passive capital is also prohibited." Prof. Hamidogullari also supports Emin Isik and says: "not only individuals but even State has not got a right to accumulate and hold money as idle, because if you do this, employment will not exist and affluence will not occur. Circulation of money is necessary." But Ibrahim E. Kozak replies that "in classical Islamic period gold (money) was the vehicle of bartering, exchanging and that's why to accumulate gold was to prevent this vehicle from traffic (like to stop the traffic in the highways of a metropolis) but today gold is an ordinary good, property. Today, to do stock of gold is like to stock another property" (13)

Japan's economy attracted the attention of Turkish intellectuals especially after 1980. Islamic intellectuals first studied Japan's economy because they thought it as an alternative for Western economic thought. They wanted to find non-material aspects of Japan's economy and walking from here to defend Islamic values in economics. Two academicians brought new ideas about this and compared them with Islam: Dr. Besir Atalay (14) in his paper "Position of Traditional Values in Economic Development (Japan's Example)" brought new ideas about this and compared them with Islam: "...encouraged consumption in the West forms a man's type that perceived identical with properties and belongings. Economic policies that take (only) growth as a(n) only target destroy nature, society and humanity. That's why a vast literature has been seen in the West in last century: The Lonely Crowd, 1955, York (D. Riesman, N. Glazer, R. Denney); Has Man a Future? 1961 (Dora and Bertrand Russell); Collapse of the West (Der Untergang) I-II, 1918-22 (Oswald Spengler). 'Traditional Values' shapes the thoughts and behaviours of a society and individual in the centuries along the generations and these values are the most important legacy of the history for new generations. Absolutely 'time' changes some of them and adds 'new ones' sometimes. But 'Islam' is above than traditional values for Muslims. Because commands and prohibitions of Islam are very important for Muslims and they limit the acts of a Muslim.

And Islam is not only a traditional value, it is a 'living value' and always 'new.' Everybody himself is responsible to the religion in Islamic community and he himself will believe, think, decide, accept, learn and know his responsibilities. But in Japan's example it is very difficult what is tradition and what is religion, they are very mixed, one within the other. No doubt every economic system is in a main ideology. It is impossible to think an economic or social system that has not got any ideology. Three reasons why we selected Japan's model; one: it is the (the first and) only orient country that began industry after Western countries but passed them; two: in spite of high technology and development they protected their form of community at least some of the traditional values are still living; third: from the industrialization began in late 19th century (to today), leaders of the companies and politicians insistingly emphasized that traditional values, beliefs and motives are very important in their development."

Kokutai

Kokutai: Japan's ideal or soul of the nation. Besir Atalay gives details from Japan's history and he focuses especially after World War II. "Tie of family, soul of the community depending on the authority are the foundations of Japan national character. Every Japanese is a part of kokutai. Family and the State relations are very powerful and the State uses family to reach its targets. Family and the State are even like a united part and the family provides this homogeneity and this belief even reaches to worship to ancestors. After WW II, the power of the authority was carried from Emperor to Boss.(15)

'Dependance to State' became 'dependance to the company' 'High productivity is gained by moral values'. 'Isolation and innovation' walked together in Japanese community. On the other hand, Japan has been the most 'borrower' country from the ancient ages. Benefits of the country and group have been very important. 'Meritocracy: giving the posts, duties to high practical and intellectual abilities' has been very important. And this concept brought to train a lot of experts in every field. 'Control ourself' and 'patience' were/are taught in Buddhist temples.

'Samurai ethics' is essential. To like the concepts 'small', 'simple', 'few', to furnish small houses with ordinary materials. Dynamic and revolutionary traces of non-material values are seen every time in Japan's life. Japanese administrators also support moral values.

Megacities and Kokutai. Immigration from villages, working of women, urbanization and urban individualism, diminishing control of the family ties in greater cities made serious identity crisis in new generations especially in last 25 years. Although Japanese government took different precautions but youths do not want a family member of their companies and to give all of their energies to the production. Government uses television programs to prevent the disengage in Kokutai, but particular behaviours of western industry societies are becoming widespread in the youth. Nurseries, old age asylums entered Japanese society as an inevitable two institutions of western industrial-urban societies." Besir Atalay mentions these examples from Japan development and asks: "How a Muslim society will be motivated and for which ideal will motivate our workers? In the Meiji period (1867-1945) at the beginning Emperor Meiji and his team

gave very importance to the values of Japans that the Japan history carried them and the team put important plans to keep alive these values. It should be emphasized that if the ideals of a community come together with its values that they are felt deeply by all individuals and all individuals believe in them with sincerity. If you give punishment to a worker for his beard (like in Turkey), for which ideal this worker would work and how you motivate him? Laws (cods) of a(n Islamic) country should be derived from social values of that society. The duty of the 'sociology of law' is to make widespread sociological researches and to help lawmakers for this. The achievement is impossible if the targets and ideals of individuals are different from the ideals and targets of their State. If administrator of a State become enemies to the values of individuals it is impossible to motivate them for economic development or for any other progress. If we think group solidarity for Islamic communities; it is obvious that the devotion of Muslims to their (Islamic) system and (Muslim) community more powerful than Japan's dependant to their system and community. The senses and meanings of commands of Allah are more powerful for Muslims than dependance of a Japanese man to his Emperor. That is, Islam has got more motive power as inner dynamic than any other ideology."(16)

The other academician who studied on Japanese economy in last twenty years is Mustafa Ozel that he still notes the spiritual, virtual values of Japans frequently in his monday columns in daily Yeni Safak. Although a lot of Turkish intellectuals compared the performance of Japan and Turkey in last hundred years and from Sultan Abdulhamid of Ottoman Empire(his reign 1876-1909) envoys went to Japan and saw the methods and works of Japanese. But Mustafa Ozel from his master thesis to today, investigated especially business life of Japanese companies and talked to top level ceo's to learn the soul of the Japan's power. He noticed that the exports and GDPs of Japan and Turkey were approximately equal in 1948. But in 1994 GDP of Turkey is \$ 140 billion but Japan's GDP is \$ 4,5 trillion.

Ozel says: "the main reason is Japanese looked for 'the power' in no east no west, but their power was in their spiritual values. The main characteristic of Japanese economy is a 'production economy'; and they do not think 'consumption' like us. (17) Japanese companies have opened new opinions that came from their workers. The workers of Matsushita that there were 63,000 employees in 1975 had offered 663,475 new opinions and an award of \$ 300,000 they took. In 1991 there were 95,000 employees and 4,000,000 new opinions came in the same company. (18)

'Soul of entrepreneurship' was discussed in the same conference. Ibrahim E. Kozak's paper's title was "Psychological Factors for Economic Development According to Ibn Khaldun" Kozak focuses on how critical&creative thought is given to the students even from the primary schools to the universities. He narrates that Ibn Khaldun says "one of the duties of the State is to control the teachers if they apply heavy punishments to the students or not? Because heavy punishments leave bad and deeply traces in the souls of children and cut desire and eagerness of their study and achievements." Ibn Khaldun also criticized that method of (only) memorizing in West African countries in his time although students spend their years in the schools but they are weak in critical thought when a topic is discussed." Kozak says: "the reason of economic crisis in Islamic countries is 'cultural crisis'"(19) At the end, Prof. Sabahattin Zaim closed the two days

conference saying: “It is possible to have different approaches (for study on Islamic economics), but the main reality is ‘man’ and ‘man’ is essential element in Islam. Muslims are educated man naturally; it is possible that they have not got diplomas but they go to mosques and take lessons, courses there. Ignorance is absent in Islam. That’s why to train ‘Muslim man’ is the main (but not difficult) problem.” (20)

Sabahattin Zaim is one of the participants of the First Congress on Islamic Economics in 1976 from Turkey. He also was awarded the IDB prize in 1993 for his contributions to Islamic banking . He frequently mentions *six empty tracks* and looks for ‘runners’ for these tracks: “First, ‘Philosophy of Islamic Economics’ that interested in values and philosophical approaches of Islam; second ‘Methodology of Islamic Economics’; third ‘Economic Analysis from the viewpoint of Islam (production, wage, price... analysis for every economic concept from Islamic aspect; fourth ‘Applied Islamic Economics’; fifth ‘Comparative Economic Systems and Islam’; sixth ‘History of Islamic Economics’ (and how we will transfer this rich legacy to today.) Methodology of Islamic Economics is an approach that principals and values of Islam form a group of axioms. If we formulate this group of axioms, the rest of the economics will follow this with a deductive and true logic. And after preparing of these axioms even a non-muslim economist can contribute for Islamic economics.” (21)

After encouragements of S. Zaim, two respected institutions in Istanbul, Ensar Vakfi (Ensar Foundation) and Islami İlimler Araştırmalar Vakfi (Foundation for Reserach of Islamic Sciences) organized conferences on different aspects of Islamic economics beginning from the year 1983: “Inflation and Ways of Solution from the Islamic Viewpoint”, “Stock Exchange from the Viewpoint of Islam”, “Economic Development and Islam”, “Money, Interest and Islam” “Financing matters in Islamic Economics”, “Labor and Employee-Employer Relations in Islam.” Turkish scholars submitted papers in these conferences. Last symposium was realized on “Labor Life and Islam” on November 25-27, 2005, Izmir(city.)

One of the scholars that has studied in Islamic Economics in last thirty years is Sabri Orman. He began to study on a vast research project as ‘Progress of Economics Thought in Islamic World’ in the beginning years of 1980s. First his doctorate dissertation was on Ghazzali’s Philosophy of Economics. His target is to complete his research project in a five volume study on the history of Islamic economics. He says: “memory of societies is like the memory of a (one) man. If a society does not give importance to its history, that society is in the position of a man who lost his memory. History is a social memory and history is a mutual help among generations.” (22)

One of his papers is “*İlm Tadbir al-Manzil, Oikonomia and İqtisad.*” He investigates in this paper ‘management of household’ from the philosophers of ancient Greece to Nasir al-Din Tusi and Shah Waliyy al-Allah al-Dihlawi. Ibn Sina had written a booklet on this topic: ‘al-Siyasat al-Manziliyya’ that this book is the main source of literatures of *ilm tadbir al-manzil* that were written after that. Ibn Sina says ‘man’ is an insufficient creature for his need. He compares ‘man’ with animals. ‘Man’, apart from his daily food and water needs, should also be provided with his tomorrow’s needs. That’s why ‘man’ is in need of a ‘house’ and a woman.

Savings Portfolio of Tusi. Nasir al-Din al-Tusi adds these ‘security’ and ‘need of resting.’ And ‘man’ can not eat uncooked foods (unlike animals) that’s why the other materials that he should provide. Kinalizade another ‘author of *ilm tadbir al-manzil*’ mentions apart from accumulation and store ‘man’ also must have a house for protecting him from hot and cold, snow and rain. Shah Dihlawi adds these ‘aids of the others’ that from time to time ‘man’ becomes ill or a calamity, disaster occurs and that time ‘man’ looks for the helps of the community. Tusi had written ‘a house should be in a place that can take clean weather and clean winds’ eight centuries ago. He also had pointed much consumption in building houses and furnitures is harmful for family budget. It is a reality that behaviours of the family is more important than behaviors of individuals in current consumption theories that economic behaviours of a family still protects its importance as analytical element in modern economics theory. Ibn Sina says that a man has to store some grain because future is uncertain. Tusi also mentions ‘savings’ and store of grains for famine years and gives details for different savings., as cash, foods and real estates, lands and animals like camels, cows and sheeps. He sees that to prepare a suitable combined savings portfolio is a required rationality for every man. The balance of savings and consumption is also important according to Tusi and after some sentences that express the ‘management of savings.’ Tusi advises four principles for consumption and his writings are more systematic than Ibn Sina.(23). A large number of books and research papers on Islamic economics have been written by Turkish scholars listed in the Appendix at the end of this paper.

2- Culture of Non-Interest Banking in Turkey

Ottoman Empire took first debt from western banks in 1854 and from this date to the collapse of the Empire (in 1922), the Ottoman governments wanted new debts from European banks and sometimes with very high interest rates. These new debts were used sometimes to pay (only)the interests. *Ziraat Bankasi* (Bank of Agriculture)and *Osmanli Bankasi* (Bank of Ottoman) opened their branches in a number of cities of Turkey at the last quarter of 19th century. Emniyet Sandigi and in the first years of 20th century *I'tibar-i Milli Bankasi* were the other banks in Istanbul that they were working on interest principles. Only Namik Kemal (famous poet and thinker) had mentioned a “Muslim bank” in daily *ibret* in 1872: “It is very strange that trade has got honour (in last years.) Business life (in Western countries) produces, now, some men that their wealth are much more than one thousand companies and (we see also) some companies are more powerful than a country. When will we take warning? We have not got any factory. We could not achieve to form a company. Is it a possible progress in business life in this way? Is there a “bank of Muslim”? How (big)wealth exists (for industry)?”(24) Although Namik Kemal says “bank of Muslim” but he does not give any other knowledge about it that what kind of bank he thinks? And after collapse of Ottoman Empire, new strong secular republic, essentially, did not follow an Islamic way and did not think Islamic solutions for economic problems.

After the Council of Ministers’s Decree dated Dec. 16, 1983 non-interest finance houses took permission for establishing in Turkey. This was an important date because concept of “non-interest” took place the first time in Turkish laws. Turkey, after a long westernization period that goes back to the year 1839 Tanzimat Reforms of Ottoman

Empire, saw and then has lived in last 25 years with these institutions. Al-Baraka Turk and Faisal Finans were the first entered to this sector of Turkey. At he beginning, Turkish law named them as “special finance institutions” and in 2006 they became “Participation Banks” by regulations of law. Since its inauguration in 1985 Al Baraka Turk brought a different financial model and concept. Its foreign shareholders 66.51 % (Albaraka Banking Group 54.06 % , The Islamic Development Bank 7.84 %), local shareholders 12.92 % and others 20.57 %.) Another non-interest finans house Anadolu Finans, local shareholders had got all of its capital was established in 1991. Starting from December 1999 Kuvveyt Turk entered the sector and shareholders of Kuvveyt Turk are Kuwait Finance House (62%), Kuwait Social Security Institution (9%), Islamic Development Bank (9 %), General Directorate of Endowments of Turkey (18%), and other shareholders. Kuvveyt Turk mentions that one of its targets to gain the funds of Gulf: “interest free banks which are called Special Financial Institutions in Turkey, encourage interest free investments and attract a big deal of fund into the circulation of Turkish economy. Another aim of Special Financial Institutions in Turkey is to receive funds from the Gulf Countries and finance real sector investments.”

Bank Asya also entered the sector on October 24, 1996 as also a non-interest bank. Bank Asya increased its paid-up capital in line with year-end projections. It currently stands at US \$ 180 million. The capital increase was effective as of December 19th, 2005. On April 2007, Bank Asya concluded first Murabaha Syndication; signing of their US\$ 50 million syndicated Murabaha Financing Facility, ABC Islamic Bank (E.C.), Standard Chartered Bank and Unicredit Markets & Investment Banking (acting through Bayerische Hypo- und Vereinsbank AG) are the “Mandated Lead Arrangers” for the Facility. The Facility has been structured as a dual 1 and 2 year tranche facility. Proceeds of the Facility will be used by Bank Asya for its general financing activities. The syndication achieved significant oversubscription and Bank Asya elected to increase the facility to US\$ 175 million.

Economic crisis in 1999 and 2001 of Turkey hit these special finance houses the heaviest blow in their history of quarter century in Turkey and one of them Ihlas Finans went to bankruptcy and this bankruptcy impacted the other non-interest houses and thousands of depositors closed their accounts. That’s why last five years were the recovery years and from 2004 they again began to regain their prestige. In this period Faisal Finans and Anadolu Finans joined together under one structure as Türkiye Finans. Today four Interest Free Banks are operating in Turkey. And all of these non-interest houses established a union. 2007 was a turning point for these institutions. For example, Albaraka Turk Participation Bank’s total assets grew 24.3% in the first half of 2007 and continues its rapid growth in the third quarter net profit of the bank has reached YTL 72,803,000 (after tax YTL 57,329,000.(US\$ 1=1.20 YTL (New Turkish Lira). As the first “participation bank” of Turkey, Albaraka Turk, whose shares have been floating in the Istanbul Stock Exchange (ISE) since June 2007 is relaying its second announcement to the public on quarterly basis. The bank also announced that the total assets of the bank increased by 32.9% in the first 9 month of the year, reaching YTL 3,331,598,000. In this context, the Bank’s total credit portfolio was increased by 32.1% in the same period of 2007 reaching YTL 2,619,913,000 with includes the net receivables of the Bank accruing from its financial leasing operations. It was also announced that the size of the funds collected, inclusive of the profit & loss

participation accounts plus the special current accounts, increased by 25.3% reaching YTL 2,697,834,000 as of September 2007. The released that the equity of shareholders has reached YTL 506,130,000 by the closing of third quarter of 2007, which covers the fully paid up capital after the initial public offering, inclusive of issuance premiums, and the profit accrued within first 9 months of 2007. (25) An interesting event occurred in 2006 that Turkish government wanted to appoint Adnan Buyukdeniz (general manager of Albaraka Turk) as the President of Central Bank of Turkey. But (former) President (of Turkey) (a strong secular man) Ahmet Nejdet Sezer prevented his appointment. This event shows that non-interest banks are now popular in Turkish financial system as trustworthy institutions.

Turkiye Finans is another interest-free bank that the financial highlights of 2007's second quarter of this non-interest bank also indicates that growing impact of this sector in Turkey:

Total Assets	US \$ 3,606, 202,000
Deposits	US\$ 2,985,832,000
Loans (cash loans)	2,921,192,000
(non-cash)	1,658,042,000
Shareholders's Equity	386,760,000
Net Profit	53,724,000

Number of Branches	125
Number of Employee	2386

As a good example that these interest-free institutions bring foreign investment to Turkey that Saudi Arabian National Commercial Bank bought 60% of Turkiye Finans paying US \$ 1,08 billion in August 2007. Turkish press gave importance to this sale. NCB's President Sheikh Abdullah Bahamdan's sentences were: "This cooperation is a turning point for our targets and a great step for our regional growth strategy; and the newest example of good relations between Saudi Arabia and Turkey." In signing ceremony President of Turkiye Finans Mustafa Boydak was saying: "After joining (Family Finans and Anadolu Finans) in 2005 that (new) Turkiye Finans became the leader of sector of participating banking of Turkey and NCB's expertness in interest-free banking and vast spectrum of its products will give rapid the growth of Turkiye Finans." Also statements of Abdulrazzaq M. Al-Kharaijy head of Islamic Banking of NCB found vast places in (Islamic and laic) dailies and magazines of Turkey in August 2007 that Al-Kharaijy said: "28 new branches will be opened in Turkey and we will serve with 18 different Islamic funds to our customers, that 12 years ago we with only one branch had begun Islamic banking in Saudi Arabia and today we reached 72 branches in 32 different cities of Saudi Arabia.

Cheap Or Expensive? The sale of 60 % of Turkiye Finans to a Saudi Arabian firm was discussed vastly in Turkish media and press that this sale (of US\$ 1,08 billion) was cheap or expensive? In a detailed article Fikri Turkel said: "this sale is also good for two partners (Turks and Saudis.) (We see in the history of Turkiye Finans) Ulker

group(famous biscuit company of Turkey) had bought Faysal Finans in the year of 2001 paying (totally) US\$ 30 million in the crisis nights of 2001 from Kombassan Holding. When Ulker group entered the interest-free banking sector, thousands of customers felt relieved as after bankruptcy of (most rapidly growing non-interest bank) Ihlas Finans, thousands of customers were running away from non-interest banks in the first months of 2001. Ulker group had taken a great risk in that day. But in the course of the time financial markets and economic condition of Turkey recovered and when Faysal Finans and (the other non-interest bank) Anadolu Finans joined together in 2005 and the biggest non-interest bank of Turkey was born. Now, Ulker sold 30% of its shares (the other 20% are still in Ulker's hand) taking approximately US\$ 600 million(with the profit of 2007.) This sale to NCB is very good profit for Ulker (and the other partner Boydak family will also take US\$ 600 million), but it is also very good price for Saudi NCB. Because a ready and good working (non-interest) bank in the rising star country (Turkey as economic and political indicators point.) Paul Wouters an expert on Islamic financial products in Turkey (a Belgian born solicitor) also expresses: "Saudis took a good position with this sale..." (26) After Bank Asya's murabaha syndication in April, Turkiye Finans signed also a murabaha syndication of US\$ 100 million in mid-August 2007 from a consortium that HSBC leadeed. Turkiye Finans will use it for real sectors of Turkey.(27)

3- People's Companies

In the first part of 1980s, another formation -derives from the culture of Islamic economics- was seen in Turkey. Some enterprisings – against the dominant conventional banking system that was paying high interest to the people- especially from the conservative Muslim cities of central Turkey began to gather small amounts of money from middle class families to build factories and they visited the European countries to take the capitals of Turkish workers. Even some meetings were held in mosques and hundreds of millions of dollars had been collected by these companies. Although some factories in the cities of Central Anatolia were opened but the majority of these companies went to bankrupt especially after the crisis of 1999 and 2001. One of the reasons of their bankruptcies is that they did not employ professional staff and they did not canalize their funds to suitable fields. Especially Prof. Sabahattin Zaim warned them (in March 1999) their low productivity but the heads of these companies did not pay attention to the warnings. The other reason was the government and media of that period accused them as "green capital" and applied ambargos and even the bank accounts of some of these companies were frozen by the (strong laic) government (of that day.) A lot of negative writings and speeches were seen in media by strong laic journalists. Another reality was that these companies gave only a receipt that they took the money from the shareholders but they could not give any partnership certificate because they did not take permission to sell their shares, from the 'Capital Markets Board of Turkey.'" And these situations influenced the public opinion as a negative view for Islamic economics.

4- Musiad's Works for Islamic Economics

Musiad (Mustakil Sanayiciler ve İşadamları Derneği/Association of Independent Industrialists and Businessmen) was representing youth and dynamism and indigenously in 1990s. Today this organization is a community of experienced businessmen. Mustafa Ozel had compared them *hilm-al-fudul* of pre-Islamic Mecca, in 1995. Musiad was an alliance and 'cooperation of virtuous men.'⁽²⁸⁾ Ending of Cold War in 1989 and rising of neo-capitalist movement in the world impacted also Turkish individuals. And a post-modern laic coup d'état in Turkey in 1997 against Islamization, influenced Turkish society. But a successful movement has been seen in the Musiad's struggles. Musiad is a Businessmen's Association, founded on May 5, 1990 in Istanbul. The members of this association as the representatives of an economic/business life depends on (Islamic) ethics and their main characteristics are to defend a non-interest economic values in Turkey. They define themselves:

"Musiad is a "platform for development –dialogue- cooperation and solidarity" created for the purpose of contributing to the social, cultural, political, economic, scientific and technological development of individuals and institutions, our country and society, our region and the world." About 'Mission': "First, on condition of global value and *with respect to the history of our nation and respectful to her culture and identity* with the aim to protect our national and international independent structure. With the initiatives of Musiad, IBF's (The International Business Forum a non-governmental platform for gathering of mostly Muslim businessmen from all over the globe was founded in Pakistan in 1995) head office was moved from Pakistan to Istanbul and annual congresses take place every year in another Muslim country. The first objective of this congresses is "to coin and utilize the Islamic ethical virtues among the conventional business life" and the second "to direct and empower the commercial relationships in line with national principles and interests, co-operation among the members and among the (Muslim) member countries at regional and global level" and the third "to enhance the commercial activities and to develop trade among the members and the member countries." The congress of 2005 took place in Jeddah and 10th Musiad International Trade fair took place in Istanbul with 337 participant firms 1,700 businessmen from 40 participant countries in Istanbul in 2006. Year 2007 Congress held (November 27-29) in Abu Dhabi. In 17 years, Musiad has invited a lot of statesmen, scholars and businessmen for giving seminars from Muslim countries for co-operation, development and for eradication of poverty and unemployment in Islamic and underdeveloped countries.

Musiad expresses IBF's objectives: "The idea behind International Business Forum is to set up a "Global Business Network among Muslim Nations" providing a forum to identify and stimulate trade and mutual investment relationships among Muslim Businessmen throughout the world: To coin and utilize the Islamic ethical virtues among the conventional business life.

To direct and empower the commercial relationships in line with national principles and interests, co-operation among the members and among the member countries at regional and global level; to enhance the commercial activities and to develop trade and investment among the members and member countries; to support the co-operation

among the members vis-a-vis technology transfer, technical assistance, consultancy and know-how.”(29)

Conclusion

To sum up: it is obvious that the beginning of Islamic economics studies thirty years ago has produced a lot of opinions and organizations to solve the problems of Islamic world and has given valuable thoughts for the problems of the world economic system. A general culture of Islamic economics has been given to (interested) readers and intellectuals of Turkey. But ordinary men are not aware of these subjects. More study is necessary for public. Although 2007 was one of most brilliant year in last 25 years for non-interest banks of Turkey but muslim economists and religious scholars should produce more theoretical studies on Islamic economics for stimulation of a more ethical business life in Turkey and a just world economic system.

Endnotes

- (1) Mustafa Ozel, Devlet ve Ekonomi (State and Economy) , p, 21
- (2) Mustafa Aykac, Dalgalanma Soku ve Sistemin Krizi(Shock of Fluctuations and Crisis of the System) , Islam Dergisi (Islam monthly magazine), Mart (March)1994
- (3) Sabahattin Zaim, Islam-Insan Ekonomi (Islam-Man-Economics), p, 158
- (4) Kopru Dergisi (Kopru Magazine), Ekim (October) 1989
- (5) Ali Coskun, “İktisadi Durumumuz ve Beklentilerimiz (Our Economic Condition and Expectations)”, Islam Dergisi, Haziran(June) 1991, pp, 22-23
- (6) Abdulkadir Akgun, “Ekonomide Acil Onlemler Gerekmetedir (Urgent Precautions are Necessary in the Economy)”, ibid, pp, 29-30
- (7) Besir Hamidogullari, “İktisadi-Vahsi Buyumenin Bunalimleri ve Islam Kalkinma Modelinin Vadettikleri (Economic-Brutal Growth and Promises of Islamic Development Model)” in İktisadi kalkinma ve Islam (Economic Development and Islam)(ed. A.Tabakoglu-I.Kurt), pp, 30 (9-33)
- (8) Sabahattin Zaim, Islam-Insan Ekonomi, p, 181
- (9) Hayreddin Karaman, Islam Acisindan Borsa (Stock Exchange in Islam), p, 123
- (10) Ahmet Tabakoglu, “Islam İktisadi Acisindan Kalkinma (Development from the Viewpoint of Islam)”, in İktisadi Kalkinma ve Islam, pp, 241-51
- (11) Bizim Aile (Our Family) (monthly magazine) Agustos (August) 1991, p, 7
- (12) Kopru, Ekim(October) 1989, p, 40
- (13) İktisadi Kalkinma, p, 61
- (14) At the time of the conference of 1984, Dr. Atalay was the minister of State (affairs) in 2002-2007 in the first Tayyip Erdogan’s government and he is now (2007) minister of interior in the cabinet.

- (15) (from: Rober N. Bellah, “Continuity and Change in Japanese Society”, Stability and Social Change, (ed. by B. Barber and A. Inkeles) Boston, Little, Brown and Company 1971, p, 394; Reinhard Bendix, Nation-Building and Citizenship, Berkeley, University of California Press 1969, p, 254; Nyozekean Hasegawa, Japanese National Character, Japan Board of Tourist Industry, 1942, p, 33)
- (16) Besir Atalay, “İktisadi Kalkınmada Geleneksel Değerlerin Yeri (Japon Örneği) (Position of Traditional Values in Economic Development(Japan’s Example)”, in the proceedings of İktisadi Kalkınma ve İslam, pp, 65-102
- (17) Mustafa Özel, Devlet ve Ekonomi, pp, 128-29
- (18) ibid, p, 46
- (19) İbrahim Erol Kozak, “İbni Haldun’un İktisadi Gelişmede Psikolojik Faktörlere Verdiği Yer (Position of Psychological Factors in Development According to Ibn Khaldun) ”, İktisadi Kalkınma ve İslam, pp, 114-39
- (20) Sabahattin Zaim, ibid, 171-74
- (21) Sabahattin Zaim, İnsan-İslam Ekonomi, pp, 50, 159-60
- (22) Sabri Orman, Gazali’nin İktisat Felsefesi (Ghazzali’s Philosophy of Economics) , p, 25
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ثقافة الاقتصاد الإسلامي في تركيا خلال الثلاثين سنة الماضية

إسماعيل يرداكوك

المستخلص: تعود نشأة المصارف الإسلامية (بيوت التمويل القائمة على غير أساس الفائدة) في تركيا إلى مرسوم عام ١٩٨٣م حين صادق مجلس الوزراء في ذلك الوقت على إقامة مصارف من هذا القبيل. لقد مثل هذا المرسوم نقطة تحول كبرى في تاريخ تركيا المعاصر وذلك بالسماح بإنشاء مؤسسات مالية خالية من الفائدة جنباً إلى جنب مع المصارف التقليدية. خلال الخمسة وعشرين سنة الماضية استطاعت هذه المؤسسات أن تحقق إنجازات معتبرة وخاصة السنوات الثلاث الأخيرة. نجاح آخر للصيرفة الإسلامية تمثل في إقامة "موسيا" (الرابطة المستقلة لرجال الأعمال) في استانبول في ٥ مايو عام ١٩٩٠م. أعضاء هذه الرابطة ممثلون من قطاع الأعمال والاقتصاد (الإسلامي) الأخلاقي وأهم شيء جمعهم هو الدفاع عن الاقتصاد المبني على غير أساس الفائدة في تركيا.

فيما يتعلق بالدراسات في تركيا في مجال الاقتصاد الإسلامي يلاحظ المتتبع بعض التراجع في العشر سنوات الأخيرة، إلا أنه إذا نظرنا للجهود على مدى الثلاثين سنة الماضية نجد أن إنجازات هامة قد تحققت. هذه الورقة تحاول الوقوف على بعض تلك الكتابات مع الإشارة إلى بعض الدراسات الجديدة.

Appraisal of the Status on Research on Labor Economics in the Islamic Framework

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Abstract. As more Muslims in various Islamic countries seek to learn about Islamic economics, it is time for an educational system at all levels to be there to help in providing that education to them. This paper attempts to answer basic questions regarding the role of research in developing and delivering a well-rounded curriculum in Islamic economics: is research taking an active role in keeping up with the rapid developments in the field of Islamic economics? Are there any attempts by research community to access levels of Islamic financial literacy among Muslims and to highlight the importance of spreading Islamic financial knowledge through the educational system? Is the educational system in various Islamic countries living up to its moral and religious obligations by creating awareness amongst Muslims of the viability of Islamic finance and preparing “the typical” Muslim to manage his/her financial affairs and to make sound and informed financial decisions in line with the principles of the Al Shariah?

It can be strongly argued that the effectiveness and the contributions of research in Islamic economics may well be broadly measured by the level of application and integration of its findings in teaching and curriculum development. Therefore, in addition to reviewing selected available pertinent literature, this study scans the undergraduate economic/finance curriculum of some leading universities in various Islamic countries. The aim is to appraise the level of collaboration between the research community and higher educational institutions, and to establish whether the research community is taking proactive approach in assimilating research into the educational system and utilizing its findings in designing and teaching relevant and practical courses in the field of Islamic economics.

1. INTRODUCTION

This paper does not claim to present an all-inclusive account of the pertinent research in Islamic economics and finance, nor does it attempt to produce a comprehensive review of the literature on the role of research in teaching and curriculum development in Islamic economics. However, if there is to be significant role for research in improving teaching and building contemporary curriculum in Islamic economics, the paper aims to address that role. The endeavour therefore is to highlight some aspects of the interrelated relationships between research, curriculum development and teaching in Islamic economics, and more importantly to draw attention to the trends, methodologies and the environment of research that must be carried out to advance the Islamic economic curriculum in various Islamic universities and higher educational institutions. The intention is to employ a critical approach in assessing the level of cooperation between research and academia in the overwhelming majority of Islamic countries and the way research findings thus far have been disseminated and employed in the development of teaching and curriculum in Islamic economics.

As this paper calls on the research community to take a more active role in keeping up with the rapid developments in the field of Islamic economics, it advocates greater assimilation of research into the educational system in order to bridge the gap between research and education in Islamic economics. The paper concludes by emphasising that sharing research results should be an ongoing tradition that must be communicated through multiple means rather than being “a one-time transmission” disseminated exclusively through “research-oriented forums such as journals and conferences” (White, 2000: 4).

2. RESEARCHING ISLAMIC ECONOMICS

The Islamic financial movement was greatly advanced by the establishment of the Islamic Development Bank (IDB) in 1973¹ – marking the revival of the Islamic financial system. The success and broad recognition that IDB has achieved in no time undoubtedly paved the way for the establishment of the first modern privately owned Islamic bank in Dubai in 1975, soon to be followed by the emergence of several other Islamic banks in various Islamic countries. The first International Conference on Islamic Economics, which was organised by the IDB and held in Makkah, Saudi Arabia in 1976 under the patronage of King Abdulaziz University in Jeddah affirmed the unwavering resolve to re-establish and to develop Islamic economics as “a contemporary scientific discipline”, thus devoted considerable resources to advancing the cause of Islamic economics.

The global significance of Islamic finance is evidenced by its vibrant presence in more than seventy-five countries across the continents, and by its phenomenal growth estimated at 12% to 15% per annum, despite being an emerging industry. The Islamic Bank of Britain, the European Islamic Investment Bank and Lariba Bank in California are but few examples of Western renowned banks espousing exclusively Islamic mode of finance, coupled with a growing number of leading international financial institutions offering “Shariah compliant financing facilities” (Wilson, 2007; Thompson & Flower, 2007). The growing interest in Islamic finance is largely prompted by the engineering of cultured and consistent Islamic financial products that span the retail and investment banking, capital market development and Islamic insurance (*takaful*). As the Islamic financial services industry continues to experience steady growth in both the diversity and the substance of its products and services, it also continues to face real challenges that, if not fittingly addressed, could engulf the young industry and undermine its evolution.

The Islamic financial Industry is currently in the midst of a self-appraisal process that aims at affirming the status of the Islamic Financial Institutions (IFIs) at home and establishing their presence abroad. Henry (2001) interpreted the interest of the Western multinational financial institutions in Islamic banking and finance as being “the most significant guarantee of Islamic finance’s future”. However, the rapid expansion of

(1) The IDB is owned by a consortium that currently includes 57 Islamic states. The bank’s head office is located in Jeddah, Saudi Arabia, and its branches are to be found in several Islamic countries.

Islamic banking and finance was not equally matched with adequate initiatives to develop and prepare skilled professionals capable and keen to take this emerging industry to new heights. This shortage in human talent is evidenced by the lack of awareness amongst typical investors of the existence of an Islamic alternative to conventional banking and finance; lack of familiarity with products and services offered by IFIs in general and Islamic capital/equity market products in particular; and the lack of understanding, hence lack of appreciation of the features and the advantages of Islamic financial facilities.

The Islamic Development Bank (IDB) represented by the Islamic Research and Training Institute (IRTI), jointly with some of the major universities, research and financial institutions around the world has been active in organising and sponsoring high profile specialist conferences on Islamic economics and finance (Table – 1). Each conference is dedicated to researching a contemporary theme with particular relevance to Islamic economics.

International conferences on Islamic Economics and Finance have been organised regularly (within three-years time interval) since the year 2000. The broad objective of these conferences is twofold: to further advance the cause of Islamic economics and to respond to the growing challenges owing to the phenomenal growth and expansion of the emerging Islamic financial industry.

Should Islamic Economics Be Taught?

The utmost concern of a devout Muslim is focused on managing his/her personal affairs including finances in accordance with the rules and the principles of Al Shariah. Literature, to the best of the author's knowledge, has thus far failed to account for any research initiative to establish the level of literacy in Islamic economics among ordinary Muslims, and to assess the level of their awareness of the availability of Islamic financial services as alternatives to the services offered by conventional banking. Documenting the financial literacy among ordinary Muslims is important in order to develop appropriate educational programs and curricula aimed at addressing their financial concerns. Varcoe and Fitch (2003) concluded that using curriculum in personal finance did improve financial literacy and brought positive changes in both knowledge and behaviour.

Table (1): International Conferences on Islamic Economics and Finance

Conference	Year	Auspices/ Sponsors	Avenue	Theme
1st Int. conference	1976	King Abdulaziz University	Makkah, Saudi Arabia	Islamic Economics: A Modern Scientific Discipline
2nd Int. Conference	1983	International Islamic University	Islamabad, Pakistan	
3rd Int. Conference	1992 1986*	International Islamic University	Kuala Lumpur, Malaysia	
4th Int. Conference	2000	Loughborough University	Loughborough, United Kingdom	Islamic Finance: Challenges and Opportunities in the Twenty-First Century
5th Int. Conference	2003	Bahrain University	Bahrain	Sustainable Development and Islamic Finance in Muslim Countries “Islamic Financing and Continuous Development in the Islamic World”.
6th Int. Conference	2005	University of Indonesia	Jakarta, Indonesia	Islamic Economics and Banking in The 21 st Century
7th Int. Conference	2008	King Abdulaziz University	Jeddah, Saudi Arabia	Thirty Years of Research in Islamic Economics

(*) Different sources show conflicting dates of the 3rd International Conference on Islamic economics and finance.

The findings of a recent research amongst Saudi entrepreneurs indicated that while 62% of participants are aware of Islamic financing as an alternative to interest-based conventional financing, only 30% believe they have “adequate” knowledge and understanding of the theory underlying Islamic financing and the mechanism by which the system functions. About the same percentage (34%) of respondents confirmed their abidance by Islamic financial principles in their personal as well as business dealings. Almost one half of respondents were not sure whether their financial activities were being conducted in compliance with the teachings of the Islamic Shariah (Kayed, 2004: 228-229).

Furthermore, an overwhelming majority (88%) of surveyed Saudi entrepreneurs responded favourably when asked whether they believe that Islamic economics should be taught as a scholarly discipline². The educational system therefore is under moral obligations to assume its pivotal role in passing on the knowledge of Islamic economics amongst Muslims, and creating the awareness of the availability of Islamic financial products as alternatives to the services offered by conventional financing. Many scholars and practitioners have drawn attention to the severe shortage in the supply of competent human capital to fulfil available and, more importantly, projected employment opportunities in the field of Islamic economics (Zamorski, 2003). The educational institutions in Islamic countries therefore are being challenged to extend the boundaries and the core of their curricula to meet the needs of growing and expanding Islamic economics and to spread momentous education in the field of Islamic economic amongst larger segment of society. Educating Islamic economics underscores the extreme need to have unrestricted lines of communication between the research community and the educational system. Furthermore, it calls for the establishment of diverse but complementary institutions and research centres in all Muslim countries to ensure a steady supply of skilled and keen Muslim researchers, professionals, and specialists in the various disciplines of Islamic economics.

Extending Islamic Economics Education to Universities

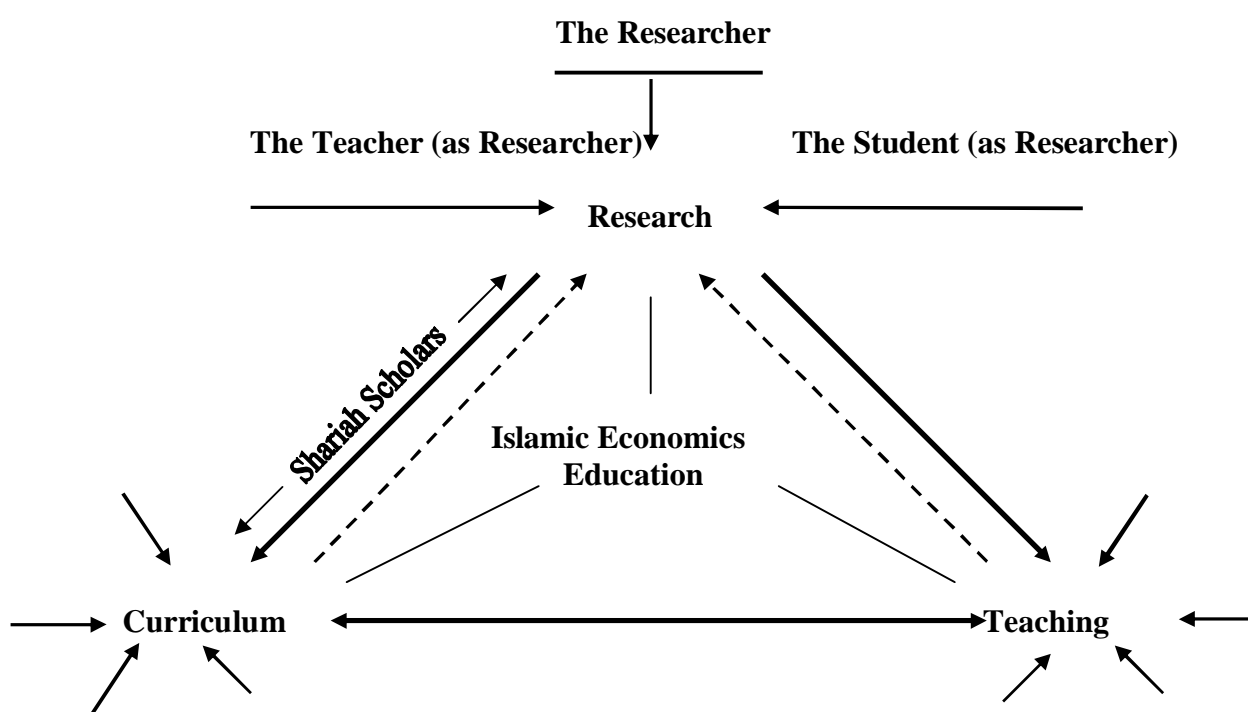
Teaching Islamic economics in our universities as an academic subject has been introduced only recently despite the fact that Islamic economics is not a new paradigm (Presley & Sessions, 1994: 585). In fact, Islamic economics is as old as Islam itself. Apart from few high educational institutions such as Al Azhar university (1961) and King Abdulaziz University (1976) that took the lead in teaching and promoting Islamic economics, very few other universities showed real interest in the subject. The question why Islamic economics, despite its uniqueness and distinct identity, timeless and universal validity and its ability to meet the needs of modern society, has been marginalized by our educational system is worth(s) asking.

Lack of Islamic economic offerings, as an independent subject, in the majority of universities in various Islamic countries is often explained by the fact that Islamic economics is an evolving discipline that is yet to have well-defined boundaries within a general theory of Islamic economy (Wasposito, 2007). However such explanation is most unlikely to be able to hold its own considering the following two fundamental facts.

(2) Interestingly, about 50% of surveyed entrepreneurs are university graduates (41 % hold a BA/Bsc. Degree, 6.3% hold Master Degree and 2.3% hold PhD. Degree)

Firstly, the relationship between research, curriculum building and teaching is an interrelated rather than a chronological relationship (Figure –1). Secondly, these three facets of the educational trilogy are neither mutually exclusive nor do they function in sequential order. Therefore, it is argued that being an emerging scholarly discipline, Islamic economics curriculum provides Islamic universities and institutions with one more reason to set up departments and professorship chairs in the area of Islamic economics. The aim of such entities would to generate and consequently integrate relevant research – that does not divorce theory from reality – in the development of a thinking curriculum³ and interactive teaching program.

Figure (1). Research, Curriculum, and Teaching: Interrelated Causality Relationships



Scarcity of Islamic economic education in the majority of our schools and universities has also been unjustly explained by low demand from students, who generally lack due awareness of the existence and accordingly the benefits of Islamic economic education⁴. Others put the blame on staff themselves for their lack of zest and their failure to campaign vigorously to include Islamic economics and financial education within the

(3) For more on the concept of “Thinking Curriculum”, see Resnick (1989)

(4) Ebrahim (1994...) explains the reluctance of business students to study Islamic economics by the fact that the entire curriculum is based on interest-based economic system and the prospects of finding rewarding employment opportunities are much higher in conventional financial institutions.

offerings of their respective departments. Another group of intellectuals criticised the educational reforms during the past 30 years and charged that reforms were merely a new presentation for an old product; the focus of reforms was on the form rather than on the substance thus education authorities have failed to envisage the role of research in the educational process and to promote the educational evolution as being more than a change of the textbook (Al Zahrani, 2003).

Moreover, Islamic economics education was hindered by the fact that the majority of academics specialising in economic and finance are graduates of Western universities or universities that adopt Western curricula, thus were influenced, in one way or another, by the Western secular school of thought. The clear shortage of specialised scholars who combine the scientific vision in various fields of knowledge with the true understanding of the Islamic perspective of the issues raised undoubtedly had its adverse impact on the drive to promote Islamic financial education. Therefore it is imperative to train specialists in Islamic economics, who have comprehensive understanding of the rich Islamic culture combined with broad knowledge of the contemporary economic milieu.

The majority of universities in Muslim countries has created specialized faculties of economics and/or banking and finance with little or no reference to Islamic economics. The mission statements and the stated objectives of the colleges of business and economics in these universities are consistent with those of the non-Islamic higher educational institutions, such as: *to provide the business community with high quality graduates; to develop students' competencies and managerial thinking skills in all functional areas of business administration; to prepare and cultivate students in all fields of business administration to manage the various organizations on a scientific and strategic basis and to hold leading managerial positions (compiled mission statements and objectives of several colleges of business and economics within various universities in different Islamic countries).*

Table (2): The Undergraduate Economic/Finance Curricular Offerings of Some Leading Universities in Various Islamic Countries

Economics / Finance University/ Institution	Conventional		Islamic Economics /Finance	
	Economics / Finance (No. of Courses)		No. of Courses	Course Narrative (as described in the university course syllabus)
Yarmouk University / Jordan	FIN	26	1	Islamic Banking (Elective): Study of the evolution of Islamic banking, and how banking and investment are conducted, along with comparative analysis of other banks.
An- Najah University/ Palestine	EC	23	1	Islamic Economics: The course emphasises the Islamic economic ideology and highlights the components of Islamic economic ideology based on Islamic Shariah sources. Topics covered include the economic problem, wealth, ownership system, distribution, monetary and financial systems, production, values concept, and the role of the state in solving economic problems. Islamic Banks (Elective)
Qatar University	FIN	24	1	Islamic Banking and Finance: This course provides an introduction of the concept of economic behaviour of a society that adheres to the Islamic doctrine; economic properties of an Islamic economy, general equilibrium and macroeconomic policies in Islamic economies, Islamic banks and finance and the role of the stock exchange in

			an Islamic economy. Other topics include basic differences between Islamic banks and conventional banks; financial instruments of Islamic banks; profit/loss-sharing method of finance is compared with fixed interest charges. The relationship between Islamic financial institutions and the Central Bank is analyzed.
United Arab Emirates University	EC	21	1 Islamic Economics: Study of the development and evolution of the principles of Islamic economic thoughts in general and Islamic finance in particular; the course focuses on the principle of profit and loss sharing and Islamic modes of finance and their implications for economic policies and economic stability. Islamic Financial Institutions Management: The course includes the concepts of Islamic economics and finance, Islamic banking evolution, Islamic law on banking and finance, Islamic financial instruments and institutions, Islamic investments, Islamic financial instruments and Islamic financial markets.
Sultan Qaboos University/ Oman	EC / FIN	34	1 Islamic Economics:
Kuwait University		23	1 Islamic Banking and Finance (Elective)
University of Bahrain	EC	11	1 Islamic Economics: An overview of Islamic economics, the allocational efficiency, decision and welfare criteria in an interest-free Islamic

				economy, institutional settings of Islamic order, the roles of money and the central bank in an Islamic economy, factors of production and factor markets in an Islamic perspective. Economic integration and prospects for an Islamic common market.
	FIN	27	1	Islamic Financial Institutions: Principles of Islamic banking, alternatives of interest-free banking; application of alternative methods of investment; a comparative study of conventional banking; current issues and future of Islamic banking; structure of the industry; regulation of Islamic banks; accounting standards for Islamic banking; role of Islamic banks in the development of an economy, and challenges facing Islamic banks.
Damascus University/ Syria		25	1	Islamic Financial Institutions Management
King Saud University, Riyadh / Saudi Arabia	FIN	11	--	Islamic Economics
	EC	24	1	
Al Akhawayn University Ifrane / Morocco	FIN / EC	11	---	
University of Dhaka Dhaka / Bangladesh	FIN	22	-	--
Stamford University Bangladesh	EC	28	-	--
International Islamic University, Pakistan	FIN	24	1	Islamic Banking and Finance

In view of the data presented in the above table, it would be difficult, if not impossible, for an unbiased scholar to claim that a curriculum in Islamic economics does exist in our universities. The magnitude of negligence that Islamic economics has endured by the majority of universities in various Islamic countries is appalling and intolerable. A closer look at what is being offered reaffirms the perception that curriculum developers attempt to squeeze as much abstract information as they can in one paper (course) without debating the issues or giving due thoughts to the wider implications of provided information for the individual Muslim novice and consequently for the future development of Islamic financial industry in general. This approach to curriculum development and teaching which allows for brief exposure to information goes against the core philosophy of the 'Thinking Curriculum' (Resnick, 1989), which this paper advocates.

This brings about the inevitable question of what role did (or did not) research play in developing Islamic economics education and passing on the acquired knowledge amongst Muslims regardless of their whereabouts. It can be demonstrated that the vast majority of research activities in the field of Islamic economic/finance have taken a product/instrument-engineering focus with Islamic financial institutions being the landscape of such research. The main challenge for the Islamic financial industry as portrayed by its researchers and practitioners is how to design, develop and promote innovative Shariah-compliant financial instruments capable of standing the test of time by addressing the true financial concerns of current as well as potential customers. However, the future of the Islamic financial industry is largely dependent on maintaining steady stream of competent human capital and well-informed, well-educated clientele base. Incidentally both groups are the product of a sound educational system.

While appreciating the invaluable contributions of the pioneering research initiatives undertaken by leading Muslim scholars, future research in Islamic economics needs to be more inclusive both in terms of its methodological approach and its targeted population. Firstly, it is evident that much of the research undertakings are being focused on the development of the Islamic financial services industry itself. However, this focus has resulted in overlooking the importance of spreading the acquired knowledge through the educational system and sharing "what we know" – while venturing to know "what we still need to know" with as many Muslims (students, entrepreneurs and potential investors) as possible. Secondly, engaging other than bankers and industry authorities in the research process has been kept to minimal, thus excluding the majority of stakeholders from contributing to the fortification of the research process and increasing the opportunities for the wider application of its findings

Muslims have no option but to learn Islamic economics and to apply its rules and regulations in their everyday personal finances as well as in their investment portfolios in order to abide by the principles of Al Shariah. Universities and higher educational institutions are considered the 'right' and the most effective means of delivering such knowledge to the wider community.

3. TOWARDS A THINKING CURRICULUM

It has been strongly argued that any nation's growth performance and prosperity are closely linked with the quality of its educational system manifested by research output and its implication for the well-being of society at large. The magnitude of the problems facing the educational process across Islamic countries is best typified by the fact that, with few exceptions if any, universities across Islamic countries score extremely low in international ranking⁵. The wider gap between research and academia is not confined to the economic curriculum, but in fact it spans the entire university curricula. The annual publications of global rankings should serve as a wake up call for policymakers and educational authorities and instigate a public debate on university reform and the role of university in advancing the socio-economic well-being of the Muslim nation.

Unlike the traditional curriculum with its propensity to differentiate between the content and the process, and consequently tends to teach them separately, a thinking curriculum integrates content and process to promote in-depth learning based on real life situations (Stenhouse, 1975; Resnick, 1989).

Why 'Research' Has Failed 'Teaching' in Islamic Economics?

Developing and teaching thinking curriculum in Islamic economics based on credible research findings is hindered by many problems among which is the fact that developing such a curriculum requires the skills and the expertise of modern economists as well as the thorough religious knowledge of Muslim scholars – a combination that hardly exists. Other obstacles include:

- Immature research culture in developing countries, including the majority of Islamic countries;
- The weak link and the often irrelevance of curriculum to the real life situation; the nature of religious education and the shortage in human capital that possess religious knowledge and apply scientific approach to contemporary economics;
- The majority of universities in Islamic countries make it a pre-condition for potential staff members to be “graduates of reputable Western Universities”, which explains why most economic faculty members are graduates of Western Universities;
- The apparent lack of integrated background preparations for research in Islamic economics; and
- Despite the impressive record of seminars, conferences and forums devoted to debating and promoting Islamic economics, little has been said or done regarding the need to share the outcome of research with the academic community.

(5) The ranking is based on various quantitative and qualitative indicators such as research publications and citations, the institute's academic reputation, Nobel Prizes and Fields Medals, the size of the institution, staffing level, student selectivity, the internationalisation rate (students and faculty members) and financial resources (Academic Ranking of World Universities; The Times Higher World University Rankings; Ranking of World Universities in the Web).

Although it is impractical to come up with a specific set of recommendations on how to integrate research into education in Islamic economics education without undertaking in-depth study, the following guidelines are intended as a starting point towards such a goal:

- Rethink the relationship between the researcher, the teacher, the student, and the policymaker.
- Involve the teacher, the student as well as the researchers in contributing to the development of the Islamic economic curriculum. The attitudes and the views of teachers, students as well as the public should be counted and incorporated with various stages of the curriculum planning and development process.
- Organise a specialised conference that involves all stakeholders to discuss means and avenues and best ways on how to incorporate research in curriculum development and teaching Islamic Economics.
- Establish a department or an entity within the Islamic Research and Training Institute (IRTI) to be solely responsible for keeping track of all research in Islamic economics and finance (cumulative research in each discipline) to avoid duplication of efforts and to pin the gaps and recommend future research areas. Equally important task for the proposed entity is to communicate research results with concerned and interested parties.
- Be creative in finding more efficient and expedient ways of communicating research findings in timely manner and in such away that allows for interactive communication and feedback amongst and between stakeholders. The recent initiative undertaken by the IRTI to make all articles of the IRTI Journal in Islamic Economic Studies (IES) available on-line is a step in the right direction (Obaidallah, 2007).

4. CONCLUDING REMARKS

The findings of this paper reveals that the rapid development and the enormity of growth that Islamic financial industry has witnessed during the last three decades are not being adequately complemented by robust research initiatives. Moreover, the findings of the research that has been carried-out thus far have failed, in most cases, to find their way to our schools and universities and the implications of such research to command a leading role in developing an inclusive and evocative economic and finance curricula.

Being an evolving industry, Islamic economics and finance provides researchers as well as practitioners with abundance of exceptional opportunities to be creative in pursuing original research projects and to render profound contributions to the application of Islamic economics in Muslims' daily activities through the integration of research findings within the offerings of the educational system at all levels of teachings. Moreover, researchers who accept the challenge would be fulfilling a religious duty and attending to an economic obligation for advancing the welfare of their communities and to the well-being of the Muslim *ummah* at large.

Evidently, there is a pressing need to revisit the economic curricula in our schools and universities and to rethink the interrelated relationships between research, curriculum, and teaching in order to formulate new economic / finance curricula based

on a new inclusive understanding of the role of research in curriculum development and teaching. The fact that Islamic economics is a distinctive key component of the global economic system dictates that much needs to be done in terms of human capacity building in order for the Islamic financial industry to gain the trust of its current and potential customers through honest application of Islamic financing and to make steady presence in the global financial market. Universities, undoubtedly, are the ideal institutions that can transform such vision into reality through the creation of professorship and chairs for the Islamic economics with the understanding that the role of researcher does not end by reporting the findings of his/her research. "One extension of reporting on the results is to incorporate knowledge generated from research into conceptual artefacts [curriculum] that are useful to instructors [teaching]" (White, 2000:4).

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مد جسور التواصل بين البحث والتعليم في الاقتصاد الإسلامي

د. راسم قايد

المستخلص: بسبب تزايد أعداد المسلمين في العديد من البلدان الإسلامية الراغبين في تعلم الاقتصاد الإسلامي فإن الوقت قد حان لإقامة نظام تعليمي على جميع المستويات لتلبية هذه الرغبة. تحاول هذه الورقة الإجابة على تساؤلات أساسية فيما يتعلق بدور البحث في تطوير وتقديم منهج متقن لتدريس الاقتصاد الإسلامي من خلال عملية البحث: فهل يقوم البحث بدور فعال بمواكبة التطورات التي يشهدها حقل الاقتصاد الإسلامي؟ وهل هناك محاولات من جانب "مجتمع" البحث من أجل تسهيل عملية حصول المهتمين على الكتابات والأبحاث التي يودون الاطلاع عليها؟ وهل هناك نظام تعليمي في دول إسلامية مختلفة في مستوى ما هو مطلوب منه أخلاقياً ودينياً في سبيل تعريف المسلمين وتبصيرهم بصلاحية المالية الإسلامية وتهيئة المسلم "المثال" القادر أو القادرة على إدارة شؤونه (ها) المالية بأخذ قرارات مالية صائبة متفقة مع أحكام الشريعة الإسلامية؟

من الممكن القول بأن فعالية ومساهمات البحث في الاقتصاد الإسلامي مقدر على قياسها بشكل عام بمستوى تطبيقها والاستفادة من نتائجه في التدريس وتطوير المناهج. لهذا فإنه إلى جانب القيام بعملية مراجعة الكتابات "الهامة" المتوفرة، ستقوم هذه الدراسة بفحص مناهج الاقتصاد والمالية الطبقة من قبل بعض الجامعات الرائدة في عدد من الدول الإسلامية، الهدف من ذلك هو تقييم مستوى التعاون بين "مجتمع" البحث ومؤسسات التعليم العالي، ومن ثم الوقوف أيضاً على مدى الدور الفعال الذي يقوم به مجتمع البحث من أجل إدماج البحث في النظام التعليمي واستخدام نتائجه في عملية تصميم وتدريس المواد التطبيقية المناسبة في حقل الاقتصاد الإسلامي.

Appraisal of the Status on Research on Labor Economics in the Islamic Framework

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Abstract. This paper reviews the literature related to the concept and nature of labour in an Islamic perspective which was published during the last thirty years. This review guides us that the labour market in Islam is governed by the Islamic laws of fairness, justice and reward that is equivalent to the job done. It has been also observed through literature survey that most of the conventional concepts, like theory of labour value, have been developed by earlier Muslim jurists. On the other hand it is also observed that most of the works in this area discussed the normative aspect of the labor market whereas few attempts can be seen discussing the positive aspect. The review of literature guides us that there is a need of the time to develop the new theoretical and empirical models for the Islamic labour market, which should be different than the conventional one. This paper also proposed some strategies for the development of new models for the Islamic labor market which should be compatible with the modern world.

Recently the literature on Islamic economics is passing through a phase of development. The knowledge on public finance, monetary economics, and development economics in the context of Islam has flourished well. Despite of the importance of the human resources in both of the systems, i.e., conventional and Islamic, there is still a thrust towards the development of labor economics in current Islamic economic literature. A limited efforts can be seen in this area. Keeping the above in view an effort will be made to evaluate the state of research in the labor economics in the context of Islam.

The main intention of this paper is to discuss the state and nature of labor as a factor of production in the context of Islam discussed in the published literature. A survey of literature related to the economics of labor in Islam will be presented briefly. An attempt will be made to search for the answers to the following questions:

- (i) How the published literature in this specific field filled the gap and have given the appropriate answer to the question of conventional labor market in a capitalist framework?
- (ii) If the market's invisible hand is not allowed to determine the wage, then how it is discussed by the Islamic Economist?
- (iii) If the wage not be determined by supply and demand in the market, then how is it tackled by the Islamic Literature?
- (iv) If it is different, then how is it different from the conventional theory? How the Muslim Economist dealt with this issue?
- v) What are the suggestions for the development of this subject and which type of steps should be taken for the promotion of the research of this area?

This paper will also identify the areas of potential research in this field. The paper will present the different dimensions of the published material and also find those corners which are still untouched by the researcher. It will also highlight how one can develop the methodology of the research in this subject. The author has surveyed the whole work in an earlier work (Azid 2005). This paper is organized on issue wise rather than author basis.

Section I

This section presents a brief survey of literature related to the economics of labor in Islam. There are some general and specific conditions observed in the current literature of Islamic economics regarding this very subject. Most of them are as follows; ‘Allah is the creator’, ‘man is the vicegerent of Allah on this earth’, ‘man is accountable to Allah for all of his actions’, ‘a rational Muslim seeks reward in this life as well as in the life hereafter’, ‘all Muslims are brothers/sisters and enjoy equal rights’, ‘labor as a factor of production is the basic element of economic activities’, ‘Islam condemns unemployment’, ‘any type of oppression is not allowed’, ‘the main objective of the Islamic state is not only to increase the welfare of the society but also to protect the Islamic rights of Muslims and the human-rights of non-Muslims’, ‘the circulation of capital is very much desired and ensured in the system of Islam’, ‘the relation between man and the universe, as defined and clarified in the Qur’an, is as a relationship of utilization’, ‘development and subjugation for man’s benefit and for the fulfilment of his interest’ (Azid T, 2005).

1.1 Concept and Nature of Labor

In the system of Islam labor is well recognized as a factor of production and as is participating in the process of production (Islam clearly differentiates between *Halal* and *Haram* economic activities, so in an Islamic state a worker can only participate in the process of *Halal* activities). Tabakoglu (1983) states that there are two broad factors of production in the system of Islam, i.e. ‘Labour and Ma’al’ (in very broad and generalized terms ‘Ama’al’ is used by him for labour, i.e., composed of *Ama’al-i-saleh*, i.e., good deeds and ‘*Saiy*’ i.e. efforts). Where enterprise and organization are included in labor, capital and natural resources are included in the concept of ‘Ma’al’. Uzair (1983) commented on the terminology presented by Tabakoglu (1983) and added that self employed people are not mentioned by the scholar, thus there is nothing un-Islamic in it. ‘Ama’al’ means work not labor, it has a very broad sense. The term labor has become wider, to include not only the industrial worker in the limited sense, but also white collared personnel, as well as the managerial personnel in any production unit. Thus for all practical purposes the term labour now denotes all human resources (Uzair 1980).

Many scholars, e.g. Sabazwari (1972), Qadri (1977), and Tabakoglu (1983) explained this concept in a different way. A worker is expressed with the term called ‘*Ajir*’ in *Islamic fiqh*, i.e. a worker is the person whose labor is hired in return for a wage (every body who works in return for a wage is considered a worker). It implies a classless

society, whereas Islamic traditions consider society as a whole, not as a composition. Islam considers labor as a whole that consists of material and moral aspects. In a narrow sense labor is qualitatively a production factor only (Tabakoglu, 1983). *'Iktisab'* is the proper word that should be used, which means striving. It means that the basic factor of production is action (Qadri, 1977). Sabazwari (1971, 1972) made a difference between *'Ajir'* and *'Kasib'*; a wage earner is *'Ajir'* and only an earner is *'Kasib'*. *'Ajir'* is classified into two categories; *'Ajir al mushtarak'* (subject to labor), is obliged to compensate the damages to a particular commodity caused by him (Tabakoglu 1983). *'Ajir al-has'* (subject to time, working for an institution or for a person) is not responsible for damages occurring during the production process (Khan, 1969; Tabakoglu, 1983 and *Majalla* article 610).

Many scholars have given arguments about the importance of manual as well as mental labour. Al-Farouqi (1980) explained that Islam does not distinguish between mental and manual work in social graduation, and both sorts of labor have their own importance and significance. Like the secular system, it is not permitted to make women and children work for less wages, because exploitation of human resources is not allowed in Islam (Qureshi, 1959; Tabakoglu, 1983). Labor is a basic factor of production (Sabazwari 1971). Qadri (1971) describes the professions adopted by the different Prophets of Allah (swt), e.g. Dawood (pbuh) was a blacksmith.

The qualities of labour are narrated in the Qur'an as *amin* (trustworthy) and *qawi* (strong). Islam discourages wildcat strikes and lockouts (Qureshi, 1959; Tabakoglu, 1983). Everyone has two roles: laborer and citizen, as a laborer (s)he is entitled to get his/her share in the form of wage from the wealth, which (s)he has produced. In addition, as a citizen, he/she can demand equal opportunity and free competition. As a vicegerent to *Allah* (swt), (s)he has to control the economic activities and human value should be given to him (Qureshi 1960). Islam encourages the skilled labor force, it is the duty of everyone to learn and then apply whatever he learned (*Ibn Majah, Muqaddimah*). In any case no one can be regarded as a learned man as long as there is no application (*Darami, Muqaddimah*).

Personal labor contracts are valid in Islam as a principle, *aqd al-ijarah* (contract of labor hiring) is permitted in Islam, no restriction is placed on the period and it might be full time or part time (Khan, 1969; Tabakoglu, 1983; Qureshi, 1959 and 1960; Sabazwari 1972).

1.2 Importance of Labor

Muslim scholars interpreted the importance of labor in different ways. A human being who is productive and is useful to mankind, obtains the right of being one of the representatives of Allah (swt) on the earth as he believes in Islam (among others Qureshi, 1959; Tabakoglu, 1983; Khan, 1969). All things are created to satisfy the materialistic needs of human beings (Tabakoglu, 1983). Islam assigns a great value to men's productive power that is labor (Khan, 1969; Tabakoglu, 1983; Qureshi; 1959 and 1960; Sultan, 1992). That work alters production has as significant a value as *Ibadah* (Tabakoglu, 1983; Khan, 1969). Anybody who works in a job providing a utility to society performs a *'fardh'*.

Working is an obligation for an individual from an Islamic as well as social perspective (Tabakoglu, 1983; Khan, 1969). As a human being labor is considered as an independent factor of production. The working environment must be humane, free from any type of exploitation and pressure (Tabakoglu, 1983; Khan, 1969). The worker therefore cannot be forced or allowed to work in an unhygienic environment (Khan, 1969; Qureshi, 1959 and 1960).

A share of the profit should be distributed between workers and employers (Tabakoglu, 1983; Khan, 1969; Qureshi, 1959 and 1960). Qureshi (1960) stated that share and losses are born by both partners, as labor endures the loss in an earning capacity that occurs in depreciation of his physical strength year by year (generally loss is considered in wage earnings, but Qureshi explains this depreciation in terms of human capital). In addition to this, labor regularly and consistently faces occupational hazards and there is additional depreciation in the earning capacity that is neither determined nor compensated. He further added how strange it is that the value of capital is maintained year by year; if there is any loss it is covered in the following year or two years. But there is no guarantee for the workman that costs (depreciation in the productive capacity as well as health) will be paid back to him.

Islam stands for equal pay for equal work, no work is to go unrewarded (al Farouqi, 1980). This should be preferred to other factors of production (Khan, 1969). To consume is as much a *'fardh'* as to perform regular prayers is (al-Halabi, 1309: 168). For a Muslim to earn enough money for himself and for his family's expenses and for his debt is also a *'fardh'*.

Islahi (1988) believes that labor, which is an important economic factor, has been considered in fixing the different rates of *zakah* and fulfils the requirements of justice, economy and equality. If the same rate were levied for all kinds of property, it would have created a disincentive to work.

1.3 Capacity and Care of Workers

Muslim scholars have the consensus that workers should not be enforced to work beyond their capacity and the working environment should be humane. Khan (1975) said that the working hours must be according to the climate, working conditions and energy state of the worker. The worker should work till he is able to do the job without taxing himself unduly. The workload should be evenly distributed.

Islam presents a just approach towards the training and education of workers (Qureshi, 1959; Khan, 1975). It is the duty of the entrepreneur to train his labor force and arrange the basic education for them, which is necessary for work.

Qureshi (1960) considered a skilled, trained and educated labor force as similar to new efficient machinery. Khan's point of view is different and considered training and education as the basic needs of the working class. Qureshi (1959) is in favor of calculating the depreciation of workers like physical capital. Depreciation of workers should be calculated and at the end of his working life (assumed 55 years) paid to him as gratuity. Thus, the working condition should be dignified environment (Tabakoglu,

1983). Qureshi and Khan emphasized on the working conditions and environment. In this system the relationships are not merely mechanical but become fraternal.

A Muslim employer cannot be 'righteous' until and unless he has the desire to protect his employee from the unnecessary burden of labor. The core of the relationship is brotherhood between the worker and employer.

It is also the duty of entrepreneurs to look after the health of their workers and provide them with medical facilities. The health of workers also deserves the owner's care and attention. Khan quotes: "The Holy Prophet (pbuh) was very careful and conscious about the health of the household servants and used to arrange their treatment."

1.4. Labor Less Earnings

Islam condemns earnings in which labor is not participated or earned by the exploitation of labor. This is the one reason that usury, gambling and speculations are prohibited in the system of Islam. From the above Qur'anic injunction it is observed that the business of interest is really a major sin. By prohibiting interest, and therefore by encouraging productive economic earnings, Islam provides the opportunity of employment. However, the same order for the workers, and working is as important as the other obligatory duties like praying, fasting and jihad. It is better than begging, or being a burden on others even under the worst circumstances. Dumping, interest earnings, speculation, stock-holding, gambling and begging are not allowed in Islam.

Mawdudi (1969), Qutb (1968), Tabakoglu (1983), Azid and Ahmad (1985), Uzair (1980) and a number of other studies discussed these issues in the context of the modern world. This is also an instrument for the distribution of wealth on the basis of equity and prevents the concentration of wealth into a few hands. Azid and Ahmad (1985) conclude that "unearned income means an increase in assets without any contribution of labor, and causes the accumulation of capital into a few hands."

1.5 Rights and Duties of Workers

Islam does not differentiate between Muslim and non-Muslim workers. The rights of labor are clear in this system. As expressed by Sadar (1980) and al-Farouqi (1980) that labor should be according to capacity, a decent standard of living and freedom to work. It is observed that the rights of workers are as significant as the performance of daily prayers. Tabakoglu (1983; after consulting the article 425 of Majalla) concludes that even though he (the worker) does not work at all, because of inadequacy of the working environment, *i.e.* absence of raw materials, electricity, etc. a worker must obtain his wage, because he concluded a contract previously. An employer is obliged to compensate the worker's loss if he wants to dismiss the worker before the time of the contract. This also implies the duties of workers.

According to the elucidation of the jurists of Islam, the word 'underweighing' and 'undermeasuring' in the above verse includes in its connotation even the worker who receives full wages that have been agreed upon, and yet does not give the full measure

of work, and employs the portion of time that he has given away to the employer in doing some other work, contrary to the wishes of his employer.

These injunctions, thus, declare the shirking of work to be a great sin, and make it quite clear to the employee that once he has taken upon himself the responsibility of doing some work for an employer, he is under obligation to complete it with perfect honesty, otherwise he will not be able to get a positive reward in the life hereafter which is the ultimate destination and goal of Muslims (Azid and Ahmad, 1985; Azid and Aslam, 1989; El-Qudah, 1987).

Muslim scholars have the consensus that the damage that occurs as a result of a worker's error should be compensated by him through the worker's wage. It is not legal for them if they reduce the tempo of the work. A worker should perform his job faithfully without any interruption. However, it does not mean that the employer is free and he has no obligations towards his duties. The Holy Prophet (pbuh) also says that there are three people who will find him on the day of judgment as their enemy. One of the three is: "The man who employs a worker on wages, then takes the full measure of work from him, but does not pay him wages" (Bukhari). Since the rights of workers and of employees have been determined by the *fiqh*, there is no need for strikes and lockouts in the Islamic system.

1.6 Labor and Capital

Islam does not refute the importance of capital as a factor of production but considers labor as a basic source of value. *Zakah*, *Ushar*, prohibition of *Riba* and other Islamic injunctions prevent capital from being excluded from the production process (Qureshi, 1960; Khan, 1968; Azid and Ahmad, 1985; Tabakoglu, 1983; Azid, 1989; Ahmad, 1969; Khan, 1992). Given the same economic conditions and resources, comparatively in the Islamic economy, the circulation of capital is higher than in the secular economy (Tabakoglu, 1983; Azid and Ahmad, 1985; Azid, 1989). However, labor is the basic factor of production (Qureshi, 1960; Khan, 1975; Tabakoglu, 1983).

Muslim economists claim that *Ibn Khaldun* is the first scholar in the history of economic thought who stated labour to be a source of value and as the base of property (Tabakoglu, 1983; Hasan, 2007). However, other factors of production are not ignored but there is only emphasis on the vitality of labor and furthermore, that the capital notion, in an Islamic legal frame, is nothing but a factor of production and should participate in an economic activity together with labor and obtain a profit as well as loss in this economic activity. Uzair (1983) comments on it and pointed out that the labor theory of value has a political connotation of class struggle to Marxian theory and traditions, whereas in Islam there is no concept of distinction and struggle among the different segments of society. The Islamic economic system does not separate both factors of production from each other and presents the solution to the conflict between labor and capital. It is observed from the above Qur'anic verses that everything produced by Allah (swt) is in due balance, so these factors of production are not a perfect substitute but to some extent are complementary to each other. No doubt everything is produced by Allah (swt) for the benefit of human beings (Faridi, 1955; Tabakoglu, 1983; Khan, 1975; Uzair, 1983).

In the broad concept of ‘*Ma’al*’, land and natural resources are included, and this is the broad concept of capital whereas profit is the reward of capital (Najjar 1973, Tabakoglu 1983). Uzair (1983) is of the opinion that land and natural resources should be distinguished from capital, and it is not un-Islamic to deal with them separately. The injunction of *Ushar* and *Khumas* is the evidence that we can deal with them separately. Furthermore, Uzair suggested that capital and enterprise must combine together to constitute a factor of production. Abd Saud (1967) believes capital as resulting from operations of human labour on elements of nature. Baqir (1968) is of the view that capital results from the operations of human elements in production. Mannan (1970) considers capital not as a fundamental factor of production but as an embodiment of past land and labor. Tahawi (1974) includes land and capital in wealth, so according to him only two factors of production exist, i.e., wealth and labour. Islam also distinguishes between working and fixed capital (Qureshi, 1960; Tabakoglu, 1983). It is of course admissible that rent and depreciation may be paid first for the security of business but it should not include the depreciation of circulating capital. Having disbursed the amount for the two items mentioned above the wages fixed should be paid and whatever is left should be considered as profit. Then out of the profit, a share of capital after every complete cycle of business, and a bonus share of the workman, may be determined. All protection for the preservation of capital at the cost of life of citizens should be withdrawn (Qureshi, 1959). Malik (1960) said that it can be concluded from above that capital is not a factor of production. Qureshi (1960) further added that when we say that the active human partner of production be given its due share it very clearly means that capital is taken to be a factor of production. Labor and capital are considered as separate factors of production and they are not against each other (Tabakoglu, 1983; Qureshi 1960).

1.7 Relationship Between Employer and Employee

When someone contracts with a worker especially for his services (whether *al has* or *al mushtarak*), he must do the work himself and must not replace himself with someone else without his employer’s consent (Khan, 1975; Tabakoglu, 1983; Khan, 1968). Any contract by force and by threat is not legal and permissible (Tabakoglu, 1983). Employer and employee is not an absolute but are relative terms in Islam, i.e., a person can be both worker and employer simultaneously (Tabakoglu, 1983). Workers must be honest, and should perform their duties faithfully without any intervention (Tabakoglu, 1983; Khan, 1975; Khan, 1968; Qureshi, 1959; Ahmad, 1986).

Khan (1975) quoted the statement of the second caliph Umar Ibn Khatab as: “The best officer is the one whose subordinates are happy with him and the worst is that whose subordinates groom under his offensive hands”

Islam also advocates a just distribution of profits (Khan, 1975; Tabakoglu, 1983; Qureshi, 1959). There is a great emphasis on co-operation between labor and enterprise and on mutual consultation as a mode of decision-making (Hameedullah, 1936; Yusuffuddin, 1950; Gamaluddin, 1965; Tahawi, 1974; Rasul, 1976; Hadi, 1976; Assal, 1976; and Ahmad, 1986).

It is hard to observe the clash between labor and enterprise because of the concept of the brotherhood (Qadri, 1977; Ghaffari, 1983; Azid and Ahmad, 1985; and Azid, 1989). It is the duty of the Muslim employer to protect the rights of his workers. If the workers are Muslim then deal with them as brothers and protect their Islamic rights and if they are non-Muslims then protect their human rights (Azid, 1989). The owner-worker relationship is a mutual contract; an unjust contract has no value (Khan, 1975). Since Islam determines all rights and duties for both parties, there is a minimum chance of conflict occurring (Tabakoglu, 1983; Qureshi, 1960). However, small scale is the solution for the good relationship (Tabakoglu, 1983), while Islam does not impose any restriction on large scale and small scale (Uzair, 1983). Any status of human being in this world in the form of an employee or employer is the test for him (Tabakoglu, 1983).

1.8 Division of Labor

In the Islamic system the economic differences between individuals are never ignored. This stratification is necessary for a lively economic activity (Tabakoglu, 1983; Khan, 1975; Mawdudi, 1969; Qutab, 1968). Islam appreciates skill and experience and permits hierarchy (Khan, 1975). On the other hand, the concept that some families are born with preferential rights and the workman have to toil for these few families is unacceptable in any phase of social life (Qureshi, 1959). Wages must be fixed according to the profession, skill, risk to life and health, and depreciation of health and physical strength of the workman, location, climate, environment and conditions.

However, it does not mean that in an Islamic society different persons should be dealt with discrimination. In an Islamic state every citizen is equal; the only consideration is the level of his skill, training and efficiency in the context of labor.

1.9 State and Worker

The role of the government is very prominent in the theory of labor economics. The Islamic state becomes a guarantor for justice and security in business life. Because liberty and mutual consent are essential in contracts, the parties cannot force each other to accept their conditions (Tabakoglu, 1983; Qureshi, 1959; Khan, 1975; Khan, 1968). Education (training of workers) in Islam is meant to be free and its expenses are to be born by the state (Khan, 1975; Qureshi, 1959).

There should be residential facilities provided by the state. It is the duty of the government to frame the laws about the workers' security. Under unavoidably serious circumstances, the trader can also cancel a contract but it is the responsibility of the state to see that this is being done justly and the worker gets alternative employment (Khan, 1975; Qureshi, 1960). Wages should be protected by the state (Al Farouqi, 1980). Chapra (1970) is in favor of the legitimate role of the state in fixing the wage rate. It is the responsibility of the state to create a good environment for the labor-enterprise relationship (Qadri, 1977). Khan (1975) states that "Islam is a combination of voluntary and legal enforcement. For example, Islam, while asking the trader to eschew maltreatment towards workers, does not leave it to the individual to redress himself; it has formulated a specific code to see that the contract is not violated and the state is the

one to supervise the enforcement of these laws. It is for the state to fulfill its obligations.”

The state can act as an arbitrator in assessing the basic quanta of a worker's requirements (Khan, 1975). It should ensure that a worker is not made to unduly suffer and provide alternative employment give unemployment allowance (Khan, 1975; Azid, 1989; and Qureshi, 1960). An Islamic state does not distinguish between a Muslim and a non-Muslim. Every citizen of the state has this claim.

It is also the duty of the state and society to increase the survival potentiality of businesses. In the failure situation of businesses, resources will not be fully utilized and the problem of unemployment will arise (Qureshi, 1960).

1.10 Supply of Labor

Implicitly, almost every one discussed the supply of labor but Azid and Ahmad (1985) discussed this subject in detail. For the smooth running of the system, the rights of workers and employers are determined by *Sharia* in Islam (Khan, 1975; Tabakoglu 1983, Azid and Ahmad 1985). Time, efficiency and number of workers are the components of labor supply. Efficiency in the Islamic economy will be greater than in the secular economy with the same set of resources and tastes (Azid and Ahmad, 1985; Azid, 1989; Khan, 1968; and Ahmad 1969).

The utility of labor is dependent on his income, leisure and a set of variables that affect the utility of a Muslim worker. Reward hereafter has a positive affect on the utility of a Muslim worker. As it is observed in the above discussion a rational Muslim has more preferences for spending in the way of Allah (swt), helping the needy brothers then fasting, praying and so on. Labor-less earnings are *haram*, *i.e.*, gambling, interest, black marketing, etc. Begging is disliked by Islam.

All these variables are an impelling force for a Muslim to work more, as a result of which efficiency will increase in the economy. A Muslim worker should be honest and efficient.

No one should become a burden on the others. The concept of brotherhood between labor-enterprise will increase the number of hours and number of workers. All these forces are the main reasons that in the Islamic state the supply of labor will be higher than the secular economy with similar basic conditions (Azid and Ahmad, 1985; Azid and Aslam, 1989). However, the value of leisure has its own significance.

With more circulation of capital due to the injunction of *zakah* and prohibition of *riba*, the productivity of labor will increase, which has a positive effect on the supply of labor (Azid, 1989; Azid and Ahmad, 1985; Azid and Aslam, 1989; Khan, 1975; Khan, 1968). Owing to the respect of labor in the system of Islam, more preferences are given to work than begging and the *zakah* payer has more utility than the receiver (Zarqa, 1980; Khan 1983; Azid and Ahmad, 1985).

1.11 Demand for Labor

It is well recognized that every economy requires an autonomous demand-generating group (ADG). The ADG is helpful in increasing the aggregate demand and ultimately the level of employment. Demand can be either of a consumer's goods-consumption or producer's goods investment. If the desired level of investment is to be raised, the demand for consumption and investment should be increased.

Consumption and investment are the two pillars of Keynesian theory. However, Keynes is not very hopeful of consumption because consumption is dependent on propensity to consume, which is rather stable and remains unchanged in the short run. Consumption levels remain restricted in capitalistic societies because of a high concentration of wealth that is a constant feature of the economy. Most of the newly created income is transferred to the upper class that has a lower propensity to consume and consequently the consumption levels remain restricted. Keynesian theory revolves around the idea that investment is the most potent factor in the determination of the level of employment in a community (Mathur, 1983).

This has been discussed in detail by Azid (1989), Azid and Aslam (1989), Khan (1968) and Ahmad (1969) with a comparison with the Islamic system. Ahmad (1969) discussed the effect of interest in the peripheral of Keynes and explained how interest, by acting adversely on the marginal efficiency of capital prevents investment, and, thus, full employment, asserting thereby that investment is interest elastic. He also explained that one of the major causes of underemployment-inflation is the inclusion of a multiple of the rate of interest in the cost at each stage of production that increases price level. Khan (1968) explained other Islamic injunctions beside the rate of interest and showed that in the Islamic economy the autonomous demand will be higher thus the employment level will be higher than in a secular economy. Azid (1989) discussed this matter in the framework of different theories of employment (Keynesian, Say's Law and wage fund theory) and concluded that from every aspect the level of employment will be higher than in a secular economy.

Siddiqi (1986) approaches to the same issue from another perspective by explaining that if ADG is not going to be activated then this is '*fard kifaya*' on the state or on society to increase the aggregate demand of the economy. (*A fard kifaya* is a duty like the duty of prayer and fasting, with difference that it is not addressed to individual persons but to the community. The law-giver wants the duty done, irrespective of who does it. It may not be performed by an individual due to one or more of the following circumstances, e.g. lack of information, market failure, lack of resources, etc.). Siddiqi (1986) further states that the fulfilment of basic needs is also a *fard kifaya* even though the goods and services involved are provided by the market mechanism. Azid (1989) stated that it is *fard kifaya* of the Islamic society or state to provide employment to the unemployed when individuals are not performing this duty due to certain causes or the market mechanism is not working efficiently and fails to achieve the goals of a desired level of employment. So it is the responsibility of the state to generate the autonomous demand. Faridi (1981) explains that in an Islamic economy we have three significant sectors instead of two as in the secular economy. According to him, "however, an Islamic economy may be characterized as a three sector economy. It will comprise of the private

sector motivated by profit, the private sector free of profit motive (the voluntary sector) and the public sector. Alternatively we may describe these three institutions as the market, voluntary economic institutions, and government". He further defines the object and conduct of the voluntary sector.

Azid (1989) has also given more importance to the voluntary sector in the Islamic state. The voluntary sector is the major source for generating autonomous demand. So the economy has three powerful sectors, i.e., private, public and voluntary. The motive of the voluntary sector is not making profit. The contribution of this sector in generating the autonomous demand is very significant, i.e., *zakah*, *ushar*, *khumas*, *sadaqa*.

The transfer of wealth from a higher income group to a lower income group is the main reason for the incremental change in the aggregate demand (Azid and Ahmad, 1985; Matwally, 1981; Azid, 1989). The utility function of a Muslim is also dependent on spending in the way of Allah (swt) (Zarqa, 1980; Khan, 1981; Azid and Ahmad, 1985; Azid 1989). Owing to this phenomenon the aggregate demand will increase as a whole in the economy. If the private sector and voluntary sector are not generating enough demand, then it is the duty of the state to generate the autonomous demand that is compatible with the required employment level (Tabakoglu, 1983; Azid, 1989). According to Imam Abu Hanifa, the following part of the total state revenue from *zakah*, 20% of the booty, and 20% of the minerals and treasure should be set aside for the needy and the poor people. Imam Shafi added beside the first two items the 20% of *fai* should be spent exclusively on the poor. In this way the consumption that is not significantly participating in the generation of autonomous demand in the secular economy is effective as autonomous investment in the Islamic economy.

1.12 Determination of Wages and Labor Market

In the system of Islam no one can be denied the fixation of wages before commencing work. It is clear that in the Islamic economy the flexible wage system (where the market mechanism is working) is not prevalent. The system of wages in an Islamic economy is the fix wage system (where wages are fixed on the basis of some pre-decided criterion instead of the equilibrium of the demand and supply).

Wage is the hire of labor as *ajir al-has* or *ajir al-mushtarak* (Tabakoglu, 1983). A pre-decided wage is a necessary condition (among others Khan, 1975; Tabakoglu, 1983; Mawdudi, 1969; Qutub, 1968). The work, wage and duration must be pre-determined and the nature of the work must be legal (Majalla-i-Ahkam-Adliya, article 459). In an Islamic society there is a constant principle for the determination of wages that is not based on supply and demand. The contract shall be such that it will fit the bill of the basic needs of the workers. This is a constant guide for the solution of this problem. The employer shall accept the responsibility for feeding and clothing the workers or give as much in the form of wages as will meet his basic requirements (Khan, 1975).

Wages must be fixed differently for different professions taking into consideration the risk to life and health. Differential wage policy is allowed for different jobs. Islam appreciates skill and experience. Wages may be varied from place to place, and dependent on economic and climatic conditions of the locality and society, but the

difference should not be immeasurably great or so great as to be unbridgeable (Qureshi, 1959; Khan, 1975; Mawdudi, 1969; Tabakoglu, 1983).

Chapra (1970) has a different view about the fixation of wage rate and he proposed a mixed system and left the actual wages to be determined between these two limits: “By the interaction of supply and demand, and the extent of economic growth, the level of moral consciousness in the Muslim society and the extent to which the state plays its legitimate role”. Khan (1980) suggests another model in which the wage rate is linked with the profit of the firm and distinguished between need-based minimum wages and ideal wages that would bridge the gulf between the living condition of the employers and employees. Wages should be according to their prevalence in the city and their personal conditions and needs (Khan, 1975). Wage rate should be linked to the average standard of living in the society (Yusuffuddin, 1950; Hamidullah, 1936). There should be quick payment after completion of the work or according to the contract (Tabakoglu, 1983; Qureshi, 1959; Khan, 1975; Mawdudi, 1969; Majalla art.: 450).

Mujtahids decided that even a contract that is arranged between worker and employer is not valid; the worker must not be deprived of the wage that is given to a worker who performs a similar job (Tabakoglu, 1983; Khan, 1975).

With more circulation of capital the efficiency of the workers will increase then the wages will automatically increase, *i.e.* marginal productivity of labor will increase (Azid and Ahmad, 1989; Khan, 1968; Azid 1989). Khan (1975) is in favor of unemployment allowance. Mawdudi (1969), Tabakoglu (1983), Qureshi (1959) and Khan (1975) are in favor of profit sharing between the employer and employee and said that the laborers become interested in the growth of the industry in which they are employed. In the Islamic system economic incentive is not only permitted but also an incentive for the economic activities.

However, this permission is under the rules and regulation of Islamic Shari’ah. In the Islamic system if someone will invest from the unpaid wages of a worker, the worker has to claim that investment.

1.13. Gender and Work in Islamic Society

A substantial literature is not available which offers an Islamic perspective of social choice and well being in the context of gender division of labor. Hassan (1994) concluded that Islam allows women to be engaged in economic activities including operating their own businesses. Syed and Ali (2005) gave the example of Khadija, wife of Prophet (pbuh) was an eminent businessperson in Ancient Arabia. Hussain (1987) stated that women’s free choice to participate in economic activities or concentrate on their domestic duties is in stark contrast to men’s position in Islam, for whom economic activities are not a matter of choice but religious responsibility. Ali (2000) has the idea that a narrow interpretation of female modesty in Islam has served to literally remove women from the public space including paid employment. Syed (2006) discussed the matter within the periphery of Sen’s capability approach and adaptive preferences. Syed suggested that we have to include the eternal well being in addition to the material well being in the model of capability. He further added that Islam emphasizes the roles of

women and men in the maintenance and operation of family as a core unit of human society and within a liberal and dynamic perspective of Islamic faith, women and men are duty bound to seek education, and enjoy equal access to economic resources. According to Syed that in an Islamic society, it might be (deemed) optimal for families to specialize in different forms of production and the resulting inequalities in labor force participation might be the result of this optimal decision.

This section presents the outline of the labor market in an Islamic framework. It is quite clear that in this system exploitation of any type is not allowed. On the contrary, it permits an environment of justice and equity, develops a harmony among different factors of production, e.g. labor and capital. It is also observed from the above-mentioned literature that the determination of wages is not a mechanism of market. Instead of this, the wage rate should be pre-decided and a minimum level should be that which will fulfill the basic needs of the workers and his family. However, this is not the end of the episode of wage determination in this system. A share in the profit is also supported by a number of scholars, which is also observed from Qur'anic verses and sayings of the Prophet (pbuh).

Section II

Most of the studies presented in Section I give us a deep insight towards the basic concepts of the labor market and its general operations in the Islamic framework. However, none of them provides a fully satisfactory theoretical or empirical model compatible to the existing economies of the real world. As all we aware that a number of factors/variables have a significant influence on the different corners of the labor market, for example, changes in taste, shift in terms of trade and relative oil prices, all requires the major allocation of labor that can lead to unemployment if labor mobility is costly and time-consuming. A number of models for the financial market have been developed in the current literature of Islamic Economics but even not a single attempt compatible with the real world for labor market came across in the literature. It is hard to see any effort in this dimension considering the basic norms of Islamic economics. Therefore, one has to explore that what is the *Maqsad of Shri'ah* regarding the current issues of the labor market.

Most of the studies/discourse if not exaggerated related to the above mentioned area are based on the theoretical development (which is also not very much significant) while lacking the empirical analysis. The practical issues remain untouched. All of the efforts which we have cited in the section I have explained the normative aspects of the Islamic labor market and emphasizing on the moral dimensions of the labor market than positive one. It seems that deliberately Muslim economists are not trying to involve themselves in the technical and complex issues of the current labor market and hesitant to touch the positive aspects of the labor market such as wage efficiency theory, low power incentive or high power incentive, etc. Moreover, each and every attempt tries to create a utopia but never considers the ground realities.

Islamic Economists could not able to touch those models and theoretical developments which have been developed during the last three decades in the literature. For example a number of models in the mainstream economics have been developed, i.e., search

models, new classical models, aggregate real business cycle models with fluctuations in employment driven by intertemporal substitution, models of sectoral shifts and unemployment efficiency-wage models, cyclical unemployment fluctuation and persistent high unemployment, insider-outsider models of wage and employment determination. However, Islamic economists did not try to discuss the utility/disutility of these models in the Islamic framework. Almost all of the Muslim countries are underdeveloped, if theoretically we want to develop a model for the labor market of an Islamic economy then we also have to consider this dimension. Without any hesitation we can say that we can use the concepts of conventional economics as an analytical tools and discard their philosophical bearings (Hasan, 2005).

The relationship between inflation and unemployment is as an important issue of the Keynesian and post Keynesian labor market, however, still this issue does not able to attract the Islamic Economists. Furthermore, it is a dire need to explore either Muslim Economists are accepting the issue of inflation or not and also its effects on the state of unemployment. Nonetheless, this is not a proper reply that inflation is a man made problem as explained by Obaidullah (2005: 28) "...divine rule cannot be changed man made problems like inflation. What is needed is an effective check on inflation through national macro-economic policies and not accept inflation as given." This does not seem a realistic approach because approximately every Islamic state observes the same economic issues as observing by the rest of the world. Beside this we have to analyze the effect of aggregate demand on the labor market and also to suggest that what policies should be formulated by the Islamic State

What about the competitive or non-competitive market? What is the Shari'ah argument about the non-competitive labor market. Competitive or non-competitive did not discuss by any one of them. Khan (1990) discussed in a different way and argued that automatically labor market will be clear out. What about the monoposony power or monopoly power in the labor market? Another interesting area is related to the pension of the workers and how Islamic economics deals with this variable. A real question is that either Muslim economists are in favor of market wage rate or not. Either market wage rate is a just wage or not. Or there should be some benevolence (market wage plus). Union is a reality how it will be handled. Moreover, what about the bargain power of the union/collective actions. Either collective action is according to Shari'ah or not. If not then what is the alternative given by Shari'ah and what are the tools to apply for the corrective measures and what are the preventive measures. As we have seen in the conventional economics that two new developments related to the efficiency wage models (Katz, 1986; Stiglitz 1986; Yellen, 1984) and insider-outsider models (Solow 1985; Lindbeck and Snower 1986, 1988) explain the functions of the labor market. Efficiencies wage theories and insider-outsider model are providing complementary explanations for the existence of involuntary unemployment. However, what is the code of ethics in the Islamic framework about the involuntary employment. There is a need to discuss that situation when firms may find it in their interest to pay wages in excess of market clearing. An increase in the unemployment rate may not be self correcting if each firm's desired wage policies depend much strongly on its wage relative to average wages than on the unemployment rate. Also we have to discuss about the labor demand as well ethics and wage cut. How the issues related to wages of the trained and untrained labor could be solved. An other important issue is that identical workers are

paid differently depending on their firm (or industry) affiliation. Khan (1991) emphasizing on perfect market which is not possible for the current environment. Because wage differentials are positively related to measures of industry profitability, monopoly power, capital intensity and average education (Katz 1989). One cannot see any opinion of Shari'ah scholars about the issue of sticky wages. Why unemployed workers are unwillingly or unable to bid down the wage of seemingly comparable employed workers and gain jobs. Is there is a need of any bond or it is correct or not in the present scenario? What about underbidding? Underbidding is an other area where we have to analyze its position in the periphery of Shariah. In the commodity trade may be it is permitted but what about the labor market where due to underbidding the involuntary unemployment is declining. This is the duty of the Muslim scholars to explain the moral policy regarding this problem. Either in the Islamic Economics non-marketing clearing phenomenon has some room or not. What about the over time or new entrant. Mobility of the workers coincidence recession. What will be the role of the state in this regard. Rent sharing is possible or not. According to Katz (1989 : 515), "Rent sharing would also arise if firms must pay efficiency wages for effort elicitation, selection, or turnover reasons in some job categories and then face internal equity constraints that lead them to pay high wages even in job categories where efficiency wage considerations are not important". It is also observed that long-term employed exert little pressure on wage setting because their skill depreciate, they become discouraged and search less intensely, or employer perceive them as undesirable workers. What is the duty of the employer and how we will be able to calculate the social welfare/cost (Layard and Nicke 1986). Culture which is not conflicting with the *Shari'ah* has also effects on the labor, those are implicit in the behavior of labor market.

Another issue is related to the development of the human resources which is proved to be a cornerstone of the labor market. However, Islamic economics has not given too much emphasis on this aspect of the labor market whereas human resources are too much important and discussed as *Ibad ur Rehman* in the Islamic literature (Biraima, 1991).

Simultaneously, one cannot see any significant effort in the areas of child labor and female labor force (However, some efforts can be quoted, for example, Hassan, 1994; Hussain, 1987; Syed and Ali, 2005; Syed, 2006; Ali, 2000). What is the opinion of jurisprudence about these two types of labor force. Literature of sociological economics emphasized more on the sense of identity of the worker within an organization and his attachment to an organization is critical to well functioning enterprise (Akerlof and Kramtoz, 2005; Granovetter 2005). Azid and Asutay, (2007) discussed the issue in a short under the umbrella of Islam and concluded that social categories play an important and remarkable role, utility depends on social identity and internalize norms guide their behavior.

Is there any chance of adverse selection and moral hazard in the labor market in the framework of Islam? If we are following the market behavior then how we will be able to solve the problem of moral hazards and adverse selection? As we can see cooperation and harassment are two major components in the insider and outsider model. What is the morality of this aspect and how Islam deals with these issues?

Still job security is a barren area. How Islam guided us regarding this dimension, how these are related to that situation when employees are not working properly or employer does not deal in an ethical way. Is it possible for Muslim economists to develop the model which compliance the shari'ah rules?

As we know that major allocative disturbances may arise from technological changes, changes in international competition, or changes in supply of intermediate inputs (Azid and Chaudhry 2005; Azid *et al.* 2008). Is there is a need to discuss and cover these issues or not?

Islamic economists also did not try to encompass the theory of contract in the context of modern state. What type of contract Islamic firm should have with its employees. How it will be fulfilled. Is it possible for the firm to pay above the contract on the cost of unemployed labor force? What type of implicit contract they have? Implicit and explicit contract and their impact should be discussed. What usually highlighted in their classification and categories? As discussed by Zaman (1991) that bonus is not appropriate from the Shari'ah point of view then what method should be adopted for giving the incentive to the workers. Islamic Economists openly declared there is no room for dishonesty and also completely ignored the concept of self interest. After all self interest is innate and state of *Mushaha* and *Mughabana* are always persist with the state of *Mukarrama*. Firms are also have training and as well as turnover cost. Turnover may be controlled through the profit sharing system.

Islamic Economists are confused with labor and leisure. Khan (1983) has explained leisure and income in the context of consumption. However, we have to explain in terms of the current requirement of the world. How utility will be maximized? Shall a worker or employer are irrational to maximize their utilities by benevolence behavior? From the Qur'anic verses it is stated that he is so humble and always efficient. He will supply more, this is not the time hours, actually it is the money value. Demand is also in terms of cost and not in terms of hours. The entrepreneur has also his own self interest and not an irrational person. Islamic rationality does not mean that both are not human being.

Summary

The discussion in the previous section indicates that the labor market in Islam is governed by the Islamic laws of fairness, justice and reward that is equivalent to the job done. It is a function of supply and demand. The rule is what the Prophet (pbuh) said that labor should be paid before the sweat of the laborer dries out, *i.e.* immediately. Moreover it emphasizes the relationship between the employee and the employer. Both should make sure that they cater and pay due attention to the highest authority; that is Allah who is watching over all of us. It is not a hundred percent based on market phenomenon. The Islamic system is a value based system. The review of literature guides us that there is a need for time to develop the new theoretical and empirical model for the Islamic labor market, which should be different from the neo-classical and Keynesian.

However a higher degree thrust is needed in the literature which will give a depth in the positive side of the labor market in the Islamic framework.

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تقييم حالة البحث في اقتصاديات العمل في الإطار الإسلامي

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المستخلص: تقوم هذه الورقة بمراجعة الأدبيات المتعلقة بمفهوم وطبيعة العمل من منظور إسلامي والتي تم إنجازها خلال الثلاثين سنة الماضية. هذه المراجعة ترشدنا إلى أن سوق العمل في الإسلام محكوم بقوانين الإسلام بتحقيق العدل والمساواة والمقابل المجزي الذي يدفع للعامل حسب العمل الذي يقوم به. لقد لاحظت الدراسة كذلك أن بعض النظريات السائدة مثل نظرية قيمة العمل طورها فقهاء المسلمين الأوائل، كما لاحظت الدراسة أن الغالب في تلك الدراسات هو الطابع المعياري (القيمي) المتعلق بسوق العمل في حين أن محاولات قليلة اهتمت بالجانب الإيجابي في الموضوع.

إن هذه المراجعة أظهرت أن هناك حاجة لتطوير نماذج نظرية وميدانية لسوق العمل الإسلامي والتي يجب أن تكون مغايرة لما هو سائد في السوق التقليدي. كما تقترح الورقة أن يكون تطوير تلك النماذج مواكباً لمتطلبات العصر.

A Roadmap for Making Islamic Finance Sources More Accessible The Role of Secondary Services in the Dissemination of Research

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Abstract. Secondary services, particularly electronic databases, have revolutionized research by bringing together more resources for one's disposal. This virtual network has exponentially increased the availability of information, thus making relevancy one of the most important questions in data collection. The Internet may be useful for finding introductory information because the turn-over time is short and the resources are practically unlimited. However, the internet is inherently flawed as a research tool for serious researchers because there is no barrier to entry, hence regardless of credentials or veracity anyone can post anything as a "fact." The issue of quality assurance then becomes important. Quality assurance can stem from professional authority (who is writing the article), institutional authority (where is the research being undertaken), or a publisher's authority (by whom is it being published). Therefore, though the Internet is a good source of industry news, market news, and consumer perceptions, established outlets (both print media and electronic) should be preferred.

This raises the issue of the authenticity and value of traditional scholarly sources which are still being published in printed format and are finding their way to the internet. In particular, this paper examines how the Islamic economics and finance (IFE) discipline has taken advantage of this wonderful technology while seeking to explore the manner in which primary sources are being indexed and abstracted by the secondary services. Harvard University's Islamic Finance Project (IFP DataBank²) online databank on Islamic finance, which began in 1997, will be presented as an example of a unique secondary service which collects, prepares, organizes and disseminates information free of charge. While full-text publications are certainly more attractive, copyright laws impose challenges on their easy dissemination. Lately, a few authors of IFE publications have not paid close attention to copyright laws by allowing articles or papers to be published or reprinted by many different sources. This makes the indexing services seem a mockery of affairs. In the absence of full-text services, we are left with the alternate age old method of going to the library to acquire a publication. In the internet era, IFE sources need to seek out services like Lexis Nexus and other data aggregators if they wish to remain competitive and relevant to on-going research globally. The IFP DataBank project is certainly a step in the right direction.

Introduction

The term secondary is widely used in financial world as "secondary market." In academic jargon the term means a service which repackages the primary literature to provide easy access to the wealth of research information.

Secondary services are also known as secondary literature which assembles the primary literature. Primary literature refers to the first place where research is communicated in

(1) Harvard University, Cambridge, Massachusetts, U.S.A.

(2) IFP DataBank, first launched as a CD-ROM in 1997, now available on-line <http://ifp.law.harvard.edu>

a permanent form of dissemination such as in magazines and journals. Dissemination of research often happens informally at various levels. Academic work is generally published first as articles in journals and then in the form of monographs. Avenues also exist for the distribution of theses. Scholars also tend to distribute their research themselves, through seminars, conferences, workshops, and even class lectures. Such dissemination happens much less within the IF industry where most developments and findings tend to stay within the institution of origin. However, they are sometimes unveiled during different conference presentations and seminars.

Primary sources, in the broadest definition, not only include journal or magazine articles, but also published conference proceedings, technical reports, dissertations or theses, and monographs. Due to the exponential growth of literature in any discipline, it has become impossible for any researcher to have a comprehensive grasp of what is being written on a subject. Secondary services do a great job in bringing thousands of primary sources to the attention of a researcher in one-stop shopping for retrieving items of interest. That is what makes secondary services an indispensable tool in organizing the primary sources for data-mining searches.

Therefore, it is quite importance for a primary outlet to make sure that it is being picked up by secondary services so that it will have wider dissemination. Authors prefer publishing articles in journals which are widely covered by secondary services. Now with the shift to electronic format of these secondary services, so called electronic (online) databases make the life of a researcher much easier for desktop searching. On top of that, many journals also started to produce e-versions of their publications, which makes the document delivery of full-text papers much easier. JESTOR³ represents a fine example of a journal tailoring itself towards an on-line medium and market. There are a number of secondary services available for each discipline. For example, articles on Islamic economics and finance can be found in a quick search on *ABI Inform*⁴, *Business Source Complete*⁵, *EconLit*⁶, and *Index Islamicus*⁷ among others. Each index covers a slightly different field, but there can be overlap also by covering the same few journals that deal with the IFE field. By and large, all secondary services have a common goal: repackaging and better organizing the new information reported by researchers in the primary literature. Since there is additional work involved in creating the secondary works (that is, they gather their information and facts from the primary works), they are always less current than the primary literature. Secondary services also use a citation index technique. In this way, they compile statistics on the manner in which one's writings have been used or any other works which cited an author or compared an author's findings with their findings etc over a period of time.

(3) JESTOR It contains images of journal issues and pages typically from one to five years

(4) ABI/Inform provides summaries and citations from over 1000 academic management, marketing, and general business journals.

(5) Business Source Complete is a database of citations to, summaries and full text of articles from academic journals, magazines, and trade.

(6) EconLit is a comprehensive coverage of over 600 journals as well as articles in collective volumes (essays, proceedings, etc.), book reviews, dissertations

(7) Index Islamicus covers all European languages on all aspects of Islam and the Muslim world, provides access to over 2,000 journals and series

The uses for secondary services are not exhaustive. With so much new information available, there are other sources that help to sift through, condense, and re-package the most important discoveries. For example, some people write reviews of what has been happening in a given scientific area over a period of time. Of course, once the new discoveries have been validated and deemed important enough, they will find their way into various books, encyclopedias, and other tertiary sources

Because of their electronic nature, now updating the secondary services is easy and in some cases they are updated on a weekly or daily basis. However, there is still a time lag between the publication of a journal and its coverage by secondary services. Each database is different in this regard.

The Emergence of the World Wide Web:

The internet has revolutionized the world by bringing together information on all aspects of life, academic to day-to-day need, from all corners of the world. Users enjoy this tool and in many cases they have access to more information than they can digest. As far as IFE is concerned, there is a lot of information available on the Internet. The problem also being that there is a lot available on the internet, thus leading to problems of quality assurance and reliability of the information presented. The internet is good for introductory information that points to data, provide industry trade, market trends, etc. The other advantages are that turn over time is short (a query is answered in mere seconds) and resources are unlimited, there are more participants in the production of knowledge, no barrier to entry, no need to be an expert, anyone can publish any thing they want. Yet the internet's strengths can often be its greatest faults for a serious researcher. As a result, it becomes confusing to users. The question of quality is important; one must look for: 1. professional authority who is authoring it, qualifications etc; 2. institutional authority, author's affiliation; 3. publisher's authority/ institution to which the author is affiliated.

Therefore, the internet is a good source for industry news and market and consumer perception, but for serious scholarship you still need to go for established outlets both in printed and non printed form. These "established outlets" themselves must be analyzed on an individual basis. By and large, the internet is revolutionizing the publishing world and it is becoming the foremost immediate media for disseminating information. There are a number of portals which provide industry information such as www.islamic-finance.net; <http://www.islamic-banking.com>; www.aoifi.org, www.ifsb.org; <http://islamic-world.net/economics/index.htm>; www.inceif.net

Coverage of Islamic Economics and Finance by Selected Databases:

A number of major research databases contain quite a few entries on the subject of Islamic finance. In order to assess these entries for quality and depth of coverage a few keywords were searched on December 31, 2007 in selected databases such as "Islamic Econom*," "Islamic and Bank*," and "Islamic and Financ*" to ascertain the depth of coverage (* indicates wildcard). The databases selected were EconLit, ABI Inform, Index Islamicus, Social Science Research Network, and Business Source Complete. Table 1 represents the search numbers of these selected terms. Index Islamicus has

better coverage as compared to others. The next best is EconLit. With regards to the coverage of Islamic economics and finance journals, the best coverage was exhibited by Index Islamicus which covers six journals; the second best is EconLit with 5. However, ABI Inform and Source Compete have no coverage of Islamic economics and finance journals.

Online databases, such as these, form a vital part of secondary source coverage. However, coverage in such databases is not uniform and is subject to trends that are of vital importance for researchers looking to have their work published. In this age with the exponential growth of information, there are countless websites dealing with Islamic finance and banking. A range of information is available with some overlap among the sources. These sites may serve as an introductory guide to persons interested in gaining familiarity in the field. But the meat and potatoes of cutting edge research and serious inquiries into the IEF field are to be found not on general websites, but in dedicated journals and other like-minded publications.

Table: 1 Database searches as represented by selected databases

#1. ABI Inform; #2. Business Source Complete; #3. EconLit; #4 Index Islamicus; #5 JESTOR

A. KEYWORDS SEARCHES	DATABASES				
	#1	#2	#3	#4	#5
Islamic and Econom*	60	55	209	540	12
Islamic and Bank*	90	216	143	378	22
Islamic and Financ*	58	119	102	203	11

*represents wildcard search e.g. economics, economic, and economy

B. ISLAMIC FINANCE JOURNALS COVERAGE

J Economic Cooperation among Islamic Countries	x	-	x	-	-
Islamic Economic Studies	x	-	x	x	-
IUM Journal of Economics and Management	x	-	-	-	-
Journal King Abdulaziz University: Islamic Economics	x	-	-	-	-
Journal of Islamic Banking & Finance	-	-	x	-	-
New Horizon	-	-	x	-	-
Contemporary Jurisprudence Research Journal	-	-	x	-	-
Majallat al-Buḥūth al-Fiqhīya al-Mu`āṣira,	-	-	-	-	-

There is a vital need to create a service which brings the information of this unique field of Islamic economics and finance into one place because of the poor coverage of Islamic economics and finance journals by the established secondary services and electronic databases. Due to the inter-disciplinary nature, geographical dispersion, and its multi-linguality, it has become necessary to create an information clearinghouse to organize process and disseminate such information. In 1995 Harvard University took the lead to create this comprehensive tool in order to provide this much needed information. The database is called the Islamic Finance Project DataBank (IFP DataBank) and it currently holding approximately 10,000 items of various descriptions on Islamic economics and finance.

IFP DataBank

The Islamic Finance Project DataBank (IFP DataBank) is a comprehensive collection of research information pertaining to the increasingly important field of Islamic finance. It aims to assist academics, researchers and professionals who require relevant academic information related to Islamic economics and finance, as well as pertinent shari`a rulings and sources. This information is gleaned from publicly available sources, private firms, and other hard-to-find sources. The only Data Bank of its kind, it aims to bridge the gap between scholars and researchers the world over, so that ideas are more accessible and cutting edge research may be facilitated. The largest section of the DataBank is devoted to bibliographic data from publications, including articles, books, book chapters, conference papers, and theses. A number of records contain originally prepared abstracts. The shari`a section also aims to be a comprehensive collection of rulings and sources for these rulings such as selected verses from the Qur`an and ahadith. A detailed glossary is also included to facilitate understanding of terms which are relevant and particular to the field. The DataBank aims to be user-friendly and easy to navigate.

It is organized as follows:

- The Publications database provides an accurate and exhaustive collection of publications (books, articles, theses and conference papers) pertinent to the study and practice of Islamic finance, with complete bibliographic information and abstracts.
- The Shari`a database contains information on classical and contemporary al-mu`amalat, the area of Islamic jurisprudence issues raised in banking and finance. Arabic and transliterated texts are provided, as well as translations.
- The Glossary provides a listing of terms commonly used in Islamic banking and finance, with complete definitions. Users should also consult the glossary to verify the spelling of search terms.

Figure (2). IFP DataBank output by types of Publications

Articles	4797
Books	875
Book Chapters	1959
Conference Papers	4539
Theses/Dissertations	540

Source: IFP DataBank as of December 31, 2007

Figure (2) shows a breakdown of all the titles present in the IFP DataBank by publication type. Journal articles are by far the most popular means of dissemination. Journals provide the biggest outreach value and there are many more avenues for the publication of journal articles than there are for other publication types. The 2500+ articles represented in the DataBank represent some 400 journals from different parts of the globe. A very interesting and valid point to note is the fact that although the DataBank articles are scattered over 400 different journals, the bulk of them are concentrated over very few journals – only 25 of these 400 journals have more than 20

articles in the DataBank. A list of core journals in Islamic economics and finance are already reported by Ali.⁸

Conferences and seminars are also a popular means of information dissemination for both industrial and academic research. As Islamic finance is very much a growing field, conferences are both popular and productive, allowing financiers and bankers to acquaint themselves with the latest goings-on in the industry, while simultaneously providing excellent networking opportunities. At seminars and conferences many of the latest findings are presented and case studies of different projects are discussed. The proceedings themselves may or may not be available in documented form afterwards – the DataBank contains details of over 1,500 conference proceedings. These conferences are an excellent and popular means of spreading current knowledge about Islamic finance.

Books and monographs on Islamic finance and economics are published by a variety of publishers in various languages. The IFP DataBank itself contains over a thousand unique titles. These books tend to deal more with overarching theoretical aspects and issues concerning the industry. Generally, most are published by IRTI, King Abdulaziz University, the Islamic Foundation of the U.K., and the International Institute of Islamic Thought.

Theses and dissertations also form a part of the available literature on Islamic finance. The IFP DataBank contains over 200 dissertations from different universities around the world. As universities begin to accept more and more masters and doctoral theses in the field, they form a part of the ever-growing literature on IFE.

As mentioned earlier, the authorship in IFE journals emanate from hundreds of journals, both Islamic as well as non-Islamic finance journals. Good research-based papers have been appearing in non-Islamic finance journals because of their wider market for dissemination. It is obviously a natural desire of researchers to see their papers being circulated among a wider audience. Also, a good number of Western authors prefer publishing in non-Islamic finance journals. Table 3 represents a sample of a few journals where Islamic finance papers regularly appear.

As can be seen from the data presented in Figure 1, journals have dominated the published works over the last two decades. However, in the last six years there has been a dramatic increase in the number of conference proceedings published, outnumbering even journal articles. This is indicative both of the increased number of conferences and seminars taking place and of the increased emphasis on documenting the proceedings. Such data reveals that much more importance is being attached to the proceedings of these conferences, and to the research and case studies that are being presented there.

(8) Ali, S.N. Islamic Finance and Economics as Reflected in Research and Publications, *Review of Islamic Economics*, Vol. 12 (1), 2008.

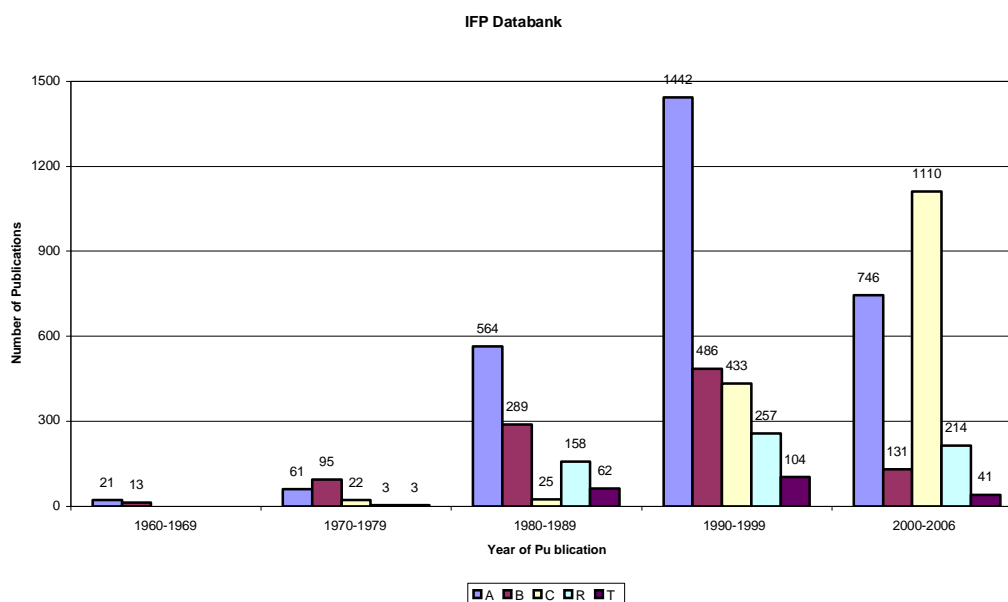
Table (3): List of journals publishing articles on Islamic Economics and Finance

American Economic Review (US)	International Trade Finance (UK)
American J of Economics & Sociology (US)	Investors' Digest (Malaysia)
Anthropology Today (USs)	Islamic Culture (India)
Arab Law Quarterly (UK)	Islamic Literature (Pakistan)
The Banker (UK)	Islamic Studies (Pakistan)
Comparative Studies in Society and History (US)	Journal of Economic Perspectives (US)
Die Welt des Islams (Netherlands)	Journal of Money, Credit and Banking (US)
Economic Development & Cultural Change (US)	Journal of Objective Studies (India)
The Economic Journal (US)	Journal of the Economic and Social History of the Orient (United States)
Economic Outlook (Pakistan)	Journal of the Royal Anthropological Institute (UK)
Euromoney (UK)	Journal of Managerial Finance (UK)
Financial Times (UK)	Middle East Executive Report (UK)
Hamdard Islamicus (Pakistan)	Middle East Economic Digest (UK)
Humanomics (Pakistan)	Muslim World League Journal (Saudi Arabia)
International Journal of Bank Marketing (UK)	Pakistan Development Review (Pakistan)
International J of Middle East Studies (UK)	Staff Papers – IMF (US)
International Journal of Social Economics (UK)	Studia Islamica (France)
International Financial Law Review (UK)	Thunderbird International Business Review (US)

There has been a marked upsurge in IFE related publications in the past two decades. Figures obtained from the IFP DataBank show that the number of entries released between (and inclusive of) 1980 and 1990 was 1,229. The same calculation rose to 3,040 for the 1991-2001 period, a nearly threefold increase. The above Figure 1 supports this claim; most of the online databases containing a significant amount of IFE related articles show a substantial increase over these two successive time periods.

The IFE field is still in its developmental stage; research and development activities will play a vital role in shaping its course over the coming decades; and it is, therefore, imperative that it be given appropriate attention. In particular, academic research forms the backbone of this endeavor and must be furthered at all costs. Issues such as the lack of funding or the relative scarcity of institutions conducting IFE research in languages other than English, must be remedied urgently. They serve as a deterrent to potential researchers in the field. Additionally, there is also a need to coordinate the disparate research efforts that are going on in different parts of the globe in order to avoid excessive overlap and conflict. Lastly, major centers of academic research need to communicate with each other regarding ongoing research projects, while also attempting to create other incentives to promote greater interest in IFE research. In this way, the development of the field can be furthered, and IFE will be able to provide a viable alternative to traditional interest-based systems worldwide.

Figure (1). Breakdown of IFP DataBank records by type over time



Conclusion:

In the last thirty years the discipline of Islamic economics and finance has, through its interdisciplinary nature, made enormous contributions to global knowledge. Due to its cross disciplinary nature it attracts not just one group of researcher or professional, but rather; it has drawn the attention of economists, financial professionals, legal experts, social scientists, anthropologists, politicians, and religious scholars. All of them have made enormous contribution to the field and created a better understanding of each others discipline.

Its coverage by secondary services creates another dimension to how this discipline has penetrated into mainstream literature. Prior to 1980 there was not a single journal or magazine devoted to this discipline; the first being the KAAU Journal Islamic Economics. By 2007 there are more then two dozen titles devoted to the field. The research being reported by mainstream journals and magazine is most noteworthy. Almost all scholarly journals in Economics and Finance have published papers on IEF.

The progress has been enormous, but the fact remains that journals still have to show more seriousness by publishing quality papers and elevating their standards. Frequency is another issue; a majority of them are quality journals but publish very few articles in each issue. Indeed, often the journals are not even published on time. There is a large time-lag between the submission of an article and its subsequent publication. As a result, the serious authors in IEF prefer to submit works to more mainstream journals for better credibility and wider and faster dissemination of their research findings.

The IFP DataBank as described above is a serious effort as an information clearinghouse which seeks to provide bibliographic information with an abstract prepared in-house. Though a step in the right direction and certainly revolutionary in the

field, there are a few drawbacks which need to be addressed. The DataBank only covers English language journals. Although it covers books and monographs published in various languages, papers published in Arabic, Farsi, and Urdu are not included. The inclusion of this type of literature requires major efforts through sheer man power, especially in the absence of indexing and abstracting services in the languages where IEF materials are being published. Due to copyright law, IFP DataBank does not include the full-text papers unless the publishers of journals grant these rights. This process could be accelerated if the publishers of IEF journals and magazine supply the data in an electronic format.

By and large IEF has made remarkable progress; however there are a number of areas where improvements are needed, specifically with regards to indexing and accessibility. A few of the areas for improvement are highlighted in the aforementioned review. It was beyond the scope of this paper to discuss the quality of research being covered by journals and/or the areas where research is needed. Instead this paper intends to discuss the research *after* it's published, what happens to it, and how it finds an audience and that audience can find it.

خارطة الطريق لجعل مصادر التمويل الإسلامية أيسر منالاً دور الخدمات الثانوية في النشر الأبحاث

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المستخلص: لقد استطاعت الخدمات الثانوية، خاصة قواعد البيانات الإلكترونية، من إحداث ثورة في مجال البحث بتوفير العديد من المصادر بطريقة سهلة وميسورة للباحثين، فقد تمكنت هذه الشبكة الافتراضية من زيادة حجم المعلومات المتاحة، ومن ثم فرضت على الباحثين أمر العثور على المعلومات ذات الصلة بموضوع البحث أو الدراسة من أهم التحديات التي تواجههم في مجال جمع المعلومات. من الممكن أن تكون شبكة الإنترنت ذات أهمية بالغة في عملية العثور على المعلومات التمهيدية بسبب الوقت والجهد الذي تختصره للباحث والكمية غير المحدودة من المعلومات التي توفرها. في المقابل نجد أن الإنترنت فضاء واسع وأداة غير دقيقة بالنسبة للباحثين الجادين لأن الشبكة تفتقد لقواعد وضوابط إدخال المعلومات؛ فأى شخص يمكن أن يضع معلومة ما على هذا الفضاء الافتراضي مدعياً بأنها "حقيقة"، في هذه الحالة يكون أمر ضمان الجودة في المعلومة من الأهمية بمكان. ضمان الجودة يمكن أن يقوم بها هيئة مهنية (التي/الذي يتولى كتابة المقال)، أو الجهة التي تتولى النشر، أو هيئة مؤسساتية (الجهة التي أنجز البحث من خلالها). وهكذا يتضح أنه على الرغم من أن الإنترنت تمثل مصدراً جيداً لأخبار الصناعة، والسوق، وتصورات المستهلك، فإن المصادر المدقق في إخراجها مثل المطبوعات الإلكترونية والورقية يفضل استخدامها.

هذه الوضعية تنثير قضية مصداقية وقيمة مراجع العلماء القديمة التي يتم طباعتها ثم تحميلها على الإنترنت. هذه الورقة تناقش كيف استطاع علم الاقتصاد الإسلامي الاستفادة من هذه التكنولوجيا المتطورة، في الوقت ذاته تحاول استطلاع الكيفية التي يتم من خلالها فهرسة ووضع مستخلصاتها من طرف الخدمات الثانوية. كحالة تطبيقية في هذا المضمار سيتم استعراض تجربة قاعدة بيانات برنامج هارفرد للتمويل الإسلامي (IFP DataBank2) الذي بدأ العمل عام ١٩٩٧ وهو متوفر على الإنترنت. تعتبر قاعدة البيانات هذه فريدة في بابها كنموذج من الخدمات الثانوية التي يتيحها التطور الهائل في تكنولوجيا المعلومات، وتتمثل ميزات هذه القاعدة في عملية جمع المعلومات، وتحضيرها، وتنظيمها ثم جعلها في المتناول بدون رسوم.

إن قاعدة بيانات من هذا النوع تمثل خطوة هامة في الاتجاه الصحيح فيما يتعلق بخدمة البحث في الاقتصاد الإسلامي.

An Evaluation of Research on Monetary Policy and Stability of the Islamic Economic system

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Abstract. One of the key manifestations of Islamization of the contemporary economies had been replacement of interest based banking by a profit and loss sharing banking. By the end of 1970s the concept of Islamic banking had become quite popular. However, it was felt that more rigorous analytical research was required to clearly understand the consequences of the new system on savings, investment, stability of the economy, and implications for monetary policy. This paper critically evaluates some of the important theoretical models developed in this area to address different apprehensions. It has been noted that although a number of questions related to the new system remained un-answered, research interest in this area declined as Islamic banking failed to use profit and loss sharing modes of finance at a scale that would necessitate any meaningful change in monetary policy and its tools. Finally, the paper briefly contemplates on some of the reasons for this situation and makes few suggestions for future research.

1. Introduction

For the early proponents of Islamic banking that included religious scholars as well as people with background in economics and finance,¹ its meaning and manifestation was never in doubt. They believed that Islamic banking could be established through profit and loss sharing modes of Islamic finance such as musharakah and mudarabah. They all had a firm opinion that bank interest comes under the definition of riba otherwise the question of Islamic banking would not arise in the first place. A number of influential attempts were made against treating bank interest as prohibited riba of Islam.² However, the vast majority of religious scholars did not agree to have any distinction between interest and usury. In most cases their criticism of interest was based on the fact that it allowed the providers of funds claiming a fixed positive return irrespective of the situation of the lenders. The issue of inflation was perhaps not so severe at the time. Therefore, they generally ignored the injustice due to the prevalence of low levels of returns to bank depositors that at times could even go to the negative territories in real terms.

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- (1) Foremost among religious scholars, Syed Abul Ala Maudoodi who wrote an extremely persuasive book 'Sud' (interest) in Urdu language in 1961. In his seminal work, *Muslim Economic Thinking* (1980), M.N. Siddiqi mentions a number of early contributors including Muhammad Uzair, Baqir Al-Sadr, Abu Saud, Ahmad al-Najjar among others. The fourth to sixth decades of the twentieth century could be regarded as the early or the first stage of Islamic banking movement.
 - (2) For example Fazlur Rahman (1969) argued that the riba prohibited by the Quran was the doubling and quadrupling riba of *jahiliya*.

In the next phase, the movement of Islamic banking and arguments in favor of practical application of Islamic banking was taken over by Islamic economists who were generally trained in the western traditions.³ They were quite certain that Islamic banking could be established through a two tier profit and loss sharing arrangements; on one hand between banks and fund providers, and on the other between banks and fund users. Most of the writings at this stage, even though very influential and persuasive, remained pedagogical and lacked the kind of mathematical rigor that had become the hall mark of modern macro and monetary economics.⁴ Nevertheless, the arguments were well received by Islamic political movements in different Muslim countries including Sudan, Pakistan and Iran that saw installation of new governments through powerful pro-Islamic political organizations. Apparently, the governments were serious and also in a haste to establish Islamic banking at the country level.

The consideration of having an entire economy based on profit and loss sharing banking required a thorough analysis of its macroeconomic effects and an appropriate monetary policy. Fortunately, at this third stage some of the best minds among Muslim economists working in the prestigious western institutions were attracted. It brought the kind of rigor hitherto lacking in the theoretical analysis of Islamic banking. Several attempts were made to model a profit and loss sharing banking system often using a variant of IS-LM or a related model of conventional macro / monetary economics.⁵ A general conclusion of these models was that a banking system based on profit and loss sharing would not create any problem for conducting traditional monetary policies of controlling money supply for price stabilization or other macroeconomic goals. It was further shown how a banking system based on profit and loss sharing mechanism would be inherently more stable and could also lead to a more desirable distribution of income. Most of these technical contributions came during 1980-1995.

For a number of reasons that we will later discuss in some detail, Islamic banks all over the world, instead of moving towards a profit and loss sharing banking relied more on debt like financing on their assets side. For all practical purposes, the need for a different monetary policy subsided and as a consequent we now see very little emphasis on research related to such policies. The Islamic banking movement has now been taken over by financial and banking experts who are generally working under an environment of competition with conventional banks. Their basic aim is to maximize profit for the share holders (or owners) of the banks with minimum exposure to business risks. The realization of this goal has manifested in heavy reliance on the use of debt like financing techniques after seeking approval of the same from their respective shariah boards. There has been a phenomenal growth in the number of Islamic banks all over the world but the lack of a profit and loss sharing Islamic banking (that I prefer to popularize with the acronym PALSIB) failed to necessitate any significant change in monetary policy and the required research to formulate or evaluate new policies.

(3) For example, see Siddiqi (1969) and Uzair (1978) among many others. It would be pertinent to mention that Uzair, an economist and financial expert, wrote a short (21 pages) booklet on the practicality of Islamic banking in 1955 which is often regarded as the first important technical and professional work in the field.

(4) This is nothing to suggest that a meaningful contribution could not be made in these areas unless one uses some kind of a mathematical model.

(5) Khan, Mohsin (1986), Siddiqi, S. A. (1989a & 1989b), and Anwar, Muhammad (1987). During this stage, the contribution made by some Muslim staff members (such as Mohsin Khan & Abbas Mirakhor) at the International Monetary Fund was exceptionally influential.

2. Monetary Policy Issues Discussed in Earlier Writings

A number of issues were discussed in the second stage of writings of Islamic banking. It would be pertinent to review these issues in some detail to see how these concerns were later addressed in macroeconomic or banking models for an interest free economic system

2.1 Objectives of Monetary Policy

Iqbal and Khan (1981; 24-28) suggested three main goals of monetary policy for an Islamic economic system:⁶

- a) Economic well being with full employment and high rate of growth
- b) Socioeconomic justice and equitable distribution of income and wealth
- c) Stability in the value of money

While the first and the last goals above are generally included also in objectives of monetary policy set for a capitalist economic system, the inclusion of socio-economic justice and equitable distribution of income was certainly an important additional ingredient for a proposed Islamic economic system. An important goal of monetary policy in conventional economics, but not explicitly mentioned by Iqbal and Khan, is maintaining financial stability in the economy. As discussed in section 2.3 below they were more concerned about the apprehension that a system of financial intermediation entirely based on profit and loss sharing may create instability in the economy.

2.2 Money Creating Power of Conventional Commercial Banks

Iqbal and Khan (1981) note that since money creation is a social prerogative, should the banks be permitted to create credit in an Islamic economy or the central bank enforces a 100 per cent reserve requirement. They mention that, among Muslim economists there are two schools of thought on this question. The first school favors 100 per cent reserve requirement on three grounds. Firstly, fractional reserves cause the monetary system to suffer from an “inherent instability” because any switch from ‘high powered money’ to ‘deposit money’ and vice versa, change the supply of money. With 100 per cent reserves, such a switch will change only the composition of money, leaving its total supply constant. Secondly, changes in the money supply arising from deposit creation or resulting from substituting deposits and cash make it more costly to maintain the existing stock of real balances or to add to it. Finally, there is an equity aspect to credit creation. Some people argue that it is inequitable to permit the commercial banks to create credit because the beneficiaries of this process are the banks themselves and the borrowers who are mostly big businessmen and industrialists and who pay a little interest to the banks and earn huge profits from these borrowed funds. From an equity point of view, the benefits of the process of money creation should accrue to the whole society which can be best achieved through 100 per cent reserve system.⁷

(6) It should be noted that different chapters in Iqbal & Khan (1981) were based on the papers presented and discussed at a conference held in January 1981 in Islamabad. It was an important conference where a number of prominent Islamic economists expressed their views and gave suggestions for the future course of theoretical and practical development of monetary and fiscal policies for an Islamic economic system.

(7) Iqbal and Khan (1981; 14-15)

The other school while recognizing these problems proposes to solve them within the framework of fractional reserve system. If there are suitable checks and balances, they argue, the process of money creation will not be unstable. As far the equity consideration, they maintain that it is not true that the beneficiaries of credit creation are only banks and the big industrialists and businessmen. If feedback effects are taken into account, then the benefits are much more widespread. More importantly, the fact that at present the direct beneficiaries of credit creation are big industrialists is not a natural or necessary outcome of the system of fractional reserves. Measures can be adopted to ensure that the allocation of the derivative deposits is such that the benefits are more equitably distributed.⁸ Iqbal and Khan noted that this was a subject where further research was required to establish whether a fractional or a 100 per cent reserve system will serve the needs of an Islamic economy in a better way. They claim that there was agreement among Muslim economists that both the stability of the value of money and equitable distribution of income and wealth are of fundamental importance to Islamic economic system. Therefore, if fractional reserve system was permitted, there must be checks *both* on the *creation* of credit by commercial banks and on its *allocation*.

2.3.1 Stability of the Economy Under a Profit and Loss Sharing System

There were some apprehensions that abolition of interest from the banking system and its replacement by a profit and loss sharing system might lead to financial instability. The argument was that profit and loss sharing Islamic banking, with its two tier *mudarabah* arrangement on both liability and asset sides will leave the rate of returns to banks and their depositors uncertain. This would be true even when the rate of profit and loss sharing between the depositors and the banks on one side and the banks and the funds users on the other could be predetermined and known in advance. As the levels of profits accruing to the investments made by the banks will not be known in advance, the rate of profit would remain unknown. This may cause perplexity among funds providers and could lead to wild fluctuation in the supply of investable funds. Muslim economists, as noted by Iqbal and Khan (1981; 72-73), however, emphasized that there are built-in forces in Islamic economic system to ensure stability. Most of the arguments made in this regard were based on intuition, and the need for more rigorous and analytical work was stressed.

Siddiqi (1982) was an analytical paper that attempted to prove that introduction of ratios of profit-sharing to replace rate of interest will not destabilize the economy and that the changes in the entrepreneurial profit will not get communicated back all along the line.⁹ It went further to establish that the system based on profit sharing will also ensure a better allocation of resources and more equitable distribution of wealth. The paper adopted a partial equilibrium approach to demonstrate how the mechanism of the determination of supply and demand for savings and advances will remain same as in the theory of loanable funds of modern economics. It showed how the system will tend to fall back to the equilibrium position if certain forces created disequilibrium. The paper, which was described as a preliminary exploration in the monetary dynamics in an Islamic economy, however, was not very rigorous. Much more than the partial equilibrium theory of loanable funds approach was needed in this respect. The theory of loanable funds cannot describe what we call an Islamic economy. Also the replacement of interest by the ratios of profit-sharing will not affect the capital market only but will have repercussions for the whole economy. To simply demonstrate that the introduction of profit-

(8) Iqbal and Khan (1981), pp. 14-15.

(9) As noted by Iqbal and Khan (1984), pp. 72-73. Siddiqi's article was first presented at a seminar held in Islamabad in January, 1981.

sharing system will not destabilize capital market does not mean that the whole economy will remain stable. The stability has to be seen in the context of general equilibrium in the economy.¹⁰

Ali Khan (1981) adopted a general equilibrium approach and argued that there is no reason to doubt the instability of an economic system simply because the price of one of the factors is an uncertain variable. It would depend on what commodities and factors we treat in our model, particularly what treatment we give to 'uncertainty' and 'risk'. This paper did not answer the question as to how the introduction of a profit-sharing system will affect the capital market and other sectors of the economy.¹¹

2.4 The Role of Profit Sharing Ratio

After making some persuasive arguments to merge capital and entrepreneurship into one factor of production for an Islamic economic system, Uzair (1980) discussed the issue of profit sharing ratios at the two tiers of *mudarabah* financing that would prevail in a profit and loss sharing Islamic banking system; one between the depositors and the bank, and the other between the bank and the ultimate or actual user of the fund or the entrepreneur. There may be, for example, an arrangement that the entrepreneur and the bank would share the profit in a ratio of 50 per cent each, or 60 per cent for the entrepreneur and 40 per cent for the bank, or any such ratio which may be agreed upon between themselves or regulated by the government or the central bank. Similarly, there will be an arrangement between the bank and the supplier of capital for sharing the profit in the ratio of 50 per cent each or 60 per cent for the bank and 40 per cent for the supplier of capital funds or the depositors. This may seem at first sight to be a complex arrangement, but once the system is introduced and begins to operate in practical life, it will become as mechanical and routine as the present-day system wherein banks charge a higher rate of interest on certain categories of deposit while paying nothing to some types of depositors, e.g. the current account depositors.¹²

According to Uzair, whether percentage or the ratio for sharing the profit between the entrepreneurs (borrowers) and the banks on the one hand, and that between the banks and the depositors on the other, should be determined in the normal course of business activities and bargaining or should be regulated by the government or central bank as a policy variable or a political decision by the government either arrangement would serve the purpose as far as the conceptual framework is concerned. The decision will have to be taken in the light of the actual circumstances prevailing and the inclination of the people who make the decision. On the face of it, it may seem that a ratio of two thirds for the users (65 per cent) and one third for the suppliers (35 per cent) would seem to be a reasonable arrangement because this would be a good *via media*. In the extract given, one extreme being the 50 per cent for each party, and the other extreme being one quarter for the supplier and three quarters for the user of capital. However, the central bank of the country can be empowered to introduce slight modifications in the details of the terms and conditions from time to time, depending upon the overall economic situation and the expansionary or contractionary policy pursued by the central bank in the interest of the overall national economic well-being

(10) *ibid.*

(11) *Ibid.*, p. 73.

(12) Uzair (1980; p. 47)

of the country. This power would be analogous to the power to change the "bank rate" in the present system.¹³

Iqbal and Khan (1981; 75-76) discussed the possibility of using profit sharing ratio as a means of monetary tool for allocating resources according to social priorities. However, they also had the concerned that this could be questioned for its possible distortion of an otherwise equitable distribution of profit in different sectors brought about by the market sources.

According to Iqbal and Khan, the absence of rate of interest does not take away the tools of monetary policy because the profits-sharing rates can serve as monetary tools. Furthermore, although a view exists that the spirit of the system of profit-sharing is based on the concept of equitable distribution of profit and, therefore, the tools cannot be used for allocative purposes, the possibility of using these tools by monetary authorities to achieve some allocative objectives without adversely affecting the equity concept, cannot be over-ruled completely (Iqbal and Khan; 75-76).

2.5 Financing of Government Budget Deficits

According to Iqbal and Khan (1981; 14) there is nothing good or bad in deficit financing *per se* but it has been an important source of excessive monetary expansion and inflation. This does not, however, rule out fiscal deficits but imposes the constraint that deficits be allowed only to the extent necessary to achieve broad-based well-being within the framework of stable prices. The government could have genuine needs for which it has to borrow and arrangements must be made to enable the government to do so in a non-inflationary manner (1981; 14).

Iqbal and Khan (1982; 74) emphasized that analysis of the economics of profit-sharing was needed to answer the following questions:

- (a) What are principal economic determinants of the supply of savings, supply and demand of bank deposits and advances and the demand for investment in an Islamic economy?
- (b) What will be the nature of consequences of replacing interest by ratios of profit-sharing not only on the equilibrium in the capital market but on the general equilibrium in the economy? The public sector (taxes and tariffs), the foreign sector (particularly the international prices), economic activities in the real sector are some of the important variables to be included in such analysis that is aimed at tracing the economic consequences of the introduction of a system. It will also be instructive to demonstrate if there is any relationship between profits resulting from *mudarabah* (profit-sharing) and profits resulting from other activities in the economy.
- (c) What will be the role of central bank in the profit sharing system and how would it affect or control the consequences of the system is also an area for further research? If a central bank exists and if the ratios of profit-sharing can serve as tools for achieving the objectives of the monetary policy, then it needs to be established what would happen to these objectives if the system is stable or unstable.

(13) Ibid.

- (d) Will the system remain stable if there is also a stock market operating in the economy? The share market will be in direct competition with the banks. An analysis of the consequences of profit-sharing system will have to include share market also.
- (e) If the theory of loanable funds is to be followed to trace the effects of profit-sharing, the ratios of profit-sharing will not be the correct variables for the analysis, as they cannot be considered to be the determinants of supply of and demand for deposits/ advances. To explain supply of and demand for deposits/advances, the appropriate variables should be the rates of return to banks/depositors/entrepreneurs.

A survey of literature created after the publication of Iqbal and Khan (1981) may be able to conclude as to what extent the questions raised above has been satisfactorily answered.

3. Profit and Loss Sharing Banking System, Macroeconomic Stability and Monetary Policy: A Survey of Theoretical Models

As discussed in the previous section there were concerns that by removing all financial assets with sure and fixed rate of returns may have negative effects on savings, investment and consequently lead to economic stability. It was also not clear if and how conventional monetary policy and tools could be used in the new system. In this section we would like to have a critical look at some of the important theoretical models that were developed to answer a number of questions raised by both proponents and skeptics of Islamic banking.

3.1 Macroeconomics Models for an Islamic Economy

One of the earliest and important contributions in the area of Islamic banking and its implications for monetary policy was that of Mohsin Khan (1986) published in IMF Staff Papers. Written in a conventional setup this paper not only used suitable mathematical models to deduce some important implications of a profit and loss sharing Islamic banking, it quite intelligently contrasted it with the problems associated with financial intermediation carried out by conventional banks. It also discussed the concerns raised by prominent western economists against fractional reserve banking. It was an important work that brought the concept of profit and loss sharing Islamic banking to the western professional audience. It could be also seen as an attempt to start the type of work that was envisaged by Iqbal and Khan (1981).

Mohsin Khan set four major goals for his paper: first, to show that the Islamic banking system can be rationalized in a neoclassical framework; second, to demonstrate that, the model underlying Islamic banking is not totally alien to western economic thinking;¹⁴ third, to argue that there may be circumstances in which an Islamic banking system would be relatively more stable (in strict mathematical sense) than the traditional, or interest-based banking system in the face of certain types of shocks; finally, to propose how the Islamic banking system should be implemented so as to maximize its inherent benefits.

(14) It was pointed out that out that variants of such a system had appeared in the writings of a number of eminent economists, such as Fisher (1945), Simons (1948), and Friedman (1969).

To make his point Mohsin Khan modified a model first presented by Metzler in 1951 and later extended by Fernandez in 1984. The model has three markets; capital, money and goods. He came up with the following three final equations

$$S/P = s = y/r \quad (1) \quad \text{where}$$

S = nominal value of shares issued by the banks to the depositors

P = price level (assumed to be fixed like in Keynesian models)

s = real value of shares

y = real income of the bank which is the only firm in the economy

r = real yield or real rate of return on shares

Equation 1 shows the balanced sheet of the bank; the left hand side being the liabilities and the right hand side representing the assets. Equilibrium in the money market could be ensured through demand and supply of money

$m/s = g(r), \quad g_r < 0,$ where $m = M/P$ exogenously determined by the government, or

$$m = g(r). y/r \quad (2)$$

The goods market was represented by the following equation:

$$y^d = C(r, w) + I(r) \quad C_r < 0, C_w > 0, \quad I_r < 0, \quad \text{where } w = m + y/r = \text{total wealth in the economy}$$

$$dy/dt = \beta [C(r, m + y/r) + I(r) - y] \quad \beta > 0$$

where the expression inside the brackets is excess aggregate demand. This can be written as a reduced-form equation:

$$dy/dt = f(r, y; m) \quad f_r < 0, f_y < 0, f_m > 0 \quad (3)$$

Mohsin Khan uses equation 2 for money market and equation 3 for goods market to draw a diagram for a dynamic version of IS-LM model to determine the equilibrium values of the real rate of return r and of real income y .

The main conclusion of Mohsin Khan's above model was that a shock to income level in the economy (that only consisted of bank income from its investment) will be quickly adjusted through an excess demand in the goods market created by an immediate lowering of *rate of return* r . The fixity of interest rate in the conventional system does not allow this quick return to normal level of income in the conventional system.

However, it is not clear how this lowering of r would necessarily increase the demand for goods in the economy. The lower r in the model represents a lower level of profit in the economy (the only source of income) due to certain shock. Why should it increase the consumers' demand for goods? In the conventional system a lower interest increases C as consumer durables become less expensive but it is not the same for an interest less economy. A low rate of return meaning a low level of income can actually dampen consumer demand for goods for an interest-less economy. Similarly, a low level of r represents a low level of profits for the producers too.

The r in the model should not represent cost of funds (loanable funds) for the producers. What must, however, could be emphasized through this model is that a lowering of r will not have the kind of impact producers experience in the conventional capitalist economy because of the fixity of the interest rate. As the shock to economy is largely absorbed by the financiers in a profit and loss sharing economy, producers of goods and services will have comparatively reduced compulsion to layoff workers. This would limit the ripple effect of the initial shock and, depending upon the nature of the shock, would bring back the economy on the track comparatively much sooner than that of a conventional capitalist economy. In our opinion, the model could be modified by redefining the investment as well as the consumption function. Similarly, it would be quite necessary to do further thinking as to how different would be the role of r in this model than that of the rate of interest in the conventional IS-LM models.

In order to consider how things would be different from the above IS-LM type model, Mohsin Khan extended his analysis to consider the alternative case in which output is exogenously given and prices adjust to excess aggregate demand, corresponding more like to the classical system. Equation 2 in the fixed price model remained applicable to the flexible price model. Equation 3 was adjusted to get the following equation:

$$dm/dt = -f(r, m; y^*) \quad f_r < 0, f_m > 0, f_y < 0 \quad (4)$$

Instead of changes in output, it would be changes in m that would bring necessary adjustment to get the economy back to an equilibrium position. Unlike the fixed price model where y was allowed to go back to the original level, it was puzzling to note that the flexible price model did not say whether the output level would eventually go back to the original level or stay at the same aftershock level. The classical model generally assumes that output level is fixed at the natural level in the long run. Also, the flexible model continued to rely on the excess demand created in the goods market as the source of adjustment in the economy. It implicitly works with the assumption that a decrease in real rate of return r would make the demand for goods and services greater than the lowered (after shock) level of y and create an excess demand for goods and services pushing prices up and eventually restoring equilibrium in both money and the goods market.

Our critical observation related to the fixed price model, therefore, remains valid for the flexible price model as well. Mohsin Khan himself observed that his was the first attempt to provide a technical apparatus to highlight some basic but quite distinctive features of an Islamic banking system. Its main thrust was to show how an Islamic system could solve the problem of inherent instability of a capitalist banking system with fixed rate of interest on both its liability as well as asset sides.

Mohsin Khan and Mirakhor's suggestion of treating transaction and investment deposits of Islamic banks separately and requiring 100% reserve ratio for the former was mainly to provide another source of financial stability also favored by a number of western economists. They did not discuss the distributional implications of fractional reserve banking.

Mohsin Khan and Mirakhor (1989) considered a closed economy assumed to be composed of commercial banks, the central bank, and the non-bank public. In addition to financial assets, the model contained a single (composite) commodity that was both produced and consumed domestically. Commercial banks are assumed to offer only investment deposits (Db) to the public and pay a rate of return (r_b) that is based on profits from their operations. If π represents distributable profits of banks, and λ is the share of the depositor, then

$$r_b = \frac{\lambda \pi}{D_b} \quad \lambda > 0, \pi > 0$$

Banks can borrow from the central bank only on an equity-participation basis. That is, the central bank purchases equity in the bank when it wishes to expand reserves in the system, and vice versa. Therefore, an additional source of funds for commercial banks becomes the sale of equity shares (Eb) to the central bank. As in the case of investment deposits, the rate of return on equity shares (r_e) would depend on the overall profit position of banks.

On the lending side banks engage in only risk-return sharing mudarabah arrangements with the public. Mudarabah financing (Fb) in this case is assumed to subsume all other types of similar arrangements, such as musharakah financing. As in the case of investment deposits, the profits earned from the projects financed by the bank (π), are shared between the bank and the entrepreneur on a prearranged basis. The rate of return the banks receive will be related to the rate they pay on their liabilities, with the spread essentially covering operating and other costs. If such costs are assumed to be zero, the rate of return on loans will be equal to rate of return on deposits. The banks would thus be receiving:

$$r = \frac{\gamma \pi}{F_b} \quad \gamma > 0, \pi > 0$$

where γ is the profit-sharing ratio in favor of the bank. The rate of return to the borrower would correspondingly be equal to $(1 - \gamma) \pi / F_b$, so that an increase in r_b brought about by a higher γ would reduce the demand for loans. Banks are also required to hold a certain proportion of their liabilities to the public (Db) in the form of reserves with the central bank (Rb).

The central bank's liabilities consist solely of reserves of commercial banks (Rc). Since there is no currency held by the public in the model, high-powered money in the economy is definitionally equal to the stock of bank reserves. On the asset side the central bank holds equity shares of commercial banks (Ec), and the rate of return (r_e) on these is market determined. The supply of reserves is changed by the central bank through variations in its stock of bank equity shares ($\Delta E_c = \Delta R_c$), which in turn alters the cost of borrowing for the banks.

Since commercial banks are the only financial intermediaries in the economy, investment deposits in the banking system represent the financial wealth of the public. Total wealth of the public is, thus, equal to financial wealth and its stock of

capital (K). The public has basically two sources of funds: first, *mudarabah* financing obtained from banks (Fp), and second, its own savings (S).

Mohsin Khan and Mirakhor used a simple IS-LM type macroeconomic model to incorporate the balance sheet restrictions on households, banks and the central bank. They made three simplifying assumptions; no distinction between real and nominal income, all expectations were supposed to be realized and the economy and its financial sectors were continuously in equilibrium (making it a comparative static analysis). Each economic variable is, thus, defined as a deviation from its respective equilibrium value.

The real side of the economy is represented by a function relating the excess of investment over savings to the rate of return on bank (*mudarabah*) financing, the level of national income, and total net wealth of the public:

$$(1) (I - S) = - a_1 r_b - a_2 Y + a_3 W_{-1} \quad \text{where,}$$

I = investment;

S = savings;

r_b = rate of return on bank financing

Y = national income, and,

W_{-1} = total net wealth of the public, defined as $K + D_p$, at the beginning of the period.

Equation (1) will be recognized as being simply an IS relationship, derived assuming that investment is a negative function of the rate of return on *mudarabah* financing, and savings a positive function of income. Net wealth at the beginning of the period is assumed to affect both investment and savings, with the former effect dominating. Given the underlying relationships all the parameters in equation (1) are written to be positive.

For the derivation of LM relation, three financial assets are introduced in the model: bank loans, investment deposits, and equity shares of commercial banks. Starting with the loan market, the public's demand for *mudarabah* financing is specified as a function of the banks' required rate of return, and net wealth at the beginning of the period:

$$(2) \Delta F_p = -f_1 r_b + f_2 W_{-1}$$

(The negative sign before $f_1 r_b$ in equation 2 was missing in the article. However, this must have been a typographical mistake as the error was not carried over to equation (5).

The banking sector's supply of *mudarabah* financing is specified as a positive function of the rate of return, and a negative function of the cost of borrowing for banks.

$$(3) \Delta F_b = s_1 r_b - s_2 r_e$$

Changes in the public's demand for investment deposits are derived from the balance sheet constraint:

$$(4) \Delta D_p = \Delta F_p - (I - S)$$

Substituting equations (1) and (2) into equation (4) one can obtain:

$$(5) \Delta D_p = -(f_1 - a_1) r_b + a_2 Y + (f_2 - a_3) W_{-1}$$

(The original article has f_3 instead of f_2 which must have been typographical mistake).

The reserves of the banking system are given by the following definition:

$$(6) \Delta R_b = k \Delta D_p \text{ where } k \text{ is the reserve ratio.}$$

If the banking system passively meets the demand for deposits, $\Delta D_b = \Delta D_p$, the following four markets are left:

$$(7) (I - S) + (\Delta F_b - \Delta F_p) + (\Delta R_b - \Delta R_c) + (\Delta E_c - \Delta E_b) = 0$$

One can thus take advantage of Walras Law to eliminate anyone market. The model chooses to drop the equity shares market, $(\Delta E_c - \Delta E_b)$. The central bank adjusts the supply of reserves to the system by varying its holdings of equity shares of banks:

$$(8) \Delta R_c = \Delta E_c$$

Given that the equity shares market is determined through (7), the equilibrium conditions of the model, that is,

$$(9) \Delta F_p = \Delta F_b \quad (10) \Delta R_c = \Delta R_b \quad (11) I = S$$

allow to solve for the three endogenous variables, namely the rates of return on mudarabah financing (r_b) and equity shares (r_e), and the level of national income (Y).

Given the assumed signs of the relevant parameters, an increase in the rate of monetary expansion will lower the rates of return on financial assets, and will raise the level of national income. This corresponds to the result obtained in the familiar IS-LM model when there is an outward shift in the LM curve. Suppose the central bank, instead of choosing to target the overall money supply, decides to use mudarabah financing (ΔF_b) as the operative variable and again adjusts ΔR_c to achieve its target. In this case the central bank would have to ensure that the supply of mudarabah financing is equated to the demand.

According to Khan and Mirakhor, the solutions of the model clearly showed that it is a matter of indifference as to whether the authorities attempt to influence monetary conditions through changing the money supply, or use the flow of mudarabah financing as an intermediate objective. Both types of monetary policy measures yield identical effects on the financial rates of return in the system, and on the level of national income. To them, this is what one would expect to observe in a closed economy, where there is no economic difference whether the monetary authorities choose to focus on the liability or asset side of the balance sheet of the banking system. What is more important, they claim, is that exactly the same solutions would have been obtained if one was working with a traditional financial system with a predetermined rate of interest on deposits. As long as lending rates are fully flexible, the two systems turn out to be formally equivalent from the

standpoint of monetary policy. This result, according to them, while obtained for a closed economy also carries over to the more realistic case where trade in goods and financial claims is possible. As is well known, in an open economy with a fixed exchange rate, the money supply can no longer be treated as an exogenous policy instrument as variations in it can be brought about through balance of payments surpluses and deficits. Consequently, it is the domestic component of the money stock. i.e. domestic credit, that becomes the relevant instrument of policy. In the Islamic system *mudarabah* credit is the counterpart to domestic credit, and accordingly can be used in the same manner to alter domestic financial conditions to achieve the desired results on macroeconomic variables in an open economy.¹⁵

Hasan (1991) raised a number of questions against certain aspects of Mohsin Khan and Mirakhor's model and the conclusions drawn from the same. He admitted the fact that the rate of return (r) the banks receive on loans must in some way be related, as Khan and Mirakhor hold, to the rate (r_b) the banks pay on their liabilities. But he pointed out that even with the simplifying assumptions of operational and other costs of bank being zero, r and r_b could not be equal. He claimed that if one can show that $r_b < r$, the conclusions of the models could be questionable as the whole exercise was hinged on the equality of these two rates. According to Hasan, the equality of the two rates was just not possible under a "two tier *mudarabah*" based banking.

In our opinion, the observation made by Hasan was due to the omission of Mohsin Khan and Mirakhor's another assumption that they did not make explicitly; all bank loans are made from depositors' funds and nothing from bank's own (equity) funds. This would make F_b and D_b equal and with no cost incurred by the bank, λ would become 1. Thus return to the bank r and that to the depositors r_b will be the same.

Zubair Hasan's another observation in this regard that in *mudarabah* financing the role of profit sharing is not the same as that of loss sharing is valid. However, in my opinion, it was not necessary to use *mudarabah* financing assumption for bank's assets side. A *musharakah* arrangement on the asset side could have allowed using the same formula for any value of π , positive or negative (assuming that profit and loss were shared in the same proportion). Alternatively, it could have been said that in case of a loss, γ would be equal to 1 (a point not observed by Zubair Hasan), depicting the fact that all losses would be incurred only by the banks as required under a *mudarabah* financing. Mohsin Khan and Mirakhor made a further error; they first used π as the profit of the bank in their calculation of r_b , and then used the same π as the total profit of the projects financed by banks (of which only a fraction of γ will be received by the bank) in the calculation of r . Their main aim was to make the point that the rate of return to the bank and that of the depositors would be the same under the assumptions that there were no costs involved in financial intermediation and that banks did not use any of their own fund. In my opinion, therefore, these problems of the model could be set aside and see whether the rest of the model did make a significant contribution in getting some insights in understanding the characteristics of a profit and loss sharing financial system and the efficacy of monetary policy.

(15) Khan and Mirakhor (1987; 53).

Another observation made by Zubair Hasan's (1991) was that in this model investment is an exogenous variable. However, investment was explicitly assumed to be a negative function of r (p.50) and also positively affected by W_{-1} . Some of Zubair Hasan's criticism (given in section 4 of his commentary) thus becomes a bit less important. However, I am much more sympathetic to his following comments:

“Clearly one cannot accept at face value the inferences drawn in Khan and Mirakhor based as they are on an untenable equality of rates ($r_b=r$) proposition. Of greater consequence is, however, their replacing of the rate of interest in the secular model by a rate of profit for its Islamization. Indeed, not a few Islamic economists have been attracted to adopt this course either directly or via the sharing of profit ratio, presumably because it makes things (look) so easy. The demand and supply apparatus remains intact in the money market and its linkage with the commodity (and services) market is not disturbed. Simplicity is a virtue, but must be avoided if it tends to become misleading.

In secular economics interest is essentially viewed as a price for parting with liquidity. In contrast, profit is thought of as a reward linked with investment. Unlike the rate of interest, the rate of profit may be negative. The outside limit for the liquidity trap is the zero rate of interest. What this limit will be in the case of a profit rate? "The importance of the liquidity trap stems from its presenting a circumstance under which monetary policy has no effect on the interest rate and thus, on the level of real income" (Dornbusch and Fischer 1987, p.146). Can we erect a parallel proposition for the rate of profit? Is it possible to visualize a situation in which a profit rate could, for such a reason, fail to have any effect on the level of real income? How will the replacement influence the position and shift of the LM curve? Such questions require a more careful investigation than has so far been carried out." (p.88)

Let us look at equation 2 of the model. It says that public's demand for *mudarabah* financing will be a negative function of r . Now, this perception is based on how the interest rate affects demands for loans in a conventional economy where it is explicitly included in the cost of production. In a profit and loss sharing economy (and particularly in this model) r is not only the return to the bank but also return to the depositors. A high level of r (with positive expectations about profits) means a high expected level of income for depositors and hence a high level of savings through the first equation representing the goods market. Again it was assumed in the first equation that savings is positively related to Y but I was only related to r rather than both r and Y that has now become a common practice in designing macroeconomic models.¹⁶ But even when we assume that the user of funds and the supplier of funds are not the same people from the public, will an increase in r must discourage the funds users or entrepreneurs? An increase in r could be a result of increase in π or γ in this model. While keeping π constant and increasing γ may discourage the funds users, an increase in r due to an increase in π may not have any negative effect on them. On the other hand if the increase in γ was a result of a decrease in π , then reduction of r may not be enough to induce entrepreneurs to increase investment. Perhaps thinking on these lines has always been missing from most of the models that used a variant of conventional models to get insights into the working of a profit and loss sharing economy.

(16) For example see Blanchard (2006), chapter 5.

Another observation one can make is that equation 4 could have been written as $\Delta D_p + \Delta M = \Delta F_p - (I - S)$. This basically says that any demand for funds that could not be satisfied from public's own resources is either financed through the increase in mudarabah financing from banks or through increase in the money supply. In our opinion, the central bank should be providing funds to the banks without demanding any thing in return if the issue was to ease the liquidity situation and avoid any run on bank. In case the additional money was provided to meet investment demand for profitable projects in good economic conditions, this may not necessarily lead to a reduction in the rate of profits in the economy, and consequently to banks and their depositors. We must emphasize therefore that the nature of profit sharing is quite different from charging of a fixed rate of interest.

Anwar (1987) was another significant attempt to provide the much needed theoretical model for a profit and loss sharing Islamic economy. Unlike Mohsin Khan's model Anwar's model does not addresses the issue of financial intermediation as its focus was somewhat different. He used Sargent's (1979) "classical" macroeconomic model which synthesized major classical beliefs with some Keynesian assumptions related saving and investment behaviors in the economy. The choice of Sargent's model was also due to its tractability, sophistication, realism of assumptions, relevance of some of the behavioral assumptions for Islamic economics, and its general acceptance by the profession at that time (Anwar: 1987; 21). According to Anwar, the classical view that saving was mainly determined by the rate of interest was intolerable for Muslim economist. On the other hand the Keynesian position (adopted by Sargent) that saving is mainly determined by income was much closer to the Islamic view. Similarly, the classical economists' preference for a balanced budget and their view on the motives for holding money (i.e., for transaction purpose only) was much more acceptable for Islamic economists (Anwar: 1987; 22).¹⁷

With modifications made for an Islamic profit and loss sharing system Anwar came up with a set of equations to serve as a theoretical macroeconomic model for what he called an interest-free economy. Tab 1 below shows both Anwar's and Sargent's macroeconomic models. The equations in these models were derived from the microeconomic behavioral relationship assumed for the two systems. The validity and results of the models, therefore, hinges on the assumptions being made and requires some critical analysis.

(17) According to Anwar, although Sargent's model does not acknowledge it, the Classical model is based on Friedman's theory of demand for money. According to this theory, money is held only as a temporary abode of generalized purchasing power. The market value of the money is independent of the interest rate, the conversion cost of money is zero, money earns no interest, and money serves as a means of payment. The economic function of money is to separate a sale from a purchase and to permit exchange without barter. Again, since money is used only as a medium of exchange and not for speculation, these characteristics of money are accepted in Islam (Anwar: 1987; 35).

Table 1
Comparison of Anwar's and Sargent's Models

	Anwar's Interest Free Model	Sargent's Classical Model
1	$w/p = F_L(K, L)$	$w/p = F_N(K, N)$
2	$N = N(w/p)$	$N = N(w/p)$
3	$Y = F(K, L)$	$Y = F(K, N)$
4	$C = C[Y - T - \delta K - \{(M + \Phi)/p\} \pi + \{(K, L, k, \theta, \delta, \pi) - 1\} I; (k\theta - \pi)]$	$C = C[Y - T - \delta K - \{(M + B)/p\} \pi + \{(K, N, r - \pi, \delta) - 1\} I; (r - \pi)]$
5	$I = I\{\eta(K, L, k, \theta, \delta, \pi) - 1\}$	$I = I\{q(K, N, r - \pi, \delta) - 1\}$
6	$Y = C + I + \delta K + G$	$Y = C + I + \delta K + G$
7	$M/p = m(k, Y) \quad m_k < 0 \text{ and } m_y > 0$	$M/p = m(r, Y) \quad m_r < 0 \text{ and } m_y > 0$

Lets us look at the reasons behind the apparent differences in the two models. The N and L (letter generally used for labor input) are used for the same labour input but they have slightly different meanings. Sargent's classical model includes both entrepreneurial labour as well as the workers hired by them. In Anwar's interest-free model entrepreneurs share part of the profits of the firms rather than receive fixed wages. However, the effect of this difference is nowhere discussed by Anwar.

In Sargent's classical model, firms deduct the user cost of capital $(r + \delta - \pi)pK$ as expense from the total revenues to compute their profits.¹⁸ The user cost contains three components: depreciation cost $= \delta pK$, change in the value of the capital due to anticipated inflation $= \pi pK$ and the cost of capital $= r pK$ determined on the basis of the fixed rate of interest, r. In Anwar's interest-free model the financier receives k % of the 'Islamic profits' as a reward for the use of the capital instead of interest income. 'Islamic profits' are equal to the total revenues less the total costs, where total costs do not include return to capital and entrepreneurial labor.

In Sargent's model firms undertake those projects for which marginal productivity of investment is greater than or equal to the user cost of capital. In Anwar's interest-free model firms view the expected profit-share of the financier as the capital finance cost. The most important (and perhaps most debatable too!) is his assumption that firms and financiers know the 'normal' rate of Islamic profits in the economy; the rate of Islamic profits being $\theta (= (pY - wL)/pK)$.¹⁹ The 'normal' rate of Islamic profits is used to negotiate the profit-sharing ratios, $(1 - k):k$, in which entrepreneurs and capital financiers share the expected Islamic profits respectively. Therefore the profit-share of the capital financier $k\theta pK$ is the expected finance cost to the entrepreneur. It was thus suggested that the term $(r + \delta - \pi)$

(18) r stands for interest rate, δ for rates of depreciation, π for rate of inflation, p for price level and K for physical capital.

(19) w being the wage rate.

representing the user cost of capital in the Sargent's model be replaced by the term $(k\theta + \delta - \pi)$ to represent the same in an interest-free economy. One can easily observe that by assuming the rate of profit θ to be known, and k being left to be determined by the system (as r is determined by the market in the classical system), there would be little difference between the two user costs of capital.

In the classical model, the goal of the firm is to maximize economic profits. It is assumed that a typical firm in the interest-free economy is interested in maximization of its profit-share, Ω_i which is calculated after deducting labor and capital costs from total revenue i.e.,

$$\Omega_i = p F_i(K_i, L_i) - wL_i - (k\theta + \delta - \pi) pK_i$$

where $F_i(K_i, L_i)$ is production function or output.

The corresponding investment demand in Sargent's classical and Anwar's interest-free model are:

$$I = dK/dt = \{ F_K - (r + \delta - \pi) / (r - \pi) \} = I(q-1)$$

$$I = dK/dt = \{ F_K - (k\theta + \delta - \pi) / (k\theta - \pi) \} = I(\eta-1) \quad \text{where}^{20}$$

$$q = [\{ F_K - (r + \delta - \pi) / (r - \pi) \} + 1] \text{ and } \eta = [\{ F_K - (k\theta + \delta - \pi) / (k\theta - \pi) \} + 1]$$

Apart from the difference between L and K mentioned above, the main difference between this profit function of the i th firm in Anwar's interest-free model and that of Sargent's classical model is that r or interest rate is replaced by $k\theta$. However, as θ is assumed to be known to both the financiers and the firms, k is left as one of the variables determined by the system of equations. The other six variables determined by the system are labor employment, real wage rate, real output, real consumption demand, real investment demand and price level. The classical system differs from Anwar's model in determining nominal rate of interest instead of k . Anwar asserts that, unlike the classical system, any increase in the profit-share of the firm necessarily leads to a corresponding increase in the profit-share of the financiers in the interest-free economy. However, this is true if the increase in profit share comes only through π without any change in k . In our opinion the financiers and the firm would keep maneuvering over k same as being done over r in the classical case, keeping the expectations about profits unchanged.

It can be argued that firms in an Islamic system should not treat the payment to capital as a cost of capital because capitalists would be paid from the residual income. However, as long as k enters into the profit function as well as the consumption function (through disposable income, please see equation 4 in Table 1), suppliers and demanders of investable funds will keep struggling over it. Furthermore, the higher the demand for funds, higher would be k which could have same negative effect on level of investment as in the case of fixed interest. As long

²⁰ Anwar notes that although Sargent states that investment demand directly depends on the gap between the marginal product of capital and the user cost of capital, the investment demand is assumed to actually depend on the gap relative to the anticipated real rate of interest (Anwar: 1987; 29).

as this happens the investment will not be carried over to the point where the marginal efficiency of capital becomes unity (as suggested by Haque and Mirakhor (1987b)).

The other problem is that while in the classical model the value of r could be more or less same for all firms irrespective of the volume of financing, the value of k cannot be the same for different mudaribs, a point generally missed by almost every model developed by Islamic economists. Later in this paper we will show that in a mudarabah arrangement, k should become smaller and smaller as the volume of financing increases. As for musharakah, k will also be generally related to the proportion of investment financed by out side sources. Any extra payment for management of investment in a musharakah arrangement will be settled either through a fixed payment for such services or a decrease in k the magnitude of which will again depend on the volume of investment by the financiers.

A somewhat different but related issue is the desirability of a profit sharing arrangement under certainty. In the context of agricultural farming it is often argued that leasing of farm land on a fixed rent basis is more efficient than share cropping as the farmer receives the residual out put. It is being argued that a farmer's incentive to work hard reduces knowing that half (or so) of the produce would go to the land lord. The advantage of a sharing arrangements in farming emanates from its ability to share the down side risk. Any model with a deterministic framework deprives itself from gaining a meaningful insight useful to understand the working of a sharing system.

In Anwar's model, household have three assets to construct their portfolio; money M , mudarabas Φ , and the equities V representing the nominal value of real physical capital K . It is assumed that mudarabas and equity (like bonds and equities in Sargent's model) are perfect substitute and hence could be merged into mudarabas Φ ; the difference from the classical mode being replacement of bonds B by mudaraba. In both models consumption (equation 4 in Table 1) depends on real disposable income which is equal to:

$$YD = Y - \delta K - T - [(M+B)/p]\pi + qK - K \quad \text{Sargent's model}$$

$$YD = Y - \delta K - T - [(M+\Phi)/p]\pi + \eta K - K \quad \text{Anwar's model}$$

$$\text{Where } q = [\{F_K - (r + \delta - \pi) / (r - \pi)\} + 1] \text{ and } \eta = [\{F_K - (k\theta + \delta - \pi) / (k\theta - \pi)\} + 1]$$

Real disposable income is assumed to consist of gross national output Y , minus capital depreciation, minus tax payments net of transfers T , minus rate of capital depreciation on financial assets due to inflation $[(M + B)/p]\pi$ or $[(M+\Phi)/p]\pi$, plus appreciation in the value of existing real equities, qK or ηK , minus the real rate at which new equities are issued, K .

The money demand-function (equation 7) assumes that people desire to hold more real balances in response to increases in their incomes. Moreover as the profit-sharing ratio, k , rises, the expected rate of return on mudarabas, $k\theta$, increases, which, in turn, increases the incentive to economize on real balances held for transactions, and hence a given level of economic activity is financed by a smaller amount of real balances. The opposite happens in response to a fall in the profit-

sharing ratio. The assumption that all agents in the economy know the rate of (positive) profits in the economy, this demand of money function could be easily justified. This crucial assumption however renders little that is different in the two systems.

Anwar suggests that, like the interest system, when necessary, the government will finance its budget deficits by issuing *mudarabas*, rather than bonds. Moreover, as the government uses its funds to provide social services to the public at large, instead of the rate of return in the private sector i.e., θ , the *social rate of return* could be used to arrive at a reasonable rate of return to the suppliers of such funds. The government budget constraint is expressed by:

$$G = T + (\Phi/p) + (M/p)$$

$$dM = - d\Phi$$

After linearizing his system of equations, Anwar draws several conclusions: under two different scenarios; in one case $M+\Phi$ is assumed to be zero and in the other scenario the same is allowed to be non zero.

In the first scenario:

- Increases in government spending and anticipated inflation will increase the profit-sharing ratio while an increase in taxes will decrease the profit-sharing ratio.
- An increase in taxes will increase investment spending and an increase in government spending will reduce investment spending. That is, some crowding out will occur. Change in anticipated inflation, however, does not effect investment decisions.
- Aggregate supply is independent of all the exogenous variables except capital stock. Whenever changes in the exogenous variables, other than capital stock, disturb the initial equilibrium by changing the level of aggregate demand, the profit-sharing ratio moves in appropriate direction to restore the equilibrium.
- For given Y and k , as determined by equations, prices and real balances grow at the same rate. Increases in output, however, will reduce prices; and increases in the profit-sharing ratio will increase prices and vice versa
- Therefore the system is stable if the profit-sharing ratio is inversely related to the demand for money and to aggregate demand in the economy.

It is quite clear that the implications of the model are similar to those of classical model. In Anwar's model there are two alternative explanations regarding determination of the equilibrium profit-sharing ratio. One of these approaches is akin to the leakages-injections approach and the other may be called the *mudaraba funds market approach*. In the first case the equilibrium profit-sharing ratio is determined at the point where real government expenditures plus real investment, evaluated at the stock market value of equities, is equal to the savings plus taxes (p. 53).

According to the mudarabah funds approach, the desired savings must equal the sum of the actual growth rates of mudarabas, real balances, and equities. That is, the demand for financial assets, dictated by savings must equal the supply of financial assets, determined by the desired investment (p.54).

In equilibrium, actual growth of the financial assets issued by the government must equal the government budget deficit. In other words, for given budget deficits, the profit-sharing ratio must adjust to ensure that the desired savings minus real value of equities are exactly equal to the budget deficit. As increase in government spending, *ceteris paribus*, increases the budget deficit and implies an increased growth of financial assets, which leads to an excess of desired savings over the desired investment at the original equilibrium position. The investment schedule must rise in order to bring the system to a new equilibrium corresponding to a higher profit-sharing ratio (p.54).

A pertinent question that can be raised here: can we expect k to be flexible enough to ensure that the economy moves towards an equilibrium? Actually, the main strength of a profit and loss sharing system is that it distributes both profits and loss to a larger number of economic agents and that too in accordance with their contribution to capital formation. Furthermore, rather than k being flexible (but same throughout the economy) it would be an increasing function of level of investment or *ras-ul-mal*. Siddiqui and Zaman (1989) model compared levels of investment and savings in interest and profit and loss sharing based systems under a deterministic frame work. They found that investment will be relatively higher in a sharing system compared to the fixed interest system. However, investment could be further increased made higher in the profit sharing system if different sharing ratios are used for different ranges of investment (p. 19).

Actually by assuming θ to be known $k\theta$ just works like r and that is why all results of the model appear to be similar to the conventional classical or Keynesian model.

In the second scenario where $B+\Phi \neq 0$, an increase in government spending and a fall in taxation will lead to an increase in the profit-sharing ratio. An increase in government expenditures tends to increase the profit-sharing ratio. An increase in the profit-sharing ratio causes the price level to rise. A rise in the price level reduces real value of outstanding mudarabas and money, and also, for a given value of anticipated inflation, reduces the rate of real capital loss on assets. Consequently, expected real disposable income increases, which increases the desired rate of consumption, this in turn drives up the profit-sharing ratio still further. A similar explanation holds for the response of the profit-sharing ratio to an increase in taxes.

Change in the profit-sharing ratio in response to a change in the stock of money however will be dictated by the values of $(M+\Phi)$ and k . If $(M+\Phi)$ or k are positive then an increase in the money supply will lead to a higher profit-sharing ratio. If either $(M+\Phi)$ or k is negative, however, then an increase in the money supply will lower the profit-sharing ratio.

The system is still neutral because all the dollar-denominated variables have been divided by other dollar-denominated variables. The system is not dichotomous because changes in the growth rate of money supply do affect equilibrium values of the real variables by influencing the equilibrium values of the price level and the profit-sharing ratio.

Zangeneh (1995) was an exercise similar to Anwar (1987). His model was also based on Sargent's (1987) macroeconomic model. He shared the views held by others that standard economic concepts and methods can be fruitfully employed to analyze issues in Islamic economics [Zangeneh: 1995; 57]. In his view it can be shown that the Islamic economic system does exhibit properties that are consistent, reasonable, and familiar [Zangeneh: 1995; 56].

As Zangeneh's interest-free macro model is very similar to that of Anwar, we would only like to highlight the main differences of the two models. Like Anwar, Zangeneh assumed that the financiers and firms share in the profits of the firm in a predetermined ratio, s_m and $1-s_m$ (s_m being same as k in Anwar's model). However, unlike Anwar who assumed that the rate of profit θ is known to both the financiers and the firms and they only negotiate about the rate of profit sharing k , Zangeneh assumed that firms and financier do not know about the rate of profit (denoted in his model by m).²¹ The puzzling thing to note is that when defining the user cost of capital, like Anwar, he replaces the rate of interest r of Sargent's model by $s_m m$. But like Anwar, he also keeps claiming that as $s_m m$ is not fixed (because m is not fixed in his model), the capitalist share in profits is not the cost to the firm! (p. 58). It is also interesting to note that according to the solutions of his own model q (representing the gap between marginal productivity of capital and the user cost of capital) is a decreasing function of the real rate of profits (Zangeneh uses real share of profits paid to capitalists) $s_m m - \pi$. He also admits that this would imply that an increase in financier's share of profits will decrease investment and capital accumulation (p. 64-65). This is similar to the outcome of conventional fixed interest model where increase in interest rate has negative effects on investment.

In order to refute the assertion that the interest free system may lead to a fall in savings level, Zangeneh used a logarithmic consumption function to get a solution for maximizing the present value of life time consumption subject to an inter-temporal budget constraint and using the rate of return on *mudarabah* accounts for discounting future consumption. He, however, makes no analysis to see whether this claim could be confirmed or refuted through his model.

The treatment of m or the level of profits in Zangeneh's model is unsatisfactory. He does not analyze the effects in the changes of relevant variable on m . Like Anwar, he concentrates on s_m (k in Anwar's model). In the beginning he mistakenly defines m as level of (unknown) profit level and then treats it as the rate of profit (θ of Anwar's model). While Anwar assumes that θ is known, Zangeneh claims it to be unknown but nowhere in the paper has he discussed about the profit

(21) Zangeneh refers m as level of profit but he actually uses it for rate of profit. Please see page 58 of his 1995 paper where he defines the user cost of capital as $s_m m + \delta + \tau - \pi$ (τ being the tax rate in his model).

function and the implication of different variables on its level.

Analyzing his model in the classical framework, Zangeneh gets the familiar result of the classical model that real output, employment and real wage are all increasing function of capital stock and unaffected by monetary or fiscal policy exogenous variables.²² The effect of inflation on sm is ambiguous while an expansionary fiscal policy reduces it (p. 65). Similarly, analyzing the model in the Keynesian frame work Zangeneh gets the familiar result that an increase in G or a decrease in T will increase real output.

One can safely conclude that the goal of providing an effective theoretical model to analyze the effects of a system where investment and financial intermediation are totally based on the principles of profit and loss sharing. As a matter of fact, no where in these two last models the case of a loss is discussed.

3.2 Interest: A Cause of Financial Instability in the Capitalist System

Fardmanesh and Siddiqui (1994) took a different approach in addressing the concern that financial intermediation through profit and loss sharing mechanism could create instability in the economy. Instead of using a conventional model to understand the working of a profit and loss sharing system, they took Lavoie's (1986-87) model based on Hyman Minsky's hypothesis to elaborate how the institution of interest affects the behavior of commercial banks and makes the capitalist system inherently unstable. They argued that a profit and loss sharing system will be inherently stable by changing the behavior of the banks as well as a mechanism of sharing both the profits and losses by a much larger number of economic agents. One of Lavoie's main equations can be used to make the point:

$$dg/g = dr/r + d\pi/\pi + du/u - dv/v + [dx/x]x / (1-x)$$

where g stands for growth rate of capital, r for retention (of profits) ratio, π for share of profits, u for capacity utilization rate, v for technical capital-capacity ratio, and x for leverage ratio and a proxy for financial fragility and consequently, instability. The growth rate of capital would require a higher retention ratio, or a larger profit margin, or a higher level of utilization of capacity, or a larger leverage ratio, or more likely a combination of these (assuming $dv/v=0$). Lavoie explains that even a booming condition leads to higher leverage ratio as other avenues become saturated. The main reason for this is that commercial banks are carried away with speculative spirit of their borrowers. The institution of interest fails to impose necessary fear of loss to do a cautious analysis before granting a loan. A system based on profit and loss sharing mode of financial intermediation would thus be inherently more stable.

(22) Same is true for Anwar's model (see Anwar (1987), p. 48.

3.3 Savings and Investment Under PLS System

As mentioned in section 2, saving behavior in an Islamic economic system could be a cause of instability. It was suggested that financial intermediation based on profit and loss sharing principles would increase uncertainty about future return on capital and hence discourage saving. Haque and Mirakhor (1987a) was an excellent effort to investigate that issue. They emphasized saving behavior under uncertainty was a relatively new area of research and theoretical studies on the subject could not establish a clear case for such an assertion. They noted that much of the research on the effect of uncertainty on saving has been concerned with the effect of (non capital) income uncertainty on saving and almost all studies have, under alternative assumptions about the behavior of the risk aversion function, confirmed the Fisher-Boulding position that income risk increases current savings. In contrast to the problem of uncertainty about future income, the accumulated savings or individual capital holdings themselves may be subject to risk. According to them, studies dealt with this problem did not find clear direction for a change in saving behavior. It was found that when the rate of return to saving is uncertain there is first a substitution effect, which tends to reduce saving, but then there is also an income effect, which tends to increase saving. Hence, the total effect of increased capital risk was found to be indeterminate (p. 128).

Haque and Mirakhor (1987a) noted that most of the previous studies were carried out in a two period framework and therefore decided to develop a dynamic model to analyze the consumption and saving behavior under deterministic as well as stochastic framework. Their main aim was to show under what conditions (about risk and return on capital) saving must decline with increased uncertainty about future capital income in a conventional framework. They thought that this would be a contribution to the relevant literature in conventional economics and could be used to establish the implications for an Islamic system. They found that in order for saving to decline when a system moves from a certain world to an uncertain one, the rate of return when risk is present must be no more than the rate of return when risk is absent. The implication for switching to an Islamic was clear; saving can only decline if the rate of return under an interest-free system would be less than the fixed rate of interest. Haque and Mirakhor then made several intuitive points to argue that the average rate of return would be more likely to be higher under a profit and loss sharing system. It was noted by them that as the Islamic system would require investable funds to be utilized by agent-entrepreneurs on a profit-sharing basis, it will effectively remove interest from the cost side leaving both the saver and the entrepreneur becoming residual income earners. As the rates of return to investment are on the average higher than the rate of interest paid on borrowed funds, the rate of return to investable funds may be higher. One can also argue that since the savers' reward will depend on the productivity of the investment undertaken, better quality investment projects, in terms of their rate of return, will be undertaken (p. 138).

Haque and Mirakhor (1987b) was another excellent effort to analyze the impact of profit and loss sharing mechanism on investment. Taking note of the most updated work in conventional economics on issues related to principal-agent problems, they developed three different two period models to analyze the levels of investment under three different scenarios: (a) when both the suppliers (principal) and users (agent) of investable funds know about certain return on investment (b) when both have symmetric

information on uncertain outcome and the activities of the agents, and (c) when the suppliers of funds have relatively less information about the activities of the funds users and uncertain return on investment. They found that for the first case there would be no difference whatsoever between the interest based and the profit sharing system. Both the level of investment and the rate of return to either party would be the same in the two systems. They also found that the effect of an increase in the profit sharing ratio for funds suppliers on investment could be positive or negative depending on the substitution or the income effect (a higher investment means lower consumption in the first period and income effect, but a higher level of second period consumption and a substitution effect).

Siddiqui and Zaman (1989a) also developed a Ricardian type (two periods) corn model to compare the differences in investment and saving in interest and PLS systems with certainty. They found that while saving and investment will be higher in the PLS system compared to the interest system, the PLS system would yield higher rate of return to the funds providers. More interestingly, unlike the interest case, the PLS system was found to be Pareto inefficient as further investment (beyond the equilibrium level and up to the point where marginal productivity becomes 1) would increase the utility level of both lenders and borrowers. However, this could only materialize when the sharing ratio of the lenders determined at the equilibrium level is frozen. This provided an insight that should be useful for Islamic banks when the production and profit levels are known with some certainty; fixing an optimal ratio of profit sharing for different ranges of *mudarabah* or *musharakah* funding (rather than changing the ratio continuously for higher and higher level of investment) may induce the funds users to carry out investment up to the level where rate of return approaches 1 (pp. 17-19).

In the second scenario Haque and Mirakhor found that the PLS system will cause investment to increase (compared to the fixed interest system) as it would be carried out to the point where the marginal productivity of capital becomes 1. First best solution is therefore still possible. The third case was more complex; the principal possessed less information because of un-observability of agent's actions or high cost of monitoring. To solve the problem of non-observability Haque and Mirakhor assume that the principal proposes to link the share of his profit λ with investment I (rather than profit) which is observable. In this case the model reveals that the agent would invest at a level that is higher than the optimal level (the marginal productivity of investment being less than the marginal rate of return in the second period to compensate for the consumption forgone in the first period. Furthermore, the rate of return to the principal thus lower in this case compared to the situation where all actions of the agent were observable. The total profit of the enterprise, however, becomes higher in this case as investment level is higher. Haque and Mirakhor thus concluded that an Islamic financial system would not face market failure due to moral hazard problem on part of the agents. In our opinion, one should have looked at the possibility of lowering λ as an incentive to minimize the moral hazard problem or fixing the level of λ for different range of investment so that a larger demand for fund may not decrease the sharing ratio of fund users. Haque and Mirakhor make a number of suggestions to solve the problem of moral hazard.

Waqar M. Khan's (1987) single period model structured in the conventional domain of theory of contracts and economics of information also concluded that

dishonesty on part of the agents would render Islamic profit and loss sharing system inefficient. They however, insisted that the situation might be different in markets (including financial markets) where contracts are made repeatedly over many periods (pp. 104-05).

3.4 Consequences of PLS system in an Open Economy

Mirakhor and Zaidi (1992) was an attempt to get insights into the working of an open economy without a fixed rate of interest. They constructed a model consisting of three financial and one real capital asset that could be held by domestic investors, domestic government and foreigners. The set of excess demand equations for these assets determines the rates on the assets, given the values of the various exogenous variables. The domestic private sector allocates its wealth between currency, bank deposits, bank equities, and loans. The foreign sector holds deposits in the domestic banking sector and also holds equity capital.²³

The asset-holders demand functions for the four imperfectly substitutable assets are functions of the rates of return that are relevant for the particular sector. It is assumed that the assets are all gross substitutes in the portfolios of each sector, which implies that a rise in the rate on any asset will lead to substitution into that asset out of other assets in the portfolio. It is assumed that banks can borrow from the central bank only on an equity-participation basis and the central bank purchases equity in the banks when it wishes to expand reserves in the system, and vice versa. Therefore, an additional source of funds for the commercial banks is the rate of equity shares to the central bank, and the public also participates in this market. As in the case of investment deposits, the rate of return on equity shares, depends on the overall profit position of banks, so that in contrast to the official discount rate, it is not determined directly by the central bank.²⁴

On the lending side, banks engage in only risk-return sharing mudarabah arrangements with the private sector. Banks are also required to hold a certain proportion, c , of their liabilities to the private and foreign sectors in the form of reserves with the central Bank. The foreign sector holds investment deposits in the banking system and physical capital. The foreign demand for investment deposits is a function of the rate of return on investment deposits, less foreign or world interest rate, and the expected depreciation of the domestic currency. The central bank's liabilities consist of reserves of commercial banks and currency held by the public. The central bank holds equity shares of commercial banks, and the rate of return on these is market determined. The supply of reserves is changed by the central bank through variations in its stock of bank equity shares, which in turn alters the cost of borrowing for the banks.²⁵

Given the assumptions of the model, all three endogenous rates decline in response to an increase in central bank's holding of bank equities. Intuitively, the results can be explained by noting that the increase in central bank's holding of bank equities adds immediately to the supply of funds banks have for lending purposes. As banks seek out more projects for mudarabah financing, they accept projects with lower expected rates

(23) Mirakhor and Zaidi (1992; 402).

(24) *ibid*; pp. 403-04.

(25) *ibid*; p. 404.

of return than previously. The lower earnings of mudarabah financing will be reflected in lower returns on mudarabah deposits. Given the decline in mudarabah deposit rates, there is substitution into the market for physical capital, and the increased demand for capital lowers the required rate of return on capital.²⁶

It needs to be mentioned, however, that because deposit rates are flexible and not controlled by the central bank in Islamic banking, there will be partial offsets to the monetary action. As returns on mudarabah deposits decline, the private sector will not only substitute into physical capital but also into currency, thereby dampening the expansion of bank intermediation. Furthermore, the foreign sector will reduce its holdings of domestic assets, both mudarabah deposits and physical capital, because their rates of return have declined. These offsetting international capital flows will depend on the elasticities of the foreign asset demand functions with respect to the rates of return.²⁷

Thus, the move to greater flexibility in the setting of deposit rates is likely to increase the extent to which capital flows offset monetary policy. But as long as the assets are imperfect substitutes, the offset is only partial. Although the greater flexibility in the rates of return increases the short-run international capital flows offset to monetary policy, this does not at all mean that the adoption of Islamic banking will lead to sustained medium or long-term capital outflows. The model is presented for the purpose of analyzing short-run effects of monetary policy.²⁸

The issue of capital outflow in an increasing global world is extremely important and more studies are needed to understand the consequences of switching to an Islamic profit and loss sharing system. Appropriate policies and instruments will be needed to avoid a situation that could lead to flight of capital from domestic economy, and to thwart such an event by taking appropriate actions as soon as the symptoms for the same are detected.

3.5 Modeling the Case for a 100% Reserve Requirement

Al-Jarhi (1987) took up the issue of the optimal arrangement for fiat money when an economy moves from a barter system to one that is monetized. He developed a complex and rigorous model to see the most efficient way of use of the fiat money. Fiat money, in his model could be issued by the government, private intermediaries or the households. The government could issue the fiat money at a price or as a gift. He found that in a world where only government issued the fiat money, the optimal monetary policy would be to expand the stock of real balances through successively decreasing gifts of means of exchange, always keeping the rate of return on the marginal unit of real fiat money equal to its marginal cost of production. The advantage of this policy was that it allows the stock of real balances to expand to the maximum possible amount without violating the efficiency rules.

(26) *ibid*; p. 405.

(27) *ibid*.

(28) *ibid*; p. 406.

In case private intermediaries are allowed to issue the fiat money along with the government, efficiency would require that a hundred percent reserve ratio as well as marginal cost pricing rule is imposed on the private intermediaries.

Al-Jarhi favored an economy where only government issues money as a gift up to the satiation level as it would eliminate any need for a debt market and saving the resources that would be spent on marketing household fiat assets (p. 72). The associated dead weight loss (of going beyond the efficient level and up to the level of satiation) might be less than the cost involved in alternate situations where government, intermediaries and households are allowed to issue fiat money.²⁹ He admitted that his model did not provide a theoretical support for his preferred solution and that it could be only decided on through empirical evaluation.

Al-Jarhi's chose an excellent topic, developed a model for rigorous analysis and came up with some interesting results. This effort could have been supplemented by a detail analysis of the reasons for the continued existence of debt markets in the real world and how an economy could start to gradually eliminate such markets.

4. The Handling of Profit and Loss Sharing Ratio

It is clear from the deliberation of section 3 that the issue of profit and loss sharing ratio is very crucial for an interest-free Islamic economy. Almost every macroeconomic or monetary model for an Islamic system has depended on its ability to equate the demand or supply of investable funds. However, the complexity of the role of this ratio warranted that it should have been given much more importance. As mentioned in section 3, commenting on Khan and Mirakhor (1989) Professor Zubair Hasan (1991) had emphasized the importance of understanding the differences between a profit and loss sharing system and the one based on interest. He criticized the simple replacement of interest by a rate of return by many Islamic economists and their claim that all monetary policies and the tools used in the conventional system could be more or less used in the same way in an Islamic system.

Zubair Hasan (1985) was an important contribution towards investigating the economics of profit sharing ratio at macro level where chances of overall negative or zero return on investment would be negligible and hence attention could be given on sharing of profits only. He first described the behavior of users and suppliers of funds in an economy where both the interest as well as the PLS systems existed, and then extended his analysis to the situation where funds could be availed or supplied only on a PLS basis. He considered the case of a typical firm that is interested in supplementary funds for business activities. He used following variables for his analysis:

K = total capital employed in a firm's business

K_0 = owners contribution in K (K_0 = equity)

(29) Al-Jarhi suggested that people could be given government fiat money free of cost according to the differences between their current portfolio and the desired one that would optimize their consumption level; not according to their existing possession of wealth which could have distributive implications (pp.49-50).

L = financier's share in K ($K = K_0 + L$)

P = profit measured as gross revenue minus all contractual payments and capital consumption but including interest.

σ^* = financiers' ratio for sharing profit attributable to L

λ = financial leverage (L/K)

σ = proportion of profit going to the financiers ($\sigma = \sigma^* \lambda$)

r = rate of profit on total investment ($r = P/K$)

r_i = rate of interest

r^0 = rate of profit on K_0 under PLS finance

r_0^i = rate of profit on K_0 under interest finance

r_L = rate of profit on Lender PLS finance

α = risk premium fraction

$x = r_0^i$

$y = r^0 - r$

After defining all these variables Hasan derives the equilibrium condition [$\sigma = (\lambda / r) (r_i + \alpha)$] so that financiers and firm would be indifferent between the two systems, ignoring the fact that a decision could be made only on religious ground. Hasan argues that r on one hand and, λ , r_i and α on the other have opposite effects on σ and in a dynamic situation they may neutralize each other's influence such that σ may remain unchanged. Similarly, keeping profit expectations unchanged, σ may move with the net change in λ , r_i and α . Other scenarios are also possible (pp. 19-20). Hasan also looks at the behavior of firm, given a minimum required level of earnings, in deciding about the optimal leverage ratios in different scenarios. He discusses the possible tension between owner and non-owner financiers regarding initial capitalization and subsequent changes. He argues that divergence in sharing ratios could generate destabilizing factors similar to conventional economies albeit at a lower scale. The main lesson that could be learned from his analysis is that the implications of financing under a PLS system are complex and must be understood clearly before developing a macroeconomic model to determine the nature and role of monetary policy under a PLS system.

Hasan also refutes the assertion that a PLS system would collapse when applied in competition with the interest system. He argues that the PLS system has the potential to be favored by both the firms and the financiers as they may both benefit from the system specially in the long run after the teething problems of the new system are resolved. Finally he concludes that

“The difficulty with PLS system is not that its relative usefulness is suspect in principle. Rather it may lie in the area of administrative alertness required for its successful operation” (p. 25).

Bacha (1995) & (1997) raised the issue of moral hazard problem in explaining the dismal use of *mudarabah* financing by Islamic banks. After explaining the differences in financing arrangements under debt, equity and *mudarabah* finance he

presented a numerical example to show that mudarabah financing could be the least preferred mode of financing for financiers (or commercial banks)³⁰. He suggested that in order to control moral hazard problem, in case of a loss in business, the sharing ratio of mudarib should be decreased. Commenting on Bacha's model and the numerical example based on that model Siddiqui (1998) claimed that only when the investment is very small, the share of mudarib should be high compared to that of the rab-ul-mal. For example, suppose A is a rab-ul-mal who wants to invest \$10,000 with B, a mudarib. If the expected total monthly profit is \$1000, B may not be willing to work as a mudarib, if his share of profit, for instance, is less than fifty percent. This would be particularly the case if (a) it is a full time job and the only source of his income and (b) B has an option to work for someone else where he may earn a salary of somewhat less than \$500 a month.³¹

The share of mudarib should be a decreasing function of the total investment made by the rab-ul-mal. Theoretically, mudarib is a person who does not have financial capital but has talent to run a business which the financier lacks or does not have time to carry on the same on his own. Mudarib has an option to work for someone on a fixed salary or to run the business for the rab-ul-mal on a profit sharing basis in which case his return would be zero if there is a loss. The opportunity cost of taking up the second option is the income forgone by not taking a salaried job. The risk involved in the second option requires that the expected earning for the mudarib must be sufficiently higher than his opportunity cost to compensate for the risk involved. This expected earning would be higher, higher the level of investment and higher the expected rate of profit. For example, suppose a mudarib has an offer of a fixed salaried job where he can earn a million dollars in a year. He gets an offer of 10% share in the profit for running a business worth a 100 million dollar which has an expected rate of profit of 12%. His expected earning is equal to 2.4 million which is more than double his fixed salary and perhaps enough to compensate for the risk undertaken if he is a risk averse person. For a risk neutral person the expected rate of earning is equal to a certain earning of the same amount. In that case a 10% profit sharing arrangement would be more than enough to induce the mudarib to take up the challenge. As the amount of investment increases, all other things being unchanged, market mechanism would tend to lower the share for mudarib. Before making a decision, a potential mudarib would always look at the two amounts, his earning in a fixed salaried job and his expected earning in mudarabah arrangement. He will only choose to become a mudarib if he is expected to make relatively higher income in a mudarabah arrangement. Finally, it can be argued that the share of profit assigned to a mudarib would, at least to some extent, also depend on his reputation as an honest and competent person in the relevant field of business.

The example above makes it clear that in a mudarabah arrangement, a mudarib is not necessarily exploited even if his share of profit appears to be lower than that of rab-ul-mal. Moreover, one should not think of rab-ul-mal as one rich person. A typical commercial or investment bank generates funds, among others, through many small

(30) Bacha (1997).

(31) For a risk-averse person, the equivalent of an expected income of \$500 per month is somewhat less than a certain income of \$500 per month. The exact amount would depend on the degree of risk aversion and the probability distribution.

depositors. All these depositors, along with the equity holders of the bank, are rab-ul-mals. Unless a good share of the business goes to the party called rab-ul-mal in a mudarabah arrangement through a financial intermediary, these small depositors would fail to get a reasonable rate of return. One should not forget that in case of a loss these small depositors too have to share the loss. Moreover, even though they are classified as small depositors, in many cases, as a whole they provide bulk of the funds to financial intermediaries as their number far exceeds those who hold big deposits.

It is thus of a great importance that the issue of profit and loss sharing ratio is given its due importance in future modeling. There are two important things to decide about this ratio in the context of an Islamic economy; (a) should there be a single or multiple rates prevailing for mudarabah financing of different volumes, and (b) should it be left to the free markets to be determine its 'equilibrium' value or there should be a general rule for different ranges financing. Our personal opinion is that there should be different rates as this would both encourage an optimal level of investment and also channel the proceeds of the surplus (or deficit) income to its rightful recipients. We also suggest that these rates should be set by an authority consisting of representatives of suppliers and users of investable funds and relevant government agencies. Furthermore, it should be set on a permanent basis and should not be an instrument of manipulation by government agencies. In this regard, it would be interesting to note that the authorities in Pakistan had set an upper limit of 10% of the profits (accruing to the amount supplied by the modaraba certificate holders) as the management fee for the modaraba management companies and has remained at that level since the rules were made in 1981.³² The 10% upper limit was justified as modaraba management companies were not required to contribute a substantial portion of their business outlay, and received 100% profits accruing to whatever little contribution they made from their own sources.

Siddiqi (2006;7) claims that even when mudarabah or other PLS devices are not used by banks on their assets side, the ability of Islamic banks to absorb business shocks will remain valid as long as they apply principles of PLS on the liability end. However, one may like to point out that this would result in bank depositors sharing the brunt of business down turn without necessarily hoping for better returns during high returns on investment during times in the economy. As long as banks keep investing in debt like assets they cannot make high profits in better times in the economy. Asking their depositors to take the brunt of the business losses without giving them the hope that they could earn higher profits in better times would discourage them to continue with Islamic banks.

5. Future Research

As briefly mentioned in the introduction, the need for research related to monetary policy for PALSIB subsided as the focus of Islamic banking moved from profit and loss sharing to what could be justifiably termed as murabaha banking. It is difficult to think about a single most reason for this and the space of this paper does

(32) This point was made by Siddiqui (1998) to criticize Bacha's model which gave 70 % to mudarib when his contribution to the project was only 20% (and the investable fund was not a meager amount).

not allow a detail discussion on this issue. Siddiqui (2007) discusses the need for PALSIB and suggests a strategy for its gradual establishment.

However, in our opinion, the biggest failure was that it was started without a good understanding of the difficult task and without adequate preparation. Furthermore, instead of taking a gradual approach attempts were made to establish full-fledged Islamic banks (and in three cases to transform the entire banking system) from day one. Perhaps it was imposed on them for which they were not well prepared.

On the practical side, the most important issue should have been the solutions for problems of moral hazard and adverse selection. Even a small effort to understand these two problems could have led to the following suggestions:

- Some changes in rules of mudarabah to allow the banks to be involved in business decisions of the mudarib as well to access to any information they deem necessary to ascertain the true profitability and conduct of the mudaribs
- Establishment of speedy banking courts to settle any disputes between the banks and the mudaribs
- Establishment of central shariah board in a every country whose members would be paid by the government rather than individual banks
- Consideration of 100% reserve requirement and central banks becoming an active and the most important depositors of every Islamic bank, apart from being the lenders of last resort supplying any amount of liquidity on zero interest as long as the banks remained prudent and only required liquidity for unfounded threat of a bank run.
- A complete retraining of relevant banking staff leading to creation of mudarib evaluation, project evaluation and business monitoring departments in each Islamic bank
- Establishment of specialized financial institutions under the government (or arrangements made with Islamic commercial banks) for the financing of consumer durables

All this required some homework before launching of Islamic banks. Instead, a new system that was supposed to replace a well entrenched banking system favored by powerful interest groups in the societies was imposed on unwilling and / or unprepared authorities of central banks. A gradual approach could have given sufficient time to move in the desired direction even if the formal establishment of Islamic banks were announced without full preparedness.

In section 3 of this paper we looked at a number of important theoretical works that were published in the last two and a half decades. It is difficult to say to what extent they were able to answer the questions raised in earlier writings that we mentioned in section 2. The fear that Islamic banking system would lead to instability through negative impacts on savings and investment was quite convincingly refuted on theoretical grounds. It was also claimed by some that traditional monetary policies could be easily used to control money supply through

manipulating the profit sharing ratio. In our opinion, none of the theoretical model was sound enough to easily accept this view. The treatment of the nature of the role of profit and loss sharing ratios was far from satisfactory. Moreover, as hardly any Islamic bank really worked on a profit loss sharing basis, empirical verifications of the results of these models are difficult to obtain.

An implicit assumption made by the early proponents of Islamic banking was that as soon as the announcement of the establishment of Islamic banks would be made, the behavior of suppliers and users of funds and bankers would change accordingly. It was not realized that the biggest losers in this new banking system would be the users of the funds who were paying a very low rate of real interest rates in almost all Muslim countries. They included all levels of producers and traders, big and small. How to get them to work with the new rules of the game should be one of the main areas of future research.

Finally, although there is a need for continued research in future to resolve unanswered questions, academic involvement in this area cannot be revived unless there are signs of a genuine interest to establish PALSIB in some part of the Muslim world. For the moment, the direction of contemporary Islamic banking appears to be somewhere else.

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تقييم الأبحاث المتعلقة بالسياسة والاستقرار المالي لنظام الاقتصاد الإسلامي

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المستخلص: لقد مثل اقتراح استبدال النظام المصرفي القائم على الفائدة بنظام بنكي قائم على الربح والخسارة (PLS) واحدة من أهم الوجوه البارزة في عملية "أسلمة" النظم الاقتصادية المعاصرة، فمع نهاية السبعينيات أصبح لمفهوم البنك الإسلامي شعبية كبيرة. في المقابل تطلب هذا الوضع ضرورة القيام بأبحاث تحليلية معمقة لانعكاسات تطبيق هذا النظام على مستويات الادخار، والاستثمار، واستقرار الاقتصاد ثم السياسة المالية. تحاول هذه الورقة القيام بتقييم نقدي لبعض النماذج النظرية التي قدمت في هذا الحقل لمحاولة الوقوف على مساوئ القلق المختلفة.

لقد لوحظ خلال هذه الفترة أنه على الرغم من بقاء العديد من الأسئلة من غير إجابة، إلا أن الأبحاث المتعلقة بهذا الجانب قد قلّت نظراً لعدم اعتماد البنوك الإسلامية على آلية الربح والخسارة في أدواتها المالية بدرجة تتطلب تغييراً معتبراً في السياسة المالية وأدواتها، وفي الختام تقدم الورقة باختصار بعض التأمّلات حول أسباب هذه الوضعية مع تقديم توصيات للأبحاث في المستقبل.

CREDIT CREATION AND CONTROL: AN UNRESOLVED ISSUE IN ISLAMIC BANKING

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Abstract. This paper deals with a still unresolved issue - credit creation and control - in an interest free banking system. The available literature on the subject is scanty, controversial and inconclusive. The paper holds that credit creation per se is not un-Islamic; the essential point is how credit is generated and used. It argues that credit creation cannot be banished; it is an imperative for frictionless adjustment of money supply to unavoidable fluctuations in its demand in modern economies. It seeks to correct the misunderstanding in the literature that banks create credit ex nihilo. Demand for money apart, fiscal policies and foreign exchange transaction erode the credit controlling power of the central banks. The paper blames major difficulties including those of credit creation and control on the evolution of Islamic banking on the same pattern as its mainstream counterpart and suggests some structural modifications. Finally, it finds the conventional weapons of credit control inefficacious for use in an interest free banking system and suggests the inclusion of a ratio of cash to bank advances among them. The paper has some important technical and policy implications.

1. INTRODUCTION

Commercial banks are essentially dealers in credit. Interest is the price that guides them in making business decision. They were initially started as institutions for meeting the short term credit requirements of trade industry and commerce and it remains their primary function even today¹. In view of that requirement, the legal framework never put restrictions on the credit creation power of these banks. However, legislation did require the central bank of each country to oversee and control that power so that it may not be used to the detriment of social well-being.

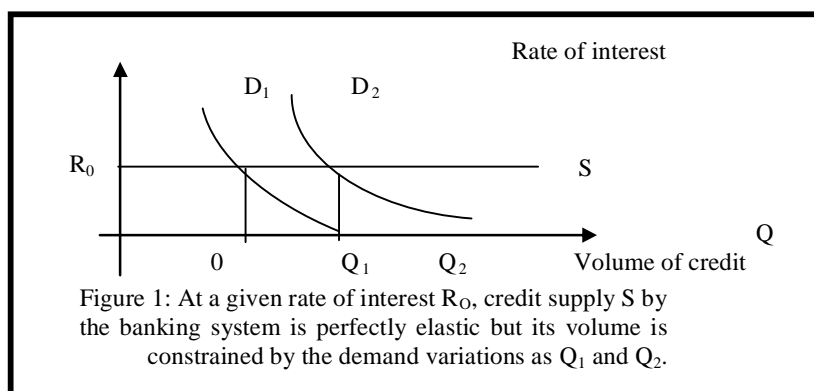
Islamic banks were conceived of to be organized on the same structural pattern as conventional banks. The use of interest alone was to be eliminated from their operations (Siddiqi, 1983). The choice unwittingly became source of much confusion at the

(1) It may well be argued that over time the structure and functions of conventional banks have undergone radical changes. We are living in an era of *universal banking* where banks now combine various sort of functions – deposit taking, investment, mortgage, leasing, units etc. under a unitary control. Islamic banks can also follow suit. The argument is ill-conceived. Conventional banks took centuries to evolve from commercial into universal sort of banking. Most Islamic banks are yet in their infancy. They in general lack experience, skills and expertise as well as resources to short circuit the process. More than that, universal banking has not obliterated the issue of credit creation and control. Rather, it has made the issue all the more complicated. Credit management still remains the primary function of central banks, worrisome too.

conceptual level and led the progress of these banks in some wrong directions (Hasan 2005, 22). In Islamic banking the abolition of interest, the insistence on sharing business risks with the owners, the longer lock-in of investment funds and the social responsibilities the system is supposed to shoulder raise some ticklish issues that its structural constraints could rarely help resolve.

The misdoing raises many puzzling questions relating to credit creation. Can Islamic banks in the first place create credit like the conventional banks to enhance their earnings? If yes, what must replace interest as *price* for the funds they would provide to their customers? How would the central bank put, if need be, a tab on their credit creation activities from a social viewpoint? Shall it be using the same weapons for the purpose in their case also as it has been using in the case of conventional banks, or it will have to modify them in some way? What amendments, if any, the current regulations will require? The literature on Islamic banking does show awareness of such sort of issues; in fact, they were amply debated during the 1980s. But the discussion created more confusion than light and remained agonizingly inconclusive. To our knowledge, it has since seldom been reopened for discussion.

We believe that Islamic economists must look at the issue of credit creation and control afresh in a more definitive way and this paper is intended to set the ball rolling. After attending to some preliminaries, we shall look at the question of credit creation from two angles that seem to have escaped the attention of the learned. First, we find that there has been an uncalled for alarm about the possible misuse by the banks of the credit creation power they enjoy. True, this power of the system as a whole is vast, but one must not ignore the constraints that put a tab on it in practice. The alarm has been overdone because the demand side of the credit market has almost completely been ignored in the discussions on the subject. Credit is not a free gift of nature; it has a cost, even in an interest free Islamic system. Cost apart, the legal environment for banking in a country also impacts the volume of credit the system can create (Hoshi 2006, 2). It follows that the power to create credit the banks carry does not imply that they could use that power to generate any amount of lending they wish unless there is a corresponding demand for the same. Given the rate of interest, conventional banks together *have* power to keep the supply of credit perfectly elastic, but what amount of it would actually be generated depends on the demand side of the market as Figure 1 shows.



The opinion by default seems to be that the Islamic banks can also create credit in the same manner as conventional banks. Thus, it is pertinent to ask – and this is our second point -- what instruments the central banks could use for controlling credit creation in the case of Islamic banks. The objectives, credit creation modes, nature of advances; and security cover demands in Islamic banking would all be much different from those of conventional banks. The matter becomes all the more serious if countries allow, as in Malaysia, the opening of Islamic windows in conventional banks. How would a central bank apportion total credit created between the Islamic and non-Islamic operations in this sort of mixed banking? Can there be a blanket application of rules or they must differ?²

The paper is divided into six Sections including the introduction. In Section 2 we shall attend to some preliminaries concerning credit forms and its various sources. Section 3 presents an overview of the literature for evaluating the current position of credit creation issues. In fact; it has been a bewildering experience. Concepts have been vague, definitions infirm and arguments rarely convincing. Any theoretical edifice was rarely raised; empirical evidence seldom presented. To save time and space, we shall discuss broad positions taken rather than comment on individual contributions. In Section 4, we shall explain briefly the theory and process of credit creation with reference to its domestic and foreign bases of expansion. Section 5 discusses if Islamic banks could create credit and if yes what credit control measures the central bank can use in their case. Here we may propose some structural reforms for Islamic banking and argue for a dualistic credit control mechanism. Section 6 summarizes the argument of the paper and contains some residual remarks.

2. CREDIT: DEFINITION SIGNIFICANCE AND SOURCES

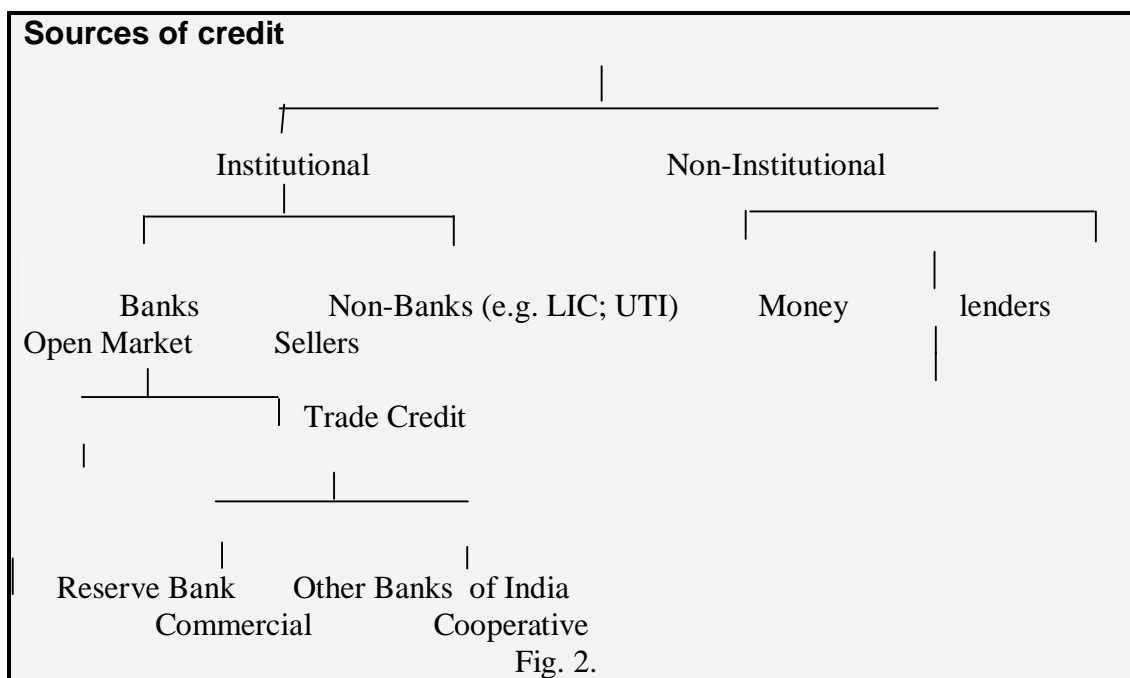
We may define the term credit in a broad or narrow sense. In broad terms, credit is finance made available by one party – lender, seller, or shareholder / owner – to another party – borrower, buyer, or a business firm. The former could be a pure lender – a financial institution or a private money lender, a seller / supplier of goods on the promise of the buyer to make payment in future, or a shareholder / owner of a firm making funds available to the firm recognized as a separate entity.

More commonly, the term credit is used in a narrow sense that is only for debt finance. Credit is simply the opposite of debt; both are created instantly by the *same* contract. It is a special sort of exchange transaction involving future payments, interest added to debt as its time value. It is this view of credit that lies at the heart of modern commercial banking. The abolition of interest must make such transactions non-existent in an Islamic financial system. Amazingly, the abolition of interest and the remaining features of commercial banking were assumed to harmonize!

(2) No such distinction is being presently made in Malaysia, and Bank Negara applies the same rules uniformly to credit creation by all banks, Islamic or non-Islamic. Presumably, this is so because credit generated by the Islamic banks is still a drop in the ocean. Central banks will surely face a challenge as and when the share of Islamic banks in the pie assumes significance. Will it not be advisable to foresee the inevitable and prepare for pre-empting the oncoming challenge?

Credit must not be confused with money. Their nature and role in an economy differ. Money may be issued by the government or the central bank of a country and serves as a legal tender and unit of account for payments. It consists of notes and coins which together are called cash or *currency*. Money is an asset of the holding public but it is a liability of the banks (or the government). In contrast, credit is a liability of the borrowing public (or the government) but an asset of the banks. The public keeps part of their cash holdings as demand deposits in the banks. We shall see that bank help multiply cash deposits manifolds through their credit creation activities. Such deposits work as *bank or credit money*.

But what is the need if at all for creating credit (money) some Islamic economists ask? Here is the answer. The volume of currency and its growth is determined by the volume of exchange work in an economy. But demand for money work in an economy usually has a *seasonal* pattern. For example, in South Asian countries agriculture accounts for the major portion of national output and the sector needs relatively larger amount of money for transactions at the harvesting time. Likewise, demand for woollens, umbrellas, festival items and so on is also seasonal in character. Changes in the currency volume of a country have to follow legal formalities and cannot be adjusted readily to short-term seasonal variations in money demand. In contrast, credit money, we shall see, can be as easily destroyed as it can be created. It is this flexibility of credit that lends commercial banks so much significance in modern societies. Islamic banking has yet to provide an alternative for meeting the seasonal money demand. The issue is important because seasonal factor in financing is a characteristic of the *running* businesses while Islamic finance is generally conceived as geared to self liquidating one-off projects.



Credit is provided in an economy also by sources other than banks. These sources vary from country to country in form, price, and allocation. To illustrate, in India at present Figure 2 provides their broad classification. All these sources of credit taken as

a whole constitute the *financial system* of an economy. The end users of credit the system creates may also vary much across nations, but they in general include consumers and producers in various sectors of the economy at home and abroad. Here we shall be dealing only with the creation of credit by commercial banks rather than its users. Notice that Figure 2 also reflects indirectly that credit creation is not entirely independent of the overall financing environment of a country.

3. LITERATURE OVERVIEW³

Trade industry and commerce have three sorts of capital requirements with reference to time. (i) long-term investment needed for acquiring basic infrastructural assets including land, buildings, plant and machinery that usually last for a number of years and determine the production capacity of a firm. (ii) Medium-term requirements that relate to fixtures and furniture, lighting arrangements, communications and the like which may not need replacement for a few years, and (iii) money needed to hold inventories comprising raw materials, spares and stores, work in progress, and finished goods for short periods of 3-4 months to ensure smooth running of business.

The relative proportions of funds to meet these requirements vary with the nature of business. However, financial capitalization principles suggest that in general requirement (i) and a major part of (ii) must be financed by equity in the first place but can be supplemented by long-term debt, if unavoidable. The remaining part of (ii) plus (iii) constitute the working capital of a firm for which it may resort to debt financing. Commercial banks – their structure, modus operandi, and legal framework – were all geared to meet the *working capital* needs of the expanding business firms⁴.

Islamic economists could not see the roots of commercial banking lying in the short-term financial requirements of business. The abolition of interest was inevitable, but it raised the issue of pricing bank finance to help meet a firm's financial needs. The attempt to provide an answer led to the premise that Islam allows financing of business only on a participatory basis. In support, the 'no risk no gain' rule was paraded as the guiding star of Islamic finance.⁵ Participatory finance could take one of the two forms: *musharikah* or *mudarabah*. The first was akin to equity financing where profit and loss between the parties could be shared in the same ratio as their contributions to the equity of the firm. *Mudarabah* was preferable as it had romance. Here, the profit sharing ratio for the financier would necessarily be smaller than his loss sharing ratio; the magnitude of divergence depending on negotiation between the parties (Hasan 1985, 15).

In that was seen the solution to the pricing issue: the sharing of profit ratio for the financier could take the place of interest. In fact, diagrams and macro-models were

(3) The position on credit creation and control in the mainstream literature is well-known and going over it here would be an unfruitful digression. This Section, therefore concentrates on explaining the position in the literature on Islamic banking.

(4) After 1950s profit rates in general ran much higher than the rates of interest in most economies and business firms increasingly went for short-term bank finance to meet even their long term financial requirements. Excessive use of leverage fuelled profits and business expectations. That created bubble economies which came to grief sooner than later with the collapse of businesses and the setting in of recessions.

(5) For a refutation of this exclusion principle see Hasan (2005)

produced replacing interest rate with the sharing ratio to arrive at the equilibrium positions. It was not realized that profit sharing ratio was not a price of funds like the rate of interest; it indicated the part of profit going to the financier even as it could impact the demand and supply of funds under certain assumptions (Hasan 1985, 16-21). The end consequence of this all is that today around 90% of business in Islamic banks is in terms of fixed return transactions, participatory finance - the much esteemed form - constituting just the tail of the elephant in the system (Hasan 2005, 12-13).

The structural mismatch led to confusion in Islamic banking concerning the deposit forms and the reserve requirements to safeguard customer interests. Following the conventional pattern, the scholars had to classify deposits in Islamic banks too into demand deposits and time deposits. But it was seldom realized that even time deposits of these banks could not be for periods as long as investment in a *running* business normally demanded. Consequently, *mudarabah* instrument could be employed mainly to finance piecemeal projects. This factor combined with others led to the failure of *mudarabah* to emerge as a tool of Islamic finance (Hasan 2002).

Discussions on reserve requirements contain mostly arbitrary suggestions: any thing between 5 to 100 percent that hit one's imagination. We are not sure if central banks even today make a distinction between the Islamic and conventional banks on the point. Doubtless, such a distinction has wide ranging implications and might invoke much debate and controversy. But one has to cross the bridge when one has reached it. We can no longer have an ostrich like approach to the issue.

Another problem one comes across in the literature on credit creation is the treatment of the term *seigniorage*. The literary meaning of the word is any claim by the sovereign or a feudal lord as his prerogative in relation to society. In the history of money, it referred to the percentage share of the crown in the bullion people brought to the royal mint to get converted into coins. Now-a-days the term is applied to *all* money, including banks credit.⁶ Until the world went off the gold standard, the issue of currency notes was in some way backed by the yellow metal but today it is backed only by the government and other securities. Economists now treat as *seigniorage* the interest a central bank earns on securities against the issue of notes. It is refunded to the Treasury as a central bank is government agent and the profit on its operations belongs to the government (Economic Research Council 1981, 3).

(6) Such application of the term is a bit intriguing, for people can neither take paper to the central bank to get printed the notes they would use nor do they pay for their printing.

Economists have long been arguing that the credit creation power of the banks is a societal asset and the profit they earn because of it must be shared with the Treasury to promote common good. They even propose that the mechanism of credit creation should be re-examined to see if it can be made the sole prerogative of the state so that the seigniorage it generates becomes available for public purposes⁷. Islamic economists subscribe to the mainstream position. In fact, the concern on the point seems to be growing for the reason that in recent decades the volume of financial transactions in modern economies expanded at a much faster pace than the expansion of real output. Notice that the volume of money involved in just spot transactions in the foreign exchange markets is estimated at more than 70 times of world expenditure on real goods and services. There has been a phenomenal rise in speculation-related transactions which have little to do with the real sectors of economies. We know that it is bank credit that primarily fuels speculative activities⁸. No data is presently available on the credit creation activities of Islamic banks, if they were (at all) indulging in such activities.

4. CREDIT CREATION PROCESS

How do banks create credit? We have already made a distinction between (i) currency or legal tender money and (ii) bank credit or money. The two together constitute the M_1 version of money supply. The relationship between them lies at the heart of the credit creation process the commercial banks follow. The volume of (i) in an economy serves as the *base* for generating (ii). Part of the base money always remains *inside* the central bank while the remaining part of it is held *outside* by the public⁹. People deposit a part of the *outside* money with them in commercial banks as demand or time deposits. Together they constitute the *cash* deposits of the bank. A portion of deposits, say 10%, the banks have to keep with them as statutory reserve to meet the daily withdrawal needs of the depositors; the remaining they can lend on interest. However, the sum loaned is credited to the account of the borrower. Thus, loans generate what we call *credit* deposits. These loans and deposits appear one for the other as contra entry in the bank balance sheets. The banks make no distinction between the two sorts of deposits – cash or credit – in their lending operations. For any deposit of 100 they must have 10 in reserve. To illustrate, if a bank has 100 as cash deposit, at 10% the amount can serve well to support an inverted pyramid of deposits worth 1000: 100 cash + 900 credit. However, when central bank issues new currency adding to base money the estimation

(7) We reproduce below from the Economic Research Council Report (1981, 3) what Abraham Lincoln so cogently summarized as the principle on credit creation.

“Government possessing the power to create and issue currency and credit and enjoying the right to withdraw both currency and credit from circulation through taxation and otherwise, need not and should not borrow capital at interest as a means of financing Governmental work and public enterprise. The Government should create, issue and circulate currency and credit needed to satisfy the spending power of the Government and the buying power of the consumers of the consumers. The privilege of creating and issuing money is not only the supreme prerogative of the Government, but it is the Government’s greatest creative opportunity.”

(U. S Senate Document No. 23)

(8) It is estimated that one trillion US dollars go round the world stock markets every twenty four hours

(9) The classification of currency into outside and inside money is of recent origin and some economists have found it a useful explanatory tool in their discussion of the credit creation process of commercial banks.

of credit creation does not remain so straight forward. The formula for estimating the credit creation potential of the system incorporating the relevant factors then is as under.

$$M = \frac{I}{R + C - RC} \quad \text{where both } R \text{ and } C \text{ are less than one but more than zero}$$

Here, M is the value of the *credit deposit* multiplier, R is the ratio of deposits the banks are required to maintain as reserve with the central bank and C is the proportion of money the public desires to keep with them as currency¹⁰. Since R and C are both less than 1, their product will be smaller than either of them. Thus, the denominator will always be positive and less than 1. M being the reciprocal of a positive fraction is more than one. It will vary inversely with changes in R or C ¹¹. The assumptions of the model are: (i) there is no increase in the demand of the public for currency such that the reserves available to banks are reduced and (ii) the banks do not hold any excess reserves. To illustrate, if $R = 20\%$ and $C = 25\%$, M will be 2.5.

Notice that the model is independent of the new issue amount. It can help a central bank to predict the effects of open market operations impacting C or a change in reserve requirements R on the money stock of the economy if (i) it is able to control the monetary base and (ii) the behavior of the public and the banks were predictable. It is difficult to meet these requirements; they limit the credit controlling power of the central bank.

The stock of money in an economy does not depend solely on what a central bank does. It also depends on the behavior of interest rates; the relationship between them and the coefficients R and C of the multiplier model can hardly be predicted or measured. Furthermore, the fiscal policies of a country and its balance of payments position are significant sources affecting the monetary stock. Let us have a brief look at these additional sources of base money expansion in an economy.

1. Fiscal policy and currency volume

Base money or cash in modern economies is created mainly by the central bank of a country, the amount being decided in agreement with the Treasury and is formally subject to a degree of Parliamentary control. Under monarchy or dictatorship this control is often more than formal. The issue of notes was in the beginning duly backed by holdings of gold, but now it is backed largely by securities of the government. New issues of currency are a source of finance for the central government of a country for covering budget deficits. Deficit financing may be used to boost economic development

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- (10) Suppose the central bank increases the base money supply by 100 units; the public keeps 20% cash with them and deposits 80 with the banks. The banks do not want to hold any surpluses except meeting the central bank reserve requirement of say 20%. Thus they have additional base money equal to 72. At 20% reserve requirement this can support $72 \times 5 = 360$ as deposit (cash 80 + credit 280). Putting the ratios in the formula we have $M = 2.8$ (approx.) Now, 100 (increase in base money) $\times 2.8 = 280$ is the credit deposit. Thus, *citrus paribus* the formula is verified.
- (11) If an individual bank creates credit at a faster rate than other banks in the system, it will soon find itself losing its base money (cash) to them in the clearing house. The loss will make it fall in line with the behavior of the system. Each individual bank is tied like a balloon with a string to a group of them. It cannot run away from them more than the length of the string: the cash it has. But the bunch virtually has no limit to soar in the skies.

but it may also be abused for instance to cover inefficiency or unproductive expenditure as on wars. In any case, it expands the credit creation base and may fuel inflationary pressures in the economy.

New notes issued against government securities entail only printing and management costs to the central bank. This cost is a tiny fraction of the interest the bank receives on the face value of securities held. Note issuing is indeed a highly profitable activity. However, a central bank being a public institution, the profit as hinted earlier, goes to the government and is spent for promoting the social good.¹²

2. Exchange rate and base money linkage

Exchange rate stability is one of the important monetary policy goals; more so, in countries like Malaysia, where foreign trade works as the engine of growth. The authorities maintain a foreign currencies' reserve to buy or sell domestic currency for foreign money to achieve the objective. If imports exceed exports more of domestic currency losses in value against foreign money exchange rate tends to rise. To arrest the depreciation of the local currency the authorities buy it for foreign money in the exchange market. The volume of base money in circulation is reduced and contraction of credit must take place. On the other hand, when exports exceed imports the Ringgit is climbing up. For preserving the rate, authorities have to sell it in the market for dollars. Base money increases in circulation allowing credit expansion.

It follows from the above discussion that the central bank cannot determine the monetary base exogenously and the credit multiplier models like the one discussed above do not *completely* specify the factors operating on the money supply unless the rates of interest and exchange rates are left entirely to market forces for their determination. Evidently this is not possible for a variety of reasons.

5. ISLAMIC BANKS: CREDIT CREATION AND CONTROL

We may begin with a broad summary of what we have learned from discussion in the preceding Sections. It may help clear some of the cobwebs to have a clearer view of the issues involved. Briefly, we may take note of the following facts

1. Commercial banking is essentially trading in money to meet short-term financial needs of trade industry and commerce. Credit creation is an imperative to meet these needs and adjust money supply to seasonal variations in demand. It was inappropriate to adopt the model for interest free Islamic financing. We have to see how this flaw can be remedied.
2. The conventional banking system has vast power to create credit; yet this power has limits; the demand side constraints cannot be overlooked. Currency or base money is the foundation on which the superstructure of credit is raised. Banks do not

(12) For example, the budget support to the government from the interest on securities paid by the Bank of England during the seventies averaged to 130 million pound sterling a year. (Estimate based on Economic Research Council Report 1981, Table 13, p.33) The total cost to society eventually was no more than money spent on the printing and management of notes and securities involved in public borrowings from the central bank.

manufacture currency and they cannot create credit *ex nihilo*. Rising budgetary deficits, often fuelled by wars and expanding foreign currency trading have become sources of base money proliferation. Increasing undercapitalization of businesses and speculative demand for money has tempted the banks to expand credit often beyond the limits of safety. Banks alone cannot be blamed for the scenario.

3. Profits from credit creation are huge relative to costs. It is a legitimate demand that society must have a claim on them. How or how much is the issue. Islamic economists have to search for an answer.
4. The central banks have powers and instruments to control creation of credit by banks. However, it has limitations and does not always have the desired results. If Islamic banks are to create credit what techniques of credit control can be used in their case?

Let us begin with the observation that the term Islamic banking is a misnomer for Islamic banks cannot do and are not doing all what is the lifeblood of modern commercial banking. The adoption of that nomenclature unthinkingly committed us to the paraphernalia intrinsic to the system and printed its image on the common minds. Thus, instead of building something original rooted in Islamic ethos, we spend and shall be spending our energies in patchwork seeking modification here, and submitting as *facility* there. The result is that in Islamic banking we tend to bank more on the mainstream and less on Islam. The legal framework, regulatory norms, benchmarking, rating norms, transaction forms, and instrument structures all derive their basics from the mainstream.

One consequence is that conventional banks had to be allowed the opening of Islamic windows. Shari'ah scholars tell us that the money deposited in the 'windows' is kept and accounted for separately; it can be used only in approved ways. May be, but is it not like claiming that if a clean stream joins a mighty polluted river, its water can safely be kept separate and pure? Presumably, Islamic banking shall eventually be run by the mainstream bankers and we shall learn from them what is Islamic and what is not.

We shall turn to the issue of structural modification later Demolition of the present organizational setup may not be expedient; it will rather expand. For that reason, credit creation and control remains a significant but unresolved issue for Islamic banking. Islamic banking today is in fact thriving on credit financing in the form of deferred payment transactions. But can they generate, if they are not doing so far¹³, *credit* deposits in the same way as explained earlier? The question requires a categorical answer with reasons. If the answer is in the negative, scholars must explain how the *temporary* expansion and contraction in money supply can smoothly take place in a bigger picture when Islamic banking will be a force to reckon with in an economy? Islamic bankers will have to demonstrate its feasibility.

(13) To my knowledge, Islamic banks are not generating credit deposits and some Shari'ah experts sitting the Advisory Boards of Islamic banks including windows inform me that there are specific instructions to the management that advances unlinked to *real goods* are prohibited. If it were the case, compliance with Shari'ah norms of credit to be denied for purely speculative purposes is ensured. See also n. 14.

It seems to us that the answer must be a positive one if we are running a *banking* system and that too in competition with the mainstream commercial banks. Presumably, there could in principle be little Shari'ah objection to multiple credit creation by the banks. The banks' contract with the depositors gives the latter right to withdraw their money as per the terms agreed upon between the parties. So long as the banks fulfill their part of the contract and put money to Shari'ah compliant uses, no one can insist that they keep a 100% reserve for deposits. The point at issue is not credit creation *per se* but how the deposit money – currency or credit – is used¹⁴. This may well be decided by the Shari'ah scholars.

If the above argument were acceptable, the next question must concern the control of credit creation by the central banks. The usual methods – bank rate policy, open market operations, variation of reserve ratios, quality control and moral suasion are well known. Their explanation need not detain us here. Since interest is prohibited in Islam the use of bank rate policy as a tool is out of question. Earlier Islamic economists had suggested the sharing of profit ratio to take its place. It was and remains a naïve proposal. Interest is a price for loan able funds which profit sharing ratio is not. Such ratios can sparingly be attached to government securities available for open market operations making this instrument also unusable for Islamic banks. Above all, the underlying assumption of profit sharing ratio was that participatory financing will be dominant – some innocuously thought exclusive – form the Islamic banks would use. Experience has long belied that hope. Fixed return instruments have been overdone in Islamic banking and finance.¹⁵

It comes about that the credit control measures for the mainstream and Islamic banks cannot entirely be the same. This raises the question: Can the existing legal framework of central banks be amended to incorporate a separate set of rules applicable to Islamic banks and if yes in what way? Or we take out Islamic banks from the purview of the central banks and credit creation and control be dealt with in the Islamic Banking Acts. The matter is to be considered on the assumption rather realistic that in Muslim countries Islamic banking is going to be the dominant component of the financial system. The second alternative looks rewarding.

In any case, the correction of the structural misdoing is an imperative for the Islamic financial system to meet the long-term requirements of trade industry and commerce. To advocate universal banking for Muslim countries looks premature in

(14) Take the case of a mainstream commercial bank having an Islamic window. Assume that the window has a cash deposit of 1000 and the credit multiplier M is 9. The bank can have a total deposit of 10,000 cash plus credit. Why should a Shari'ah advisor stop it and if he wants how he can? The bank can always show him the accounts with 1000 cash deposits in the window remaining untouched. Why cannot an exclusive Islamic bank do the same?

(15) Not a few, including the present writer, have questioned the efficacy of this development. Taken Individually, these instruments may be shown as rooted in the Shari'ah but their en mass use today is probably violative of its *maqasid* (objectives). What may look conducive at the micro level could be damaging at the macro level. One should not behave like a frog in the well instead of seeing the bigger picture. Permissibility cannot override the overall spirit of the Islamic law.

view of their current levels of economic development and knowledge status.¹⁶ Promotion of specialized interest free financial institutions like investment houses, unit trusts, refinance companies, housing societies, mortgage banks, cooperative societies and so on seems to be the answer. One may notice some movement in that direction but its being the consequence of a declared policy plank is yet to emerge. A blue print in each country suited to local conditions and needs has to be prepared.

6. CONCLUDING REMARKS

Islamic banking must harmonize not only in form with the Shari'ah but also with its intention and spirit. The current practice of Islamic banking leaves much of concern on this score. A major issue is of credit creation and control which is vital for the future development of Islamic banking along the right course. Creation of credit money has become an imperative not only for smooth running of trade industry and commerce but for fiscal requirements as well.

It is easy to see that there can hardly be any Islamic objection to the act of credit money creation per se. How and in what quantities such money is generated is the crux of the issue. The conventional instruments the central banks use have serious limitations within their own frame work; they are additionally deficient to deliver in an interest free economic system. One way to overcome the deficiencies of the central banks in controlling credit can be the fixing of a maximum ratio between currency and advances made subject to periodic review.¹⁷ This can be all the more effective in an interest free system. The central banks then can oversee if the banking system is observing the norm.

Finally, one must take a long-run view of the matter when interest free financing must be the leader not the follower of conventional forms. This view demands consequential structural modifications in Islamic banking as it operates today. There is need to add more specialized long-term financial instruments and institutions to the existing ones in planned manner.

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(16) The aggregate GNP of Muslim countries despite oil boom and recent economic upsurge in some remains less than that of France and their scientific output falls short that of a tiny nation Switzerland.

(17) In the past it has been usual to limit credit expansion by fixing a ratio of deposits to a base defined in terms of cash or reserves. The suggestion is a modification of this practice as the point of concern is neither money nor deposits; it is 'advances'. See Economic Research Council Report (1981, 41).

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"توليد" ومراقبة الائتمان: إشكال عالق لدى المصارف الإسلامية

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المستخلص: تتناول هذه الورقة مسألة عالقة لدى المصارف القائمة على غير أساس الفائدة؛ إنها مسألة "توليد" ومراقبة الائتمان، فالكتابات المتوفرة في الموضوع هزيلة ومثيرة للجدل وغير مقنعة. تنطلق الورقة في تناولها لهذه المسألة من تقرير أن عملية "توليد" الائتمان في ذاتها لا تخالف الشريعة؛ لأن النقطة الهامة في الموضوع هي كيف تتم عملية التوليد هذه وكيف يستخدم الائتمان. وتمضي الورقة لتحتاج أن عملية التوليد لا يمكن نفيها؛ لأنها ضرورية لتعديل المعروض النقدي الذي يستجيب لطلب نقدي شديد التقلبات في الاقتصاد المعاصر. إن الورقة تسعى لتصحيح المفهوم الخاطئ القائل بأن البنوك تقوم بعملية توليد للائتمان من لا شيء، لأنه ما عدا الطلب على النقود فإن السياسة الجبائية وعمليات النقد الأجنبي تحد من قدرة المصارف المركزية من مراقبة عملية الائتمان.

إن الورقة توجه اللوم في التوصل لهذا الفهم الخاطئ إلى الصعوبات البالغة بما فيها عملية توليد ومراقبة النقود التي رافقت تطور البنوك الإسلامية بنفس النمط الذي تطورت به نظيرتها التقليدية، وبناء عليه تقدم الورقة مقترحات ببعض التعديلات الهيكلية المطلوبة.

وأخيراً خلصت الورقة إلى أن استخدام الوسائل التقليدية لمراقبة الائتمان في نظام مصرفي خال من الفائدة عديمة الجدوى والمفعول، ولهذا فقد تم اقتراح استخدام النسبة التي تفرضها البنوك على المبالغ المقدمة فيما بينها. إن الورقة تحتوي على بعض الآثار التقنية والإجرائية الهامة.

Methods and Methodologies in *Fiqh* and Islamic Economics

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Abstract. This paper intends to examine the methods of reasoning that are employed in *Fiqh* and critically discuss their adoption in Islamic economics. The paper argues that the methods used in *Fiqh* are mainly designed to find out whether or not a certain act is permissible or prohibited. Islamic economics, on the other hand, is a social science. Like any other social science its proper unit of analysis is the society itself. Methodologies of *Fiqh* and Islamic economics also differ as the former focuses on prescriptions. It prescribes what an individual should do or avoid. In contrast, Islamic economics is more concerned with describing economic phenomena. While *Fiqh*, especially worship (*Ibadat*) type, prescriptions are permanent in nature and for all individuals, economic descriptions may change from time to time and from society to another. This paper argues that the methods of reasoning for discovering the truth in *fiqh* and Islamic economics are not necessarily identical. While *fiqh* has a well developed methodology in the form of *usul al-fiqh*, Islamic economics in its search for finding the truth should rely on a methodology that suits its social and descriptive nature.

Introduction

This paper begins with a discussion on methods and methodologies. It explains how the adoption of different standards for the acceptability of certain evidence can lead to differences in approaches and methodologies. It also discusses that various disciplines have different units of analysis or objects of inquiries. This calls for different methods of reasoning. The paper examines the legal methods of reasoning in Islamic jurisprudence (*usul al-fiqh*) and discusses their application to group-related issues and economics. It next argues that Islamic economics should rely on a methodology and methods of reasoning that would best suit its social and descriptive nature.

A Methodological Discourse

A method is defined as a systematic arrangement and order of thoughts. It refers to a certain structure of reasoning such as induction or deduction or research techniques or tools used to gather data such as observation, case studies, or surveys. A method is a mode, a procedure or a way of investigation according to a defined and regular plan. It teaches us how to arrange thoughts, propositions, and arguments for the investigation or exposition of a truth. A methodology, on the other hand, is the philosophy of a research. It determines the approach taken by a researcher towards understanding certain phenomena. It also sets standards for the acceptability of evidence and determines the role of reason in the investigation. Methodology as a science deals with the methods and

their application in a particular field. It is concerned with the suitability of the methods and techniques of reasoning employed in a certain investigation.⁽¹⁾

Reason alone is not an independent source of knowledge. One of its great weaknesses is its subjectivity. A methodology by providing standards for the acceptability of evidence and a set of methods releases reason from subjectivity and personal inclinations. This results to some extent in objectivity and predictability. Scholars and researchers in a certain field who use the same methodology would come to similar conclusion on a certain issue.

The adoption of different standards for the acceptability of evidence can result in differences on methodologies and may influence the choice of methods. The main difference between Islamic and secular methodologies lies in their recognition of certain evidences. While the former accords supremacy to revelation and accepts it as a source of knowledge; the latter recognises empiricism as supreme. While Islamic methodology recognises a limited role for empiricism, secular methodology totally denies the role of revelation in discovering and explaining the truth.

A researcher's choice of methods and methodology may also be influenced by the basic unit of analysis in a certain research. Disciplines differ from each other in their basic units of analysis. A unit of analysis means whether a certain research problem calls for the study of the physical nature, legal rules, behaviours, an individual or a group. The type of units of analysis can subsequently influence the choice of methods, and the formulation of research problem. For instance, the physical nature consists of objects that have no volition of their own and cannot make choices. They are governed by certain preordained laws. The role of human reason is to discover these laws through observation, experimentation, induction, deduction and other scientific methods which are mostly aimed to produce descriptive analyses.

In contrast, humans are different from the objects in the physical nature. They have been given a limited free will and can make their own preferred choices. Humans are also subject to rules and regulations. These rules and regulations about human conduct fall within the realm of laws. These laws are either man-made or of divine origin. While man-made law is derived from customs and conventions or made by a legislature, Islamic law (*fiqh*) has its own unique sources based on revelation. The role of human reason is to extend the normative statements given in the *Quran* and the *Sunnah* to new cases through the process of *ijtihad*. The legal methodology adopted for this purpose is different from the scientific methodology. In legal methodology the role of reason is to extend the law prescribed for humans to new cases, while in scientific methodology the role of reason is to discover the laws ordained for the nature through observation and experience. The methods of reasoning adopted for the study of human nature and behaviour could be different from the methods of reasoning in physical sciences. Human nature is also different from other physical phenomena. Physical phenomena are consistently subject to the rules of physical sciences. In contrast human nature can be

(1) See *The Compact Oxford English Dictionary*, 2nd ed. (Oxford: Clarendon Press, 1991). See also *Webster's New Twentieth Century Dictionary Unabridged*, 2nd ed. (New York: Prentice Hall Press, 1983); *Oxford English Dictionary of Historical Principles*, 5th ed. (Oxford: Oxford University Press, 2002).

changed by education, family upbringing, economic, and social factors or controlled by self restraint.⁽²⁾

A human group or collectivity is a totally different unit of analysis. Human groups or collectivities are not subject to the laws that govern nature. The law of the nature once discovered is consistently applicable to a certain physical phenomena. A group comprises many individual members with diversified and various choices and preferences. This results in the existence of numerous variables which militates against consistency. Similarly, a group should not be treated like an individual. An individual is held responsible for his actions and omissions. He is therefore the only proper subject for the enforcement of the law. For instance, an individual could be prosecuted for offences, or sued for civil liabilities. In contrast responsibility cannot be assigned to a group collectively neither in this world nor in the Hereafter. Human groups and societies cannot be prosecuted as a group in a court of law, imprisoned, punished, or declared bankrupt collectively. The commands and prohibitions addressed to an individual are meant to be permanent. In contrast, group-related decisions are not about command and prohibitions. They are temporary decisions which may differ from a society to another, from a situation to another, and from time to time. A human group or collectivity is the proper subject of research for the social sciences.

***Fiqh* as a Legal System**

Literally, *fiqh* means to understand and to have the knowledge of something. Technically *fiqh* is the knowledge of the derived practical legal rules as acquired from their particular sources.⁽³⁾ During the time of the Prophet (pbuh), the term *fiqh* was not applied in the legal sense alone but carried a wider meaning covering the whole of religion. For instance the *Quran* states: “That they may gain understanding (*liyatafaqqaho*) of the religion” (9: 122). The Prophet is also reported to have blessed Ibn Abas saying: “O God give him understanding (*Faqqihho*) in religion”. Both, the *Quranic* verse and the *Hadith* mean a deeper understanding of the religion and not only knowledge of the legal rules. However, later the science of *fiqh* got a more specialised meaning, which became synonymous with law and legal matters. Thus, *fiqh* as understood today includes various branches of legal rules on transactions, family matters, offences, and matters related to worship (*‘ibadat*).

Both the *Quran* and the *Sunnah* provide normative statements on what an individual Muslim ought to do or avoid. These detailed rules and regulations about an individual’s conduct and his rights, and obligations form the subject matter of *fiqh*. The basic units of analysis in the discipline of *fiqh* are the normative statements of the *Quran* and the *Hadith* on human conduct and his rights and obligations. Subsequently, the early jurists focused on those rulings of the *Quran* and *Sunnah* that concerned with the actions, rights, and obligations of an individual Muslim. The verses of the *Quran* that contained these rulings were termed as *ayaat al-ahkam*. A *Shari’ah* ruling (*hukm Shar’i*) was

(2) The fact that so many *Quranic* verses and *ahadith* refer to the subject of *akhlaq* shows that human nature can be changed and controlled. The Prophet (pbuh) is reported to have stated that he has been sent to complete the most beautiful *akhlaq*.

(3) See Subhi Mahmasani, *The Philosophy of Jurisprudence in Islam*, translated by Farhat J. Zaidah (Kuala Lumpur: The Open Press, 2000) p. 8.

defined as a communication from the Lawgiver concerning the conduct of the *mukallaf* which consists of a demand, an option or an enactment.⁽⁴⁾ A *mukallaf* refers to an individual who is in full possession of his faculties. Based on this the acts of a Muslim individual would fall within the five categories of obligatory (*wajib*), recommended (*mandub*), permissible (*mubah*), abominable (*makruh*) and prohibited (*haram*).⁽⁵⁾ The Sunnah of the Prophet is defined to include his sayings, acts, and tacit enactments where the emphasis was more on legal *sunnah* (*sunnah tashri'iyyah*). .

Islamic Jurisprudence (*Usul al-Fiqh*)

With the spread and expansion of Islam to new territories came unprecedented issues that demanded answers. In order to avoid legal chaos, these answers had to be provided with reference to the *Quran*, *Sunnah*, the practice of the companions and reason (*ra'i*). In the words of Iqbal “systematic legal thought became an absolute necessity.”⁽⁶⁾ Differences however emerged. These differences were initially geographical where the people of traditions (*ahl al-hadith*) were based in Medina while the people of reason (*ahl al-ra'i*) were centred in Kufah. Later, however they found as their chief representatives Imam Malik in Medina and Imam Abu Hanifah in Kufah. It is possible to attribute the early disagreements between the people of traditions (*ahl al-hadith*) and the people of reason (*ahl al-ra'i*) and the subsequent emergence of various *fiqh* schools to their differences of methodologies. This could be seen in the different standards that they adopted for the acceptability of *hadith* and in particular solitary (*ahad*) *hadith*. They also differed on the extent to which reason could be allowed to play a role in determining matters of Shari'ah as far as legal (*fiqh*) issues were concerned. These subsequently influenced their choice of methods. While all schools agreed on analogy (*qiyas*), they differed over other methods. Imam Shafi'i who initially tried to bridge the gap between the two methodologies could not condone the Hanafis excessive use of reason and in particular their juristic preference (*istihsan*) as it permitted unlimited use of reasoning. His methodology is therefore closely identified with those of the people of traditions (*ahl al-hadith*).⁽⁷⁾ However, the methodologies adopted by all the *fiqh* schools have a common ground. They have all made reason subservient to revelation. The difference however, was in the degree.

The methodology that was subsequently developed through the efforts of Muslim jurists is called *usul al-fiqh* which best suits the nature and requirements of *fiqh* as a legal system. It represents a joint venture between revelation and reason where the latter is always subservient to the former. The role of human reason is to extend the normative statements of the *Quran* and the *Sunnah* to new legal issues or to provide answers to new

(4) Mohammad Hashim Kamali, *Principles of Islamic Jurisprudence*, 2nd revised ed.(Kuala Lumpur: Ilmiah Publishers, 1989) p.321.

(5) The Hanafis have classified human conduct into seven categories of obligatory (*fardh*), lesser obligatory (*wajib*), recommended (*mandub*), permissible (*mubah*), disapproved (*makruh tanzih*), reprehensible (*makruh tahrimi*), and prohibited (*haram*).

(6) Allama Muhammad Iqbal, *The Reconstruction of Religious Thought in Islam* (New Delhi: Adam Publishers and Distributors, 2004), p. 118.

(7) For a discussion see *Al-Shafi'i's Risala: Treatise on the Foundations of Islamic jurisprudence*, translated into English by Majid Khadduri, (Cambridge: The Islamic Text Society, 1987), pp. 28-40. See also Taha Jabir al-Alwani, *Usul al-Fiqh al-Islami*, (Herndon: The International Institute of Islamic Thought, 1990), pp. 33-7.

legal problems through the process of *ijtihad*. *Usul al-fiqh* is concerned with the sources of the *Shari'ah*, the rules of interpretation and the methods of reasoning. These methods of reasoning include analogy (*qiyas*), consensus of opinions (*ijma'*), juristic preference (*istihsan*), undefined interest (*maslahah al-mursalah*), blocking the means (*sadd al-dharai'*), presumption of continuity (*istishab*) and customs (*'urf*). The exercise of *ijtihad* through these various methods of reasoning produced immense wealth of legal rules. However, the bulk of these rulings were concerned with the conduct of the individual *mukallaf*.

Consequently, the methods of reasoning used in *usul al-fiqh* are also more individually oriented. *Ijma'*, for instance, is defined as consensus of Muslim jurists upon a matter of Islamic law (*hukm shar'i*).⁽⁸⁾ All non-legal matters such as matters related to war, or matters concerning the management of peoples' affairs (*tadbir umur ra'yah*) are excluded from the scope of *ijma'*.⁽⁹⁾ Analogical deduction (*qiyas*) is defined as the extension of a *Shari'ah* value from an original case (*asl*) to a new case because the latter has the same effective cause (*'illah*) as the former. The *hukm* that is extended to the new case must be with regard to practical matters. It must be a legal rule that pertain to the law. A certain rule that does not fall within the ambit of *fiqh* cannot be extended to new issues through *qiyas*. *Istihsan* as a method of reasoning relies on *qiyas* which was initially introduced by the *Hanafi* School and later adopted by the other Schools of *fiqh*. *Istihsan* was applied to cases where a decision based on *qiyas* would produce hardship to the people. As a result a Muslim jurist will set aside *qiyas* and give preference to another evidence that may remove hardships.⁽¹⁰⁾ *Maslahah* literally means benefit. Technically, *maslahah mursalah* refers to a consideration which is proper and harmonious with the objectives of the *Shari'ah*; it secures a benefit or prevents a harm; and the *Shari'ah* provides no indication as to its validity or otherwise.⁽¹¹⁾ *Sadd al-dharai'* is defined as blocking the means to an expected evil which is likely to materialise if the means towards it is not obstructed.⁽¹²⁾ Based on this method the means itself even if permissible would be declared prohibited if it leads to an evil or prohibition.

***Usul al-Fiqh* and Group-related Issues**

Usul al-fiqh as a methodology is aimed to arrive at normative statements that conform to the principles of *Quran* and *Sunnah*. These normative rulings are made by jurists through the process of *ijtihad* and bind each and every member of the society. A widely used method of reasoning is analogy (*qiyas*) which is almost universally accepted by all *fiqh* schools. *Qiyas* or deductive reasoning is reasoning from the principle. It extends a certain rule of the *Quran* and the *Sunnah* to a new case where the latter has the same effective cause (*'illah*). While referring to *qiyas*, iqbal observes: "The School of Abu Hanifa tended to ignore the creative freedom and arbitrariness of

(8) Wahbah Zuhaili, *Usul al-Fiqh al-Islami*, vol. 1 (Damascus: Dar al-fikr 1998), p. 491.

(9) *Ibid*, p. 536.

(10) See Mohammad Hashim Kamali, *Principles of Islamic Jurisprudence*, pp. 245-266. See also Imran Ahsan Khan Nyazee, *Islamic jurisprudence* (Islamabad: international Institute of Islamic Thought, 2000) pp. 230-2.

(11) See Mohammad Hashim Kamali, *Principles of Islamic Jurisprudence*, p. 267.

(12) Kamali, *Principles of Islamic Jurisprudence*, p. 310.

life, and hoped to build a logically perfect legal system on the lines of pure reason.⁽¹³⁾ These creative freedom and arbitrariness of life is even more evident in social sciences in general and economics in particular than in the legal system of Islam. The existence of numerous variables and factors influencing social and economic phenomena and the changing nature of social and economic realities militate against formulating permanent laws similar to those of *fiqh*.

A case at point is the practice of the Prophet (pbuh) to confiscate the lands of those tribes who fought the Muslims and did not surrender peacefully. The use of analogy (*qiyas*) would lead to the confiscation of any land where the inhabitants put up a fight and do not surrender peacefully. This reason (*'illah*) to confiscate the land was present when Iraq was conquered. However, against the opinions of the companions who insisted to follow the practice of the Prophet (pbuh), 'Umar (ra) refused to distribute the massive territories of Iraq among the Arab soldiers. Fazlur Rahman argues that Caliph 'Umar's refusal to distribute massive territories one after another among the soldiers "was motivated by fundamental considerations of socio-economic justice".⁽¹⁴⁾ He also argues that the Prophet (pbuh) "was acting within a restricted milieu of tribes" and his practice cannot be carried on "where vast territories and whole peoples are involved; otherwise you violate the very principles of justice for which the prophet had been fighting all his life".⁽¹⁵⁾ The reason why Caliph 'Umar departed from an established practice was his deep insight to distinguish between a rule of the Prophet (pbuh) that concern groups and a rule that is addressed to an individual. A ruling concerning a group may change from a situation to a situation. A mere mechanical comparison of one situation with another and the application of a *Sunnah* intended for the former to the latter would lead to rigidity and sometimes unfair decisions. Converting a ruling of the Prophet which was initially meant for a group and intended as a policy statement into a legal rule intended for all the times to come and apply that to all subsequent similar cases may go against the higher objectives of the *Shari'ah*.

Another example could be the distribution of *zakat* fund to the eight recipient groups (*asnaf*). Majority of the Muslim jurists are of the opinion that authorities are not bound to distribute the *zakat* fund equally among the eight recipient groups. Some of the groups may receive a higher percentage than others. They also argue that this is a policy issue left to the authorities to decide whether *zakat* fund should go to some recipient groups such as the poor and the needy to the exclusion of others. Thus, the distribution aspect of *zakat* is not governed by *fiqh* rules and is entirely left to the Muslim authorities to decide as this concerns issues related to groups. Similarly, the issue of how *zakat* affects the distribution of wealth across classes and groups could not be addressed by the methods of reasoning in *usul al-fiqh*. In contrast, the basic principles concerning the amount of *nisab*, the duration of *hawl*, the rate of *zakat* are laid down by *fiqh* as *zakat* is an obligation on an individual. *Fiqh* methods of reasoning such as *qiyas* are used to extend the rule of *zakat* to rented houses and salaries. These are issues that cannot be left to authorities for their decision.

(13) Iqbal, *The Reconstruction of Religious Thought in Islam*, p. 140.

(14) Fazlur Rahman, "Social Change and Early Sunnah", P.K. Roy, ed. *Hadith and Sunnah: Ideals and Realities*, (Kuala Lumpur: Islamic Book Trust, 1996), 220-232, p. 224.

(15) *Ibid*, italics in the origin.

Besides analogy (*qiyas*) another method of *usul al-fiqh* that may not suitably be applied to group issues is consensus of juristic opinion (*ijma*). *Ijma* according to the majority opinion represents a juristic consensus on a legal (*fiqhi*) issue. An *ijma* is also binding on subsequent generations. Consultation (*shura*) could be the right method for matters that affect groups and collectivities. It represents the deliberation and decisions of experts in a certain field other than the law (*fiqh*). These decisions may not be followed in subsequent similar situations. In *shura* the overriding principle is the consideration of public interest.

In contrast *maslahah* also called *istislah* is more suitable as a method to introduce policies for the general public rather than a law for the individual. Even the examples of *maslahah* given in *fiqh* books are not purely legal but are related to governmental decisions, policies and administrative issues. These include issuing currencies, establishing prisons, waging war on those tribes who refused to pay *zakat*, and imposing *zakat* on the wealthy when public treasury runs out of fund. These are measures aimed to secure a certain public benefit (*maslahah*). Similarly, *sadd al-dharai* has a great potential to be used to block the means to a certain public harm (*mafsadah*) or to open the means to a certain public beneficence (*maslahah*). For instance, when Hudhayfa one of Caliph Umar's officials in Madain married a Jewish woman the Caliph ordered him to divorce his wife. In reply to Hudhayfa who wrote to the Caliph arguing for the validity of the marriage the Caliph wrote that this example might be followed by others who might be lured by the beauty of the women of *ahl al-dhimmah*.⁽¹⁶⁾ It however, has to be noted that the jurists from both the Hanafi and Shafi'i Schools had observations regarding the suitability of *maslahah al-mursalah* and *sadd al-dharai* as independent proofs in *usul al-fiqh*. The opponents of *maslahah* argued that the use of *maslahah* would result in the application of *haram* and *halal* in some places or to some persons and not to others. Al-Shafi'i approves of *maslahah* only within the general scope of *qiyas* while Abu Hanifa recognises it as a variety of *istihsan*.⁽¹⁷⁾ The *Hanafi* and *Shafi'i* jurists also did not recognise *sadd al-dharai* as a principle of jurisprudence in its own right. They argue that the necessary ruling regarding the means can be derived by recourse to other principles such as *qiyas* and *istihsan*.⁽¹⁸⁾

The methods of reasoning in *usul al-fiqh* could be defined as reasoning from the principles prescribed in the text i.e. the *Quran* and the *Sunnah*. These methods enable a jurist to arrive at a normative statement and extend it to new cases. The methods of reasoning in economics could be described as reasoning from experience and observation. These methods of reasoning produce descriptive hypotheses or assumptions that suggest a certain relationship between economic variables or discover a certain economic reality.⁽¹⁹⁾ For instance, the methods of reasoning in *fiqh* are not meant to discover or explain the effects of prices on behaviours, the law of supply and demand or to tell us how markets behave in a certain given situation. These methods of reasoning can explain that what should be supplied and what should be demanded or what an individual should do or refrain. In contrast methods of reasoning in economics

(16) Kamali, *Principles of Islamic Jurisprudence*, p. 313.

(17) *Ibid.*, p. 278.

(18) *Ibid.*, p. 314.

(19) See Muhammad Anas Zarqa, "Islamization of Economics: The Concept and Methodology", *Journal of King Abdul Aziz University; Islamic Economics*, Vol. 16, No. 1, pp. 3-42, at pp. 22-23.

are not designed to decide on the permissibility or prohibition of acts or things. For instance, it is not possible to decide whether or not *tawarruq* or *bay' al-einah* are permissible through observation, market research, case studies, questionnaires, interviews, or surveys. These are purely legal issues and should be decided with reference to legal methods of reasoning of analogy (*qiyas*) or blocking the means (*sad al-dharai*).

Economics as a Descriptive and Social Science

Economic theories and principles are descriptive hypothesis and assumptions that explain economic realities. A descriptive statement or a statement of a fact is a statement of what is. It is a statement that describes a specific reality or a certain relationship between variables. They are arrived at based on the observation of economic phenomena and realities in a certain society and the assumptions about human economic behaviours. They involve numerous variables which defy permanence and always demand a new investigation and approach. For instance, data-based research of economic crises and conditions is descriptive. This can only reveal the situational character of the discipline. There exist so many variables that make it difficult if not impossible for economic researches to be of any predictive value. In contrast the rules of *fiqh* are normative statements. A normative statement is a statement of value that expresses an attitude towards what should be. It expresses a preference. It is not concerned with describing scientific or economic realities.⁽²⁰⁾

Economics is a social science. It is concerned with policy issues that affect groups or collectivities. Policy decisions related to collectivities involve numerous variables that defy permanence and always demand revision. They are not legal rulings. A legal rule by its very nature is addressed to an individual. It establishes on a permanent basis whether a certain act is recommended (*wajib*) or forbidden (*haram*). While economic policies are not about obligation or prohibition. They are mainly based on factual realities and are intended to achieve certain results. Economic policies may therefore differ from time to time and from a society to a society. However, an Islamic economic policy should always endeavour to achieve the objectives of the Shari'ah.

Economics is not the study of one individual's behaviour but how an aggregate of them would behave in a certain given economic context. Since it is difficult to predict how groups of people would behave, due to the existence of numerous variables and preferences, the study therefore is focused on human nature. Certain assumptions about rational human who is motivated by self-interest are used to formulate certain economic theories and hypotheses. These theories and hypotheses are used to predict how groups of humans would make their decisions with regard to scarce resources.

Among the most important economic assumptions that have widespread implications for the premises and theories of this discipline are those that relate to human's natural dispositions and motives as they are and not as they ought to be. Economic assumptions and theories cannot be built on human behaviour as they ought to be. Such an attempt assumes the observance and internalisation of *fiqh* rules and ethics by each and every

(20) *Ibid*, p.6.

individual of a certain group. The problem with this assumption is that individuals differ with each other as far as the observance and implementation of *fiqh* and ethics are concerned. *Fiqh* rules and ethics are extraneous forces that impose certain restraints on human behaviour. The influence of these extraneous forces differs from an individual to an individual. It is therefore always safe to base assumptions on the human nature and find out how, not an individual, but a group of them would behave in a certain given economic context. For instance, Caliph Umer (ra) refused to distribute Iraqi land among the soldiers on the ground that if Arab soldiers became land settlers they would cease to be fighters. He argued based on human nature that if a person settles and busies himself with the land he is more likely to abandon jihad as a result the cause of religion may suffer. We should not forget that among the soldiers were the companions and the successors. This policy was made with reference to human nature as it is and not as it ought to be. It is therefore argued that the issue that how groups of humans ought to behave should be addressed by economic policies. Islamic economic policies should be designed in a way that would ensure people's compliance with the Shari'ah principles. Thus, the difference between secular and Islamic economics is in the design and implementation of economic policies.

Sources and Methods of Reasoning in Islamic Economics

1. The Holy Quran

The first source for the knowledge of Islamic economics is the *Quran* as is also the case with *fiqh*. However, unlike *fiqh* which focuses on *Quranic* verses that confer rights or impose obligations on individuals (*ayat al-ahkam*), Islamic economics should focus on those verses that contain descriptive statements on human nature. Similarly descriptive statements of the *Quran* on economic phenomena and verses concerning groups or collectivities fall within the ambit of Islamic economics.

The Quran has many descriptive statements on human nature. These include, for instance, verse 33: 72 which states that man "has always been prone to be most wicked, most foolish", verses 42:27 which links human transgression to affluence and richness, verses 4: 32, 20: 131 that explains the covetous nature of man which desires what others have and thereby his vulnerability to be influenced by external social and economic factors.⁽²¹⁾ Humans by nature love wealth. Verses 3: 14-15 describes man's love of wealth and verse 100: 8 states that "verily, to the love of wealth is he most ardently devoted". Islam therefore, does not condemn seeking wealth but instead introduced certain guidelines within which wealth can be earned and spent. We may also refer to verse 2: 30 where the angels while referring to man's *khilafah* on earth said that men would "spread corruption thereon (*mai ufsidu feeha*) and shed blood".⁽²²⁾ The fact that

(21) *Ibid*, pp. 14-15.

(22) Muslim commentators have advanced different arguments as to the source of angels' knowledge about men's these two destructive qualities. There are arguments that angels' knowledge was based on inference which they came to by comparing Adam (as) with the jinn who had inhabited the earth prior to man, caused corruption and shed blood thereon. There are also arguments that the angels were informed by Allah (swt) and that the *Quraan*, while discussing the events of the creation, because of brevity, did not mention this part of the conversation between Allah (swt) and the angels. See Imam Fakhr al-Din al-Razi, *al-Tafsir al-Kabir*, 3rd edition, (Beruit: Dar al-Marifah, n.d), vol. 1, pp.169-170; Abdullah Muhammad ibn Ahmad, al-Ansari al-Qurtabi, *al-Jami-ul-Ahkam-ul-Quran*, (Qairo: Dar-al-Shu'b, n.d.) p. 235; Abi Ja'far Muhammad ibn Jarir al-Tabari, *Jamiu'al - Bayan an*

God did not reject their claim but merely said that, “verily, I know that which you do not know” shows that man by nature is prone to cause disorder (*fasad*).⁽²³⁾ These descriptive statements of the Quran on human nature fall outside the scope of fiqh.

The *Quran* also has descriptive statements on certain economic phenomena. For instance, verse 43: 32 states: “But is it they who distribute thy Sustainer’s grace? [Nay, as] it is We who distribute their means of livelihood among them in the life of this world, and raise some of them by degrees above others, to the end that they might avail themselves of one another’s help”. This verse describes the differences in wealth, talents, physical and mental capacities and other potentials among people. It also explains the reason for the existence of these differences as they enable humans to make use of each other and in the process meet each other’s economic needs.

The *Quran* also has descriptive statements on groups or collectivities. These statements are wider in scope and application than the normative statements of the Quran or *Sunnah*. While the latter are only applicable to Muslim individuals the former are equally applicable to both Muslim and non-Muslim collectivities. For instance, verses 2; 251 and 22: 40 states: “were it not that God repels (*daf’a*) some people by means of others, corruption (*fasad*) would surely overwhelm the earth”. The word *daf’a* used in both verses literally means repelling⁽²⁴⁾ and convey the meaning of checking and defending.⁽²⁵⁾ This, it is argued, is a descriptive statement concerning human groups and not its individual members. The *Quran* in these verses describes that in order to restrain groups of people from doing injustice to each other the law of mutual check and balance applies. Some Muslim commentators are of the view that these verses refer to two groups of people one standing for justice, peace, and order (*islah*) and the other representing the forces that are for oppression, war, and disorder (*fasad*). They subsequently argue that if the forces that are for justice and order (*islah*) do not check those that stand for injustice, then disorder (*fasad*) will prevail on earth. From this they conclude that if Muslims do not check and repel the non-Muslims the outcome will be disorder (*fasad*) on earth.⁽²⁶⁾ This interpretation, however, means that when Muslims are powerless the forces that stand for disorder (*fasad*) could not be countered. This necessarily means that this rule (*sunnah*) of Allah (swt) with regard to human societies would not be operational. Furthermore, this interpretation has unnecessarily restricted the wider implications of these verses. The Quran in these verses refers to one of the laws (*sunnah*) of Allah (swt) whereby He empowers groups of people to counter each other’s aggression and keep each other, through mutual checking and repelling, in a

Ta’wel Ai al-Quran, vol. 1, (Beruit: Dar al – Ma’rifah, n.d.) pp.157-160; Abi al-Fazl Shahabuddm al-Syed Mahmood al-Aloosi al-Baghdadi, *Rooh al-Ma’ani*, vol. 1, (Beruit: Dar-al-Fiqir, n.d.) p. 222; Muhammad ibn Ali ibn Muharnmad al-Shawkani, *Fathol-Qadeer*, (Beirut Dar-al-Fiqir, 1973) 3rd ed. vol. 1, p. 63.

(23) See Fazlur Rahman, *Major Themes of the Quraan* (Kuala Lumpur: Islamic Book Trust, 1999) p. 17-18.

(24) See Edward William Lane, *Arabic-English Lexicon*, (Lahore, Islamic Book Centre, 1982) Book 1, p.890.

(25) See Muhammad Asad, *The Message of the Quran*, and Abdullah Yusuf Ali, *The Meaning of the Holy Quran*, respectively.

(26) See for example, Razi, Qurtabi, Shawkani, Tabari, see also Abi al- Qasim Mahmood ibn Umar al-Zamakhshari, *al-Kaskaf* (Beirut Dar al - marifah, n.d.) p. 382 and Jalal al-Din al-Suiti, *Tafsir al- dor a-Manthur fi Tafsir al-Mathur* (Beirut: Dar al Fiqir, 1993) pp. 764-9. See also Muhammad al-Tahir ibn Ashore, *Tafsir al Tahrir wa al-Tanweer* (Libya: al-Dar al-Tunisyyah lil Nashr, n.d.) pp. 500-3; Muhammad Husain Fadhlullah, *Min Wahy al-Quran* (Beirut Dar al-zahra, 1983) pp. 220-21.

state of balance. This will act as a natural deterrence which restrains collectivities from aggression. It may cover a situation where the forces that are for justice and order (*islah*) check other forces that stand for injustice and disorder (*fasad*). However, it may also equally cover situations when two equally oppressive or evil powers or two groups which are equally just may find themselves, because of their conflict of interests in the complex world of politics and economics, in a position to restrain and check each other. It is this mutual checking by different political and economic forces that curbs disorder (*fasad*) and keeps various groups and powers in a state of equilibrium (*islah*). In contrast, it is the absence of mutual repelling and checking by different human groups that can lead to disorder (*fasad*). This concept of mutual check and balance could also be extended to markets. For a market to be in a state of equilibrium there should be competitions among the various market forces. Competitions prevent monopoly of any one force and ultimately bring about equilibrium (*islah*) to the market. A competitive market represents a state of equilibrium and determines a fair price which should not be disturbed by unnecessary interferences.

2. *Sunnah* of the Prophet (pbuh)

The second source for the knowledge of Islamic economics is the hadith of the Prophet (pbuh). The division of *Sunnah* into legal (*sunnah tashri'iyyah*) and non-legal *sunnah* (*sunnah ghayr tashri'iyyah*) has provided a useful guidance in order to distinguish between a *hadith* which provides a basis for a *fiqh* rulings and a *hadith* which does not.⁽²⁷⁾ Among the non-legal *Sunnah* are also the rulings which originate from the Prophet (pbuh) in his capacity as imam or head of the state such allocation and expenditure of public funds, decisions pertaining to military strategy and war, appointment of state officials, distribution of booty, signing of treaties, and etc which legal rules cannot be derived. This type of *Sunnah* does not entitle individuals to any right, nor oblige them unless a decree to that effect is given by a lawful authority.⁽²⁸⁾

A situational treatment of the Prophet (pbuh) of certain group issues should not be taken as a definite, rigid, and defined rule meant for all times and all situations to come. Instead we should focus on what the Prophet intended to achieve.⁽²⁹⁾ The *hadith* related to groups that concerned socio-political and economic issues should be understood to have meant to prevent a certain public harm and to acquire a certain public interest. The spirit of these types of *hadith* which is the prevention of public harm (*mafsadah*) and the acquisition of public interest should be pursued. However, the means used to prevent a public harm or to achieve a public interest may differ. These are related to policy matters which could best be dealt with by the concerned leadership through the process of consultation (*shura*). It is therefore argued that a distinction should be made between a decision made on a question of law and a decision made on a question of policy. Group related decisions were meant to acquire a certain public interest (*maslahah*) and prevent certain harm (*mafsadah*) the consequences of which were not necessarily limited to an individual but affected a certain group or the society as a whole. These

(27) Mohammad Hashim Kamali, *Principles of Islamic Jurisprudence*, p. 51.

(28) *Ibid*, p. 56 where the implication of the hadith "whoever reclaims barren land becomes its owner" is discussed.

(29) For a discussion see Fazlur Rahman, "The Living Sunnah and Al-sunnah Wal jama'ah" P.K. Roy, ed. *Hadith and Sunnah: Ideals and Realities*, (Kuala Lumpur: Islamic Book Trust, 1996) 129-189, p. 147-8.

decisions concerned policy issues and were not intended to become permanent legal rules.

This argument is further supported by the practice of the Prophet (pbuh). There were complaints that the prices of certain items were high and people requested the Prophet (pbuh) to fix the prices. He replied: “Allah is the one who fixes price, who withholds, who gives lavishly, and who provides, and I hope that when I meet Him, none of you would have a claim against me for any injustice with regard to blood or property”.⁽³⁰⁾ A proper way is to identify a public harm that the *hadith* intended to prevent and not the application of *qiyas*. The *hadith* indicates that prices are determined by forces which are beyond human control. That the forces of supply and demand and competitions among maximising agents propel market towards equilibrium and determine a fair price for commodities, goods, and labour. It also indicates that price determination by the state (*tas'eer*) or any other state interference that disturbs the normal market conditions and equilibrium is harmful. However, this equilibrium could be disturbed, for instance, by hoarding, meeting the rider on his way to the market (*talaqqi al-rukban*),⁽³¹⁾ monopolies, underselling, and collusion among otherwise competitive firms. These practices allow market players to manipulate prices and introduce a degree of artificiality into the market. They act as hindrances to the natural functioning of the market, distort the existing equilibrium and fail markets. Interference therefore is necessitated in order to stop interferences and restore the balance in the market. In this way it is argued the true meaning and spirit of the *hadith* is upheld. Muslim jurists have also accepted the possibility of interference in the market in these situations under the doctrine of necessity and public interest. Indeed the institution of *hisbah*⁽³²⁾ was established to prevent these hindrances to the natural functioning of the market. The *muhtasib* was responsible to supervise markets and common morals. Among his duties were to check irregularities and to ensure that market players were in the right track and did not indulge in malpractices.

1. Readings of Economic Phenomena

The *Quran* and *Sunnah*, as was discussed, constitute two principal sources for Islamic economics. This could also be classified as reading from the text. The other source for Islamic economics is the reading of economic phenomena. It would enable a researcher to study a certain economic phenomena and discover the relationships between variables. This will help to discover the reality as it is. The tools for reading economic phenomena include observation, experience, inductive reasoning, surveys, questionnaires, interviews, market research, statistical methods, quantitative research

(30) Reported by Ahmad, Abu Daoud, al-Tirmidhi, Ibn Majah, al-Dari, and Abu- Ya'la. See also Yusuf al-Qaradawi, *The Lawful and the Prohibited in Islam*, translated by Kamal El-Helbawy (Kuala Lumpur: Islamic Book Trust, 1995) p. 255.

(31) It refers to a practice where a caravan would be stopped on their way to the city market and telling them that prices there are low, with the design to purchase their goods themselves at the lowest possible price. See Yassine Essid, *A Critique of the Origins of Islamic Economic Thought*, (Leiden: E. J. Brill, 1995) p. 156.

(32) The history of the institution of *hisbah* goes back to the time of the Prophet pbuh. It remained in existence throughout the greater part of the Muslim world until the beginning of the twentieth century. The officer in charge of the *hisbah* was called *muhtasib*. For a discussion see Abdul Azim Islahi, *Economic Concepts of Ibn Taimiyah*, (Leicester: The Islamic Foundation, 1988) pp. 186-191.

and other methods and techniques of economic analyses developed by conventional economics. This is a different type of *ijtihad* where human mind guided by revelation is applied to the study of economic phenomena.

2. The Objectives of the *Shari'ah*

While studying the descriptive economic realities of the society a Muslim economist should be guided by the objectives of the *Shari'ah* and propose policies that would achieve them. The objectives of the *Shari'ah* in particular when they are group-oriented and not individually focused provide valuable intellectual foundation for the subsequent development of Islamic economic thoughts. One of the principal objectives of the *Shari'ah* is the prevention of *fasad*. The word *fasad* which has been mentioned almost fifty times in the Quran has a wide range of meanings. It signifies “a state of disorder, or disturbance, or of destruction, annihilation, waste, or ruin”.⁽³³⁾ It also connotes mischief, corruption, exploitation, wrong, and all forms of injustice, mismanagement, anarchy, and chaos.⁽³⁴⁾ *Fasad* is the opposite of *islah*. *Islah* is derived from the root word *salaha* which literally means good, incorrupt, sound, right or a proper state, or in a state of order.⁽³⁵⁾ *Islah* refers to a state of equilibrium where things are in a proper order and balance. Muslim jurists have also used the word evil (*sharr*) and harm (*dharar*) as synonymous with *mafsadah*. Ibn Ashur argues that numerous textual proofs confirm the fact that removal of corruption (*dar' al-mafasid*) and the acquisition of good (*jalb al-masalih*) is “the overall objective of the *Shari'ah*”⁽³⁶⁾ and the “fundamental universal rule of the *Shariah*”.⁽³⁷⁾ Muslim jurists are of the opinion that any measure that prevents a *mafsada* is in line with the objectives of the *Shari'ah* even if the latter does not provide any indication as to its validity or otherwise provided however, that it should not turn a prohibited act into a permissible one and vice versa.⁽³⁸⁾

In order to prevent a public harm or evil (*mafsadah 'aammah*) the Muslim economists should emphasise on *Shari'ah* oriented economic policies (*siyasah shara'iyyah al-iqtisadiyah*). A *Shari'ah* oriented policy is a policy that is designed to achieve the objectives of the *Shari'ah*. Since prevention of harm or disorder (*fasad*) is one of the principal objectives of the *Shari'ah*, a *Shari'ah* oriented policy should be designed in a way that would achieve this objective. However, a public harm (*mafsadah*) due to the dynamic interaction of socio-economic forces presents itself in a variety of forms. It may also vary in degrees from time to time and differ from a society to a society. It is therefore, not possible to identify on a permanent basis and enumerate the various forms of *mafsadah* and its corresponding *maslahah*. Neither are they enumerated by the *Quran* or the *Sunnah*. While deductive reasoning (*qiyas*) can be used to declare on the permissibility or prohibition of a certain act or thing on a permanent

(33) Edward William Lane, *Arabic-English Lexicon*, Book 1, p. 2396.

(34) See al-Syed Mumammad Murtaza al-Zubaidi, *Taj-al-A'rose*, (Jamalia, Misir: Matbaat al-Khairiyah, 1306H), vol. 2, p. 452; Mustansir Mir, *Dictionary of Quranic Terms and Concepts*, (New York: Garland Publishing Inc., 1987), p.42.

(35) Edward William Lane, *Arabic-English Lexicon*, Book 2, p. 216.

(36) Muhammad al-Tahir ibn Ashur *Ibn Ashur Treatise on Maqasid al-Shari'ah*, translated by Mohamed El-Tahir El-Mesawi, (London: The International Institute of Islamic Thought, 2006) p.88.

(37) *Ibid*, p. 90.

(38) See Abu Hamid Muhammad al-Ghazali, *Mustasfa min 'Ilm al-Usul*, (Cairo: al-Maktabah al-Tijariah, 1356/1937) vol. I, 139-40.

basis, it is not feasible to use *qiyas* to decide whether or not a certain situation amounts to *mafsadah* by comparing it with a previous form of *mafsadah*. Instead inductive reasoning is used to identify the causes or effects, as the case may be, of a certain economic *mafsadah*. Similarly, the prevention of a certain public harm (*mafsadah*) or acquiring a certain public interest needs various approaches and policies. These policies once taken are meant to deal with a particular issue that affects the public at a certain time-space and may change with the passage of time. They are not rules of law that cannot be amended and are meant for generations to come. In other words policies are not intended to declare a certain act permanently permissible (*halal*) or prohibited (*haram*).

It was due to this evolving nature of *mafsadah* and *maslahah* that Muslim jurists did not enumerate them on a permanent basis. Instead they laid down certain rules on how to deal with a *mafsadah*. For instance, the *Mejelle* states: “Repelling an evil is preferable to securing a benefit”.⁽³⁹⁾ The jurists have also held that a private harm could be inflicted in order to prevent a public harm. Article 26 of *The Mejelle* says: “A private injury is tolerated in order to ward off a public injury”. These legal maxims show the priority that Muslim jurists have accorded to the removal of public harm (*mafsadah/dharar*) even if it is at the expense of an individual or individuals. For instance, non-performance of basic duties by a state may lead to underdevelopment, unemployment and economic crises. These are various forms of *mafsadah* that should be avoided by imposing more taxes, in addition to zakat, on individual citizens.⁽⁴⁰⁾ In circumstances where two evils (*mafsadah*) present themselves at the same time the lesser of the two evils is chosen. In such cases the greater evil is avoided by the commission of the lesser. *The Mejelle*, states: “In the presence of two evils the one whose injury is greater is avoided by the commission of the lesser”.⁽⁴¹⁾ It also states: “Severe injury is removed by lesser injury”.⁽⁴²⁾ These show that various measures could be validated provided they lead to the prevention of public harm or disorder (*mafsadah*). The method for the prevention of public harm and the ways for the acquisition of public interest would change from time to time and place to place.

Conclusion

Methodologically speaking, a Muslim jurist’s approach towards legal issues and a Muslim economist’s approach towards economic phenomena have one thing in common. Both these approaches and the methodologies of investigation have accorded revelation a superior position where reason and empiricism are always made subservient to it. However, the methods of reasoning and research in the two disciplines differ as they focus on two different units of analysis. In *fiqh* the subject-matter is the acts, rights, and duties of an individual Muslim. It prescribes whether a certain act is obligatory (*wajib*) or prohibited (*haram*) or falls between these two on a permanent basis. Subsequently, its focus is on the normative statements of the *Quran* and the *Hadith*. The methods of reasoning in *fiqh* are designed to extend these normative statements to new

(39) *The Mejelle*, translated by C.R. Tyser, D.G. Demetriades, and Ismail Haqqi Effendi (Kuala Lumpur: The other Press, n. d.) Article 30.

(40) See, Yusuf al-Qaradawi, *Fiqh al-Zakat* (Beirut: Al-Resalah publishers, 2000) 4th ed., vol. 2, p. 986.

(41) See *The Mejelle*, Article 28 and 29.

(42) *Ibid*, Article 27.

cases. In contrast, economics is a social and descriptive science. Its basic units of analysis are human nature, scarce resources, economic phenomena, and a large aggregate of persons. Thus, *fiqh* and Islamic economics in their search for discovering the truth have to rely on two different set of methods, as the objects of inquiry in the two disciplines are different.

It was due to the needs of everyday practical life that *fiqh*, and not economics and social sciences in general, got the greatest attention from the Muslim jurists in the early formative history of religious thought. This focus on the actions, rights, and duties of an individual Muslim has subsequently influenced the later efforts of the Muslim jurists for the developing of a methodology for *fiqh*. *Usul al-fiqh* has the most comprehensive methods for legal reasoning. However, some of these methods in particular analogy (*qiyas*), juristic preference (*istihsan*), and consensus of juristic opinions (*ijma'*) may not suit the social and descriptive character of Islamic economics. On the other hand, public interest (*maslahah al-mursalah*) and blocking the means (*sadd al-dharai'*) can usefully be employed to guide Islamic economic policies.

Islamic economics should pay greater attention to those verses of the *Quran* that describe human nature and economic phenomena. Similarly, descriptive statements of the *Quran* on human groups and collectivities provide valuable intellectual foundation for the development of Islamic economic thoughts. Non-legal *Sunnah* (*Sunnah ghair tashri'iyyah*) and *hadith* on markets' are another source for Islamic economics. The focus should be on how to deal with a certain public harm (*mafsadah*) that the *hadith* intended to prevent. In the light of these two sources' Islamic economics can adopt methods of reasoning and analysis developed by conventional economics. This will help a Muslim economist to know the reality, explain a certain economic phenomena and discover a certain relationship between economic variables. The knowledge of the objectives of the *Shari'ah* is another source for Islamic economics. The objectives of the *Shari'ah* when they are related to groups and in particular the prevention of public harm (*mafsadah*) and the acquisition of public interest (*maslahah*) are guiding principles for designing *Shari'ah*-oriented economic policies.

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طرائق ومناهج البحث في الفقه والاقتصاد الإسلامي

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المستخلص: تهدف هذه الورقة إلى فحص طرق التعليل المستخدمة في الفقه مع مناقشة نقدية لاعتمادها في الاقتصاد الإسلامي. إن الورقة تحتاج أن الطرق المستخدمة في الفقه مصممة على طريقة الوصول إلى حل أو حرمة عمل فرد ما، أما الاقتصاد الإسلامي فهو علم اجتماعي؛ وكأي علم اجتماعي آخر فإن وحدة تحليله الأساسية هي المجتمع بنفسه. وهذا يمثل أحد عوامل الفرق بين طرائق الاستنباط في العلمين. الفرق الآخر يتمثل في أن مناهج الفقه والاقتصاد الإسلامي يختلفان في تركيز الفقه على جانب إصدار الأحكام على الأفعال المرتبطة بالأفراد؛ ما يجب على الفرد فعله وما يحظر الإقدام عليه. في حين أن مجال الاقتصاد الإسلامي منصب على وصف الظواهر الاقتصادية. وبناء عليه فإن أحكام الفقه تتسم بطبيعتها بالثبات والديمومة لكل الأفراد، في حين أن الأوصاف الاقتصادية يمكن أن تتغير من زمن إلى آخر، ومن مجتمع إلى آخر.

إن الورقة تحتاج أن طرق التعليل المستخدمة في الفقه للوصول إلى الأحكام ليست بالضرورة مطابقة لتلك المستخدمة في الاقتصاد الإسلامي. فالفقه يملك منهجية متطورة ومكتملة متمثلة في أصول الفقه، في حين أن الاقتصاد الإسلامي في إطار سعيه للوصول إلى المنهجية الصحيحة يجب عليه أن يعتمد على منهجية تأخذ بعين الاعتبار طبيعته الوصفية والاجتماعية.

Evaluation of Research Developments on the Islamic Securities (*Sukuk*)

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Abstract. Islamic securities (*Sukuk*), is one of the fastest growing tools in the Islamic capital market that triggered the desire of research and writings of many researchers and scholars, as a result of which is the existence of many academic writings and publications. This paper is going to browse through the trends in the development of the academic researches on the Islamic securities by looking into six areas. First; The historical emergence and the spread of the Islamic securities in the Islamic capital market. Second; Classifications of the research work conducted into different focus areas i.e. Economic base, legal base, banking perspective. Third; Methodological perspective: individual base, group base, quantitative research, qualitative research. Forth; Contextual and conceptual aspects of the research papers, where the critical and the developmental aspects of the research papers are main concern of this study. Fifth; The paper looks at the findings, outcomes, conclusions, and recommendations of the research papers. Sixth; The study will classify the research papers into three groups, based on the languages used i.e. Arabic, English, Malay. The study then gives an overall view and concludes with recommendations.

Core of the Evaluation Study:

The core of this research is focused on the academic research written on the Islamic *sukuk* since the emergence of this concept in the Muslim world, by gathering some of the outstanding papers written on the topic, looking at the problems raised, the solutions given, and the recommendation suggested by the scholars for further development. The study then assesses and evaluates these research works in order to achieve the objectives of the evaluation.

Objectives of the Evaluation Study:

This evaluation study is trying to achieve the following objectives:

- To provide basic understanding of the concept of *sukuk* and its emergence.
- To assess and evaluate the level of research achievement on the topic of *sukuk*.
- To assess effects of the research works on the theoretical and practical applications of the *sukuk* concept.
- To explore some of the most significant research work in the area of *sukuk*.
- To provide an academic work that could be used as framework for further research in the area.
- To provide useful feedback to the different groups of stakeholders that have direct or indirect interest in this *sukuk*.

Significance of the Evaluation Study:

This evaluation exercise could be a helpful note for academicians who need to have some background on the level of research in the sukuk area. It is also helpful for government, private Islamic financial institutions, and investors who are willing to take steps forward in dealing with sukuk. Such feedback is also very important and useful for the fact that it aids in decision-making and policy formulation.

Scope of the Evaluation Study:

This study is going to evaluate some of the most significant academic work on the topic of sukuk from the year 2000 until 2007. Although the main time scope of the study is 2000-2007 when majority of the research work was done, the study may use the few research conducted earlier. The data sources of this evaluation study come from four main areas as follows:

- 1- Islamic Financial Institutions:
 - IRTI.
 - IFSB.
 - AAOIFI.
 - SC of Malaysia.
 - IIFM.
- 2- Conference and Seminar papers
- 3- Academic research papers:
 - Journals.
 - Thesis.

Introduction

The Shariah compliant bond best defined as “*sukuk*” has become one of the most dynamic tools for capital mobilization in both the Islamic and conventional capital markets. Long since its first emergence faced a number of legal and shariah challenges along with other operational challenges which naturally necessitated individual and group efforts by the governments, academic institutions, and corporate bodies to find solutions and also to explore the best approach towards dealing with this new product.

Although there were issues of riba free certificates by the Islamic Bank of Malaysia in the 1990s, sukuk was recognized as an important Islamic capital market instrument in the 2000s when it began in a dynamic way and soon started a rapid growth and spread with a widely acceptance not by the Muslim investors but also by the non-Muslim around the globe. This rapid development in the sukuk issue was accompanied and supported with another development in the academic research which in a way or another was one of the most important factors that pushed the sukuk issuance exercise forward, and made the success of the sukuk possible. This study is going to look into, assess, and evaluate these research development on the topic of sukuk through the following steps:

First: The historical emergence and spread of the Islamic securities in the Islamic capital market:

Before talking about the emergence and spread of the sukuk concept in the Muslim world, it is important to understand the source and origin of the practice.

Securitization emerged in the USA, in the 1970s⁽¹⁾, when Ginnie Mae issued Pass-through securities collateralized by a pool of mortgage-Backed loans which were guaranteed by the U.S.A. government, and then these papers were sold to the investors. Since then this phenomena continued spreading in the U.S. and Europe through 1980s. In the 1990s Securitization became a very important product in the international capital market not only confined to Mortgaged-Backed Securities, but other types of asset-backed securities also were issued. As a result the total asset-backed securities in the mid-nineties reached US\$. 400 billions despite the weak economy of the world at that time.

Emergence of securitization in the Muslim world:

With the exception of few shariah compliant products, the Islamic capital market before the 1990s has been operating in a similar manner with the conventional western capital market. In the year 1983 the central bank of Malaysia has tried to issue investment papers that involve riba free instruments. That could be said to be the first attempt of issuing shariah compliant certificates. In the 1990s other financial institutions in the Muslim countries including Malaysia such as Pakistan and Egypt issued securities which were more or less similar to the conventional securities with a little bit of improvement. These Muslim countries in the beginning of the year 2000 started issuing completely shariah compliant certificates. The first sukuk issuance was by Malaysia in the year 2000 followed by Bahrain in 2001 and then Indonesia in 2002, later other Muslim and non Muslim country joined the exercise. As per the year 2007 there are 13 major countries where sukuk were issued, 9 of which are Muslim countries.

Definition of the concept:

“Sukuk” or “صكوك” is the plural of “sakk” or “صك”, which means "legal instrument, deed, check²" is the Arabic name for a financial certificate but can be seen as an Islamic equivalent of bond. However, fixed income, interest bearing bonds are not permissible in Islam, hence sukuk are securities that comply with Shariah and its investment principles, which prohibits the charging, or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets³. The concept has been used during the medieval Islam and related to recording of financial and other obligations.⁴

The word sakk in its meaning had also been used by western Europe, and later became what is presently known in the Latin word as “cheque”.

(1) N. Hoi-Bertrand, *Asset Securitization in Canada as compared to the U.S. Opportunities and Challenge*, Essay presented to Professor D. Stevens. McGill University, April 25, 1997.

(3) <http://en.wikipedia.org/wiki/Sukuk>.

(4) Al- Muajam al- wasit, academy of Arabic language, vol 1, Qatar, p. 519.

In the modern Islamic financial terms sukuk is defined as the Islamic or the Shariah compliant bond. Other Arabic terms of sukuk is Islamic investment certificate. According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in its standard 17, investment sukuk are certificates of equal value representing after closing subscription, receipt of the value of the certificates and putting it to use as planned, thus it represents a common shares and rights in the underlined assets or their usufructs and services⁵. AAOIFI has classified sukuk into 14 types depending on the contracts used, among these, sukuk Al- Ijarah (lease based certificates) is the most widely used type of sukuk.

Second: Classifications of the research work conducted into different focus areas:

Based on the samples of this evaluation study which was taken from the three main sources mentioned earlier, the study made a classifications of the research works into three fundamental periods:

- (1) Early research: Research conducted before the year 2000.
- (2) Middle research: Research conducted from 2000-2003.
- (3) Latest research: Research conducted from 2004-2007.

Although research conducted throughout the study period might have discussed similar issues, these issues have been addressed in more depth in the later research works compared to the earlier ones.

The following is a brief description of the focus areas of the research conducted through the study period. In addition to what has been briefly mentioned earlier, generally all the research in the sample have discussed some the following issues briefly or in details. For the purpose of clarification I have categorized these issues into some main headings and are discussed in more detail:

(a) Economic perspective:

In this part the evaluation study the research work from the sample collected discussed the economic perspectives of the sukuk issue, focusing on the growth in various aspects of the sukuk issues as follows:

1- Growth in the scope:

Some research conducted discussed the quick spread and expansion of Sukuk issues in the Muslim countries through the engagement of a number of financial institutions in issuing Shariah compliant securities, these research work focused on different issues in that aspect, such as the increasing number of sukuk issues through a range of years appeared tremendously increasing since the first issue by Malaysia. sukuk issuance grew and spread in many of the Muslim country particularly the middle east countries, such growth is driven according to the studies by two factors:

(5) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *Investment sukuk*, standard No. 17, , 2004 .

- Religious motive: Where Muslim investors viewed it as an opportunity to invest in a Shariah compliant capital market product which was basically not in existence and would definitely be an alternative of the conventional interest bearing capital market products.
- Profit driven motives: Issuers and investors are also driven by the financial gain that sukuk generate to them. Issuers would like to issue sukuk to raise funding for their project and other economic activities, while investors invest in sukuk in order to generate a constant profit return through the sukuk tenure.

2- Growth in terms of diversification in asset types and classes:

Other research work conducted focused on the necessity of choosing additional potential asset types and classes in order to meet the suitability of those asset types with the market demand and acceptability, as well as the Shariah compliance. Sukuk ijarah was the first shariah compliant sukuk issued, but in fact that would not constitute a competitive advantage in the future, therefore, more research was made to arrive at more asset types to be potential ground for future sukuk issues. As a result of such research activities, more other asset classes have been introduced and used to issue shariah compliant sukuk. At the present time there are 14 asset classes used for the sukuk issuance.

3- Growth in terms of monetary volume:

Research work which discussed the increase trends in the in volume of the issues in a specific period of time and reasons for the rapid growth in local and international capital market, in the year 2000 the total of sovereign and corporate issuance for both domestic and international sukuk was estimated to be US\$ 336 billions, with 15% - 20% annual rate of increase by the year 2007 the total value of issues reached US\$ 88698 billions (Numeric statistics, charts are provided).

(b) Banking perspectives:

In this section the research work conducted concentrated on the important role banks play right from the initial stages of the sukuk issuance process by structuring, originating and marketing of the sukuk. The research also stressed that sukuk is one of the instruments that can enhance Islamic inter-bank or short-term Islamic finance market development and is necessary vehicle in the development of Islamic Banking and Finance Industry for its unique features and characteristics. Some writers raised some critical questions such as:

- 1- Profit driven objectives of the sukuk issuing banks rather than the religious obligations which gives a negative connotation to the sukuk concept .
- 2- Non replicability: Due to the differences in views of the Shariah boards of different Islamic banks in some modes of sukuk issuances by those Islamic banks, made it difficult for other Islamic banks to copy those product, and consequently that will negatively affect the development of such product in the Islamic capital market.

3- Other factor that slows product development in the sukuk market is cost of the structuring. Islamic banks do away with complex sukuk structures because they involve high legal advisory cost and risk.

- For further improvement in the role of the Islamic banks in the enhancement and development of the sukuk market many writers put the following as key factors:
 - Central banks should take initiatives in the standardization of modes of issuances of the different types of sukuk.
 - Collaboration and coordination between central banks and AAOIFI, IFSB is important to strengthen the Islamic Capital Market.
 - Central banks borrowing through sukuk is an important factor that contributes to the development of the sukuk market.
 - Coordination and understanding between the Shariah boards of different Islamic banks can create a better harmonization and existence of standardization.
 - Shariah views, in particular controversial modes of sukuk issues, can also contribute to the sukuk market development.

(c)Legal / Shariah Perspectives:

- **Legal issues:** Many research have been done in order to see how legislations both local and international affect the sukuk issues showing need for flexibility in legal structure to encourage more issuance and investment. Such legal issues include taxation and ownership laws. Complex sukuk structure always raise challenging procedures which requires high cost legal formalities. In addition, there are other legal issues such as the fact of most of the sukuk issued in Muslim countries are subject to the British law, and therefore, can cause a major difficulties when the law is amended or when any problem related to the sukuk asset arises, because in many cases the sukuk asset may not be located in Britain and that has a great implication.
- **Shariah issues:** Most of the research on sukuk have touched directly or indirectly some Shariah issues, and that is for the following reasons: To find suitable Shariah views to those issues, to find suitable and Shariah compliant ways of sukuk issuance, to find suitable sukuk assets, to bridge gaps and differences between different jurisdictions and schools of Shariah laws. For these purposes several bodies were engaged in extensive research in that regard. The major shariah issues addressed are related to the sukuk lifespan which include the following:
 - a. Process of issuing the sukuk which include selection of the underlined assets, rating process, position and role of the SPV and, pricing of the sukuk.
 - b. Tradability of the sukuk.
 - c. Determinant of the negotiability of the sukuk.

- d. Redemption of the sukuk.
- e. Shariah rulings on the purchase undertake.

These researches show that there are lots of violations of shariah principles which have to be strictly followed in order to come up a complete shariah compliant sukuk, among these violations is none existence of the sukuk assets, non suitability of the asset for sukuk issuance, lack of clear definition of the position of the SPV, violations in the rule of the tradability of the sukuk where non tradable sukuk is traded in the secondary market, guarantee of capital by repurchase undertaking.

Third: Methodologies:

As mentioned above, the sample of this evaluation is collected from three major sources and according to the nature of the research in the sample it is found that both of quantitative and qualitative methods were used, while some research adopted a single method but most of the research in the sample have used both quantitative and qualitative methods.

Quantitative research: Data collection on number of issues: Some research in the evaluation sample collected and used the quantitative method by looking at the sukuk issuance size, number, geographical distribution, international, local, currencies of issues, expected volume of issues.

Qualitative research: On the other hand, the qualitative method was applied to collect and analyze data in regards to the sukuk issuance acceptability, Shariah and legal issues, types of contracts used, social effects of the issue.

Fourth: Conceptual focuses of research papers:

The research work included in this evaluation exercise which is based according to the early classification of time (2000-2007), have also discussed several general issues in regards to the sukuk concept. Some of these issues are highlighted in the following:

1- Early research focused on the explanation of the basic concept of Islamic securitization and relationship with the concept of sukuk, the process and the parties involved as well as the initial views of the scholars in that regard. Further more the research focused on innovation and engineering of new ways, products, and tools. meanwhile some research focus on how to introduce new product, in fact on how to make conventional product into shariah compliant. For example, how to make conventional bonds into more shariah compliant product, such research came up with studies on how some shariah based contracts such as Mudharabah, Musharakah, Istisnah etc., are applied for issuing Islamic bonds so that they become issues based on certain shariah based contracts and not debt based issues. There are other research in this period which focused on the factors that may be of great help in the process of developing new products, these factors include government policy support which gives players more freedom in choosing there business products and services.

2- Research in the middle focused more on the Shariah and legal issues, although issues related to shariah have been discussed in the early stage of sukuk issues, but more and more writings came up especially after the tremendous development in the sukuk

market where many products have come into existence and different contracts have been used. In this stage research have mostly addressed issues in depth, these include issues such as the process involved in the sukuk issuance, applicability of such shariah based contracts in some of the sukuk issuance, issues related to the nature of relationship between the parties involved and, issues on the identity and positions of the parties involved.

3- Recent research focused on standardization/ harmonization/globalization.

The new trend of recent research focused more on how to create standardized sukuk products by providing standardized shariah views on issues. Some shariah issues related to sukuk products, the process of the issuance, nature of the underlined assets and, other controversial issues in that regard. Research in this stage also stressed importance of the role played by the central banks, shariah regulatory institutions, as well as the auditing and advisory bodies of the Islamic Financial institutions.

Fifth: Findings and recommendations of these research papers:

The collective and overall findings of the research work included in this evaluation study is understood through the conclusions of these works that sukuk has become a very important Islamic capital market instrument over the past decade and has been accepted not only by Muslim investors but also by many non Muslim investors in many parts of the world, that was because of the unique characteristics sukuk has which enabled it to give a competitive advantages over other instruments in the Islamic capital market compared to the conventional bonds sukuk has also a tremendous competitive advantage in the capital market. Acceptance and growth of the sukuk market is expected to continue which necessitates a continuous improvement in many of its aspects. Therefore, these research came up with some major findings and suggested number of recommendations which can be summarized in the following:

Findings:

- (a) Competitive advantages: Issues of sukuk especially to Islamic capital market players give competitive advantages, since Islamic capital market players cannot issue conventional bonds, the alternative is Shariah compliant bond which is sukuk.
- (b) Sukuk is a very important tool for the mobilization of the Islamic funds, since a big amount of the Islamic funds is inactive in the economy.
- (c) Sukuk issuance has greatly contributed in the enhancement of more infrastructural developments in many of the Muslim countries by issuing sukuk that provide capital for mega projects.
- (d) By sukuk issuance a great achievement has been made in meeting demands of the Muslim communities especially those living in none Islamic countries where the banking system and the capital market instruments operate entirely in a pure conventional *riba*-base a system.

Recommendations:

- 1- There is great need for expertise in the field of Islamic finance and therefore, increased and continuous effort in educating and training more human resources by establishing more educational and training centres can be a key factor in the understanding and development of the Islamic capital market instrument such as sukuk.
- 2- The need for innovation and development of new shariah compliant products in the Islamic capital market especially the structuring of more shariah compliant sukuk products is a very important factor the enhancement of the local and global sukuk market.
- 3- Role of the shariah board of advisers should be viewed as vital in decision making in regards to a particular product. Therefore, the process of selecting a member of the Shariah board should be purely based on academic outstanding, knowledge of Shariah, experience in the field and, contribution of the member to insure consideration of the right shariah opinion on that matter and consequently take the right decision.
- 4- The opinion given by the Shariah board of advisers should be the major consideration when it comes to organizational decision making on the particular matter of concern.
- 5- When rating sukuk, the issue of shariah compliance in all the process has to be one of the major issues rather than looking at other credit worthiness of the sukuk issuance.
- 6- To ensure continuous and efficient growth of the Islamic finance industry, move forward and capitalize on the enormous growth potentials, there should be better coordination to address the issue of Shari'ah harmonization and creation of international sukuk fund.
- 7- Transparency in knowledge sharing among different Islamic financial institutions is one of the factors that can assist in the creation of better understanding and harmonization in product development.
- 8- Development of the sukuk market in any region depends on the political and legal flexibility towards sukuk issues. Therefore, government initiatives in this regard especially by easing laws related to ownership and taxation is very important.

Sixth: Classifications of research work in terms of the languages used:

Based on the available reading materials in the sample collected for this evaluation exercise most of research work done on sukuk were in English language, the reason for that was maybe because the concept of sukuk was originally copied from the conventional practice of bonds and securitization, and the initial efforts to implement the concept and issue sukuk was also done by non Arab Muslim countries such as Malaysia and Pakistan. It is also observed that most of those work were short research papers such as conference and seminar papers. There are also a lot of work done in the Arabic language. The study also found that there are only very few books written on the topic of sukuk.

Conclusion and recommendations:

Through reading the much possible number of available research, this evaluation work found that the trends of the research conducted have generally addressed most of the necessary issues in regards to the sukuk concept and issues which include economic, shariah and legal issues. It is also observed that the later research have addressed most the questions raised by the earlier research, especially the recommendations given by the earlier research have positively guided later researchers in finding solutions to many of the problems raised. Nevertheless, there are some issues which relate to Islamic social responsibilities which have not been critically addressed. In addition, there are other fundamental issues which have been raised by some research and still need to be solved and made clear. These issues include the following:

- 1- Initial process of issuing sukuk which involve several contracts such as:
 - a. Role of the corporate banks, i.e. wakeel/owner, who also make profit out of the sukuk sell. The shariah ruling which governs the position of a wakeel need to be clarified in order to determine the scope of the wakeel roles.
 - b. Process of pricing the sukuk, i.e. by way of bidding.
 - c. Appointment and position of.
 - d. the Repurchase undertaking.

More research is needed in these areas to clearly, address and find the appropriate Shariah rulings on each and everyone of theses issues.

2- Aim of the Shariah is the welfare of the society; we observe that despite the tremendous amount of money raised and the many investment involved are not meant for the well being of the majority poor people, and no serious plan was made to solve or even address the issue of poverty, the money is rather raised in most cases for luxury purposes. Therefore, it is recommended that these issues should be given more consideration.

3- Most of the research mainly address issues of how to make the existing products in the conventional capital market into shariah compliant by either amending some of their features or putting them under some underlined shariah based contracts such as Musharakah, Ijarah, Istisna and so forth, which in some cases raised questions on their suitability and validity. On the other hand, compared to the replication efforts

made, less research and efforts were made on how to innovate and develop purely shariah based products which are supposed to be the main concern of any research made on product innovation and development.

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تقييم تطورات البحث في الأوراق الإسلامية (الصكوك)

عمر محمد إدريس

المركز العالمي لتعليم المالية الإسلامية

المستخلص: تعتبر الأوراق الإسلامية (الصكوك) أحد أسرع الأدوات تطوراً في سوق المال الإسلامية، نتيجة لذلك فقد أثار هذا التطور رغبة العديد من الباحثين والكتاب لاستجلاء حقيقة هذه الظاهرة الأمر الذي أفرز العديد من الكتابات والمطبوعات الأكاديمية. هذه الورقة تحاول الوقوف على اتجاهات تطور الأبحاث الأكاديمية في هذا المجال، وذلك من خلال النظر في ستة محاور: الأول يتناول الظهور التاريخي وانتشار هذه الأوراق في سوق المال الإسلامي، والثاني يحاول تصنيف الأعمال البحثية بالتركيز على الجوانب التي تعرضت لها: الجانب الاقتصادي، والجانب القانوني، والمنظور المصرفي. والثالث المنظور المنهجي: جانب الفرد، والجماعة، والبحث الكمي والكيفي. الرابع نواحي المحتوى والمفهوم لأوراق البحث، والتي تمثل الجانب النقدي والتطور الهام لهذه الأوراق في هذه الدراسة. الخامس تمحيص النتائج والخلاصات والتوصيات لأوراق البحث. السادس: تصنيف الأبحاث قيد الدراسة إلى ثلاثة أقسام بناء على اللغات المستخدمة: العربية والإنجليزية والماليزية. وفي النهاية تقدم الدراسة نظرة إجمالية لتختم البحث بالتوصيات.

The Ethical Rules for Research in Islamic Economics

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Abstract. Research in Islamic economics is still at a nascent state. It is confined mainly to banking and finance, preoccupied primarily with getting around the Quranic prohibition on *riba* and utilizing *zakat* and *waqf* as public sector resources. There is hardly any research on comparative analysis of investor's satisfaction for choosing Islamic banking over non-Islamic banking or other broader economic issues under the two system.

Research in Islamic economics ought to focus on the fundamental goals of an Islamic society in material as well as non-material terms. The ethical standards call for getting the priorities right in selecting the research agenda. For this it is necessary to be clear about what an Islamic economy is all about and how it is different from a non-Islamic economy. It is best achieved, this paper argues, by constructing a comprehensive analytical framework where material and non-material elements are integrated both in formulating the objective function to be optimized, implementing the activities to achieve them and evaluating the results of the effort.

Such a tentative framework is presented with a simple diagram and some explanatory notes. A number of gaps in existing Islamic research are identified. To put Islamic economic research on the right track three main action programs are recommended for OIC, IDB and King Abdul Aziz University.

1. Background and justification

There is a belief among many Muslim economists that Islamic economics has come of age. It really has not and may take a long time to do so. What has happened is a noticeable growth of studies in Islamic banking and finance commensurate with the rapid growth of petro dollar in the oil producing countries of the Middle East which happen to be Islamic. In their understandable eagerness to gain control over these investable resources, western banks and financial institutions hurriedly learned about Quranic prohibition of interest (*riba*) and set up Islamic windows in their own banks. They are offering many sharia compliant products and have succeeded in taking away a very large chunk of the oil wealth from the Middle East, estimated by some Muslim scholars at around a thousand billion US dollars. At the same time these countries are indebted to the Western financial institutions to the tune of an estimated 600+ billion US dollars, giving rise to an extraordinary situation of borrowing one's own money. Whether this is the best use of Islamic fund is a debatable point that falls in the ambit of Islamic economic research.

Again in Muslim countries like Bangladesh millions of middle class retirees, who have been till now keeping their life's savings in reputed conventional banks and living off their interest income, are not given sufficient incentive to transfer their funds to the newly emerging Islamic banks in the country; because these bank's whose credentials are yet to be fully established only offer limited banking products which give the small depositors a return at best comparable to the interest rates offered by non-Islamic banks.

These Islamic banks, by lending money to rich entrepreneurs, predominantly on a *murabaha* (cost plus) basis are foregoing an opportunity of higher return on a *musharaka* basis, and thus contributing to the rich getting richer at the cost of the poor.

Then there is the case of Malaysia where some dominant politicians strongly believe that *riba* really refers to usury and not the ordinary simple interest. The issue truly calls for a through and scholarly research by a team of Muslim economists, historians and jurists.

The above are only a small sample of many unresolved questions in Islamic economics that call for serious analysis by the professionals so that the right solutions emerge which truly reflect the Islamic values of justice, fairplay and harmony. Herein lies the justification for the present article.

2. Objectives

This paper aims to review the broad issue of ethical rules pertaining to research in Islamic economics. Toward that goal the specific objectives are

- To propose an analytical framework as a conceptual tool to capture what is fully involved in Islamic economics
- To identify the priorities, or at least develop a method to prioritize research in muslim countries aiming to achieve economic progress within an Islamic framework
- Identifying the right methodology for the selected agenda of research, and
- Finding the right way to utilize the results of research for the benefit of a large body of people striving to lead a good life in accordance with the tenets of Islam.

Finally this review will make some recommendations for research sponsors which could be taken as ethical considerations for sponsors of Islamic economic research.

3. Methodology

This article utilizes secondary materials, mostly journals, books and scholarly articles accessed through the internet websites. It also utilizes articles presented at a conference jointly held by the Islamic Development Bank (IDB), Jeddah and the Islamic Economic Research Bureau (IERB), Dhaka in April, 2007.

In writing about ethical rules for research in Islamic economics, one has to start with a clear comprehension of what Islamic Economics is all about. Is it just conventional

economics minus interest (*riba*) plus *zakat* and *waqf*, as some scholars, both Muslim and non-Muslim, tend to believe? In a way it is but it is not all that it is. In order to understand the concept more clearly it would perhaps be best to construct an analytical framework that captures all the main elements of an Islamic economy and their broad interactions. Such an analytical framework is diagrammatically presented in Figure- I and briefly explained in section 4 below.

It is to be kept in mind that the above analytical framework has been constructed logically and not empirically. In other words, it is not based on the analysis of a set of real Islamic economies, but is a logical formulation based on guidelines provided by and/or derived from the Qu'ran and Sunnah. This is the ideal state towards which all Islamic economies should strive to evolve.

The conceptual framework of an ideal Islamic economy would constitute a useful tool for identifying the problem of an existing economy of a Muslim state which is trying to be Islamic but is still not quite getting there (In fact most Muslim countries probably fall into this category).

The exercise would consist of a comparison of an existing model against the ideal model, component by component and function by function. It is through this process of identifying what the problems are that one takes the first step in ethical rules for carrying out Islamic economic research.

4. A conceptual framework for an Islamic economy

Figure-1 shows diagrammatically and in broad terms the essential components of an economy in a given period of time and how they interact with each other to functionalize the economic system. Rectangular boxes are used to depict physical objects (i.e resources) while elliptical boxes represent things which are not physical, eg. Ethics (ie ethical standards).

The top box represents IDEOLOGY, which contains both theology/faith as well as science and philosophy. This box provides the knowledge as well as moral standards for man to conduct himself through life in the pursuit of his ultimate goal, which in Islam is attainment of peace and harmony through complete submission to Allah. Needless to say, the consumption of material goods and services is not ignored. But these are treated as intermediate steps and not as ends in themselves as is done in some materialistic cultures in parts of the western world.

The elliptical box titled ethics of resource utilization would essentially contain both the science and technology of production as well as the moral codes from the Quran and Sunnah regarding Islamic economics. In Islamic economics it would contain guidelines about caring for the resources provided for mankind as Allah's blessing, about how much of what to consume and how to take care of the resource after the required amount is extracted, how all trades have to be just and fair and how promptly the wages are to be distributed, and so on. There are verses in the Quran which illustrate these points very clearly.

The rectangular box RESOURCES contains all that is in the air, on earth and underneath. For example, sunshine, wind/air, water, soil, rocks, trees, animals, birds, and all other living creatures would constitute resources on and about the surface, while oil, gas, coal, precious stones and minerals would constitute resources beneath the soil. This box also contains man made resources referred to briefly in the diagram as financial and cultural resources.

In the rectangular box, HUMANS, both dimensions of his well being are noted, namely material status in respect of health, education and income (wealth), and his spiritual well being in respect of knowledge, happiness and harmony, and in case of Muslims, Allah's blessings.

Some rectangular boxes represent domains that contain both material as well as non-material elements (or variables). For example the box containing four such boxes – production (P), consumption (C), demand (D) and poverty/opulence (O) lying horizontally at the bottom of P, C and D – represent the market. The horizontal box could be +ve (indicating $S>D$) which implies opulence (surplus), nil (indicating $S=D$) is market clearance and -ve ($S<D$) is poverty.

The lines between the boxes are either unidirectional, indicating one way influence or bi-directional indicating two way interaction as in case of HUMANS and RESOURCES, representing supply of manpower activities. Finally, the whole set of boxes would pass from period t to period $t+1$, changes occurring in most of the boxes, ie in the elements within each box, representing regeneration, aging, diminishing by consumption, increasing by reproduction, etc.

5. What ought to be done but is not being done

The analytical framework provides a useful tool for comparing the existing status of an Islamic economy with an ideal model. The list of factors that are at a suboptimal status may really be large, but taking a broad look at the consolidated picture, it would be easy to identify factors that are key. Listed below are several factors that seemed to be important, particularly in the context of Bangladesh. A perusal of the content of about 200 articles published in the Quarterly Journal of Islamic Economic Research Bureau, Dhaka has been helpful.

a) Quantitative model building of an Islamic economy, comparable to the General Equilibrium model in neoclassical economics.

This should be undertaken for every Muslim economy, preferably under the aegis of the Planning or Finance Ministry. It would involve (see Figure I) the inclusion of the nonmaterial goods and services in the list of consumable items in addition to the material ones that are traditionally considered in the analysis of demand, production and supply.

In essence it would be an elaboration and reinforcement of the conceptual model discussed under section 4 above and then estimating the inter relationships designated by the arrows in quantitative terms.

b) Development of appropriate indicators and index numbers: virtually a blank field. Dissatisfaction with indexes of economic well being has long been felt by many economists of western traditions. In particular the per capita income index (GNP/P) has been rejected by many notable scholars and philosophers since the 1970s. This includes Amartya Sen, Mahbulul Huq and, of late, President Sarcozi of France.

This branch of quantitative Islamic economics would be a natural spin-off from the general equilibrium model building exercise referred to under 2(a) above; but one need not wait for it, since it would be a while before general equilibrium models get going in Islamic economies. On the other hand, indexes referred to above are useful tools which stand on their own and would in fact constitute building blocks for developing general equilibrium models.

c) Comparative analysis of Islamic economies with non-Islamic economies: non-existent, Muslim economists have frequently extolled the supremacy of the Islamic approach in economics over the so-called rationalistic approach followed by Western economists. But such assertions have remained largely hypothetical in the absence of concrete empirical evidence. This is one of the serious shortcomings of Islamic economic research. Fortunately, a good number of Muslim countries have adopted Islamic principles wholly or partially in their economies. Sponsors should invest on projects to study the impact of the two approaches on the basis of comparative analysis between countries, companies and individuals, belonging to the two different categories.

But beyond the compulsion to prove the supremacy of an Islamic economy to a non-Islamic one, it would be of great benefit to political leaders and policy makers to be able to compare the level of performance of an economy at various macro as well as micro levels between different periods of time (i.e. inter-temporal comparisons).

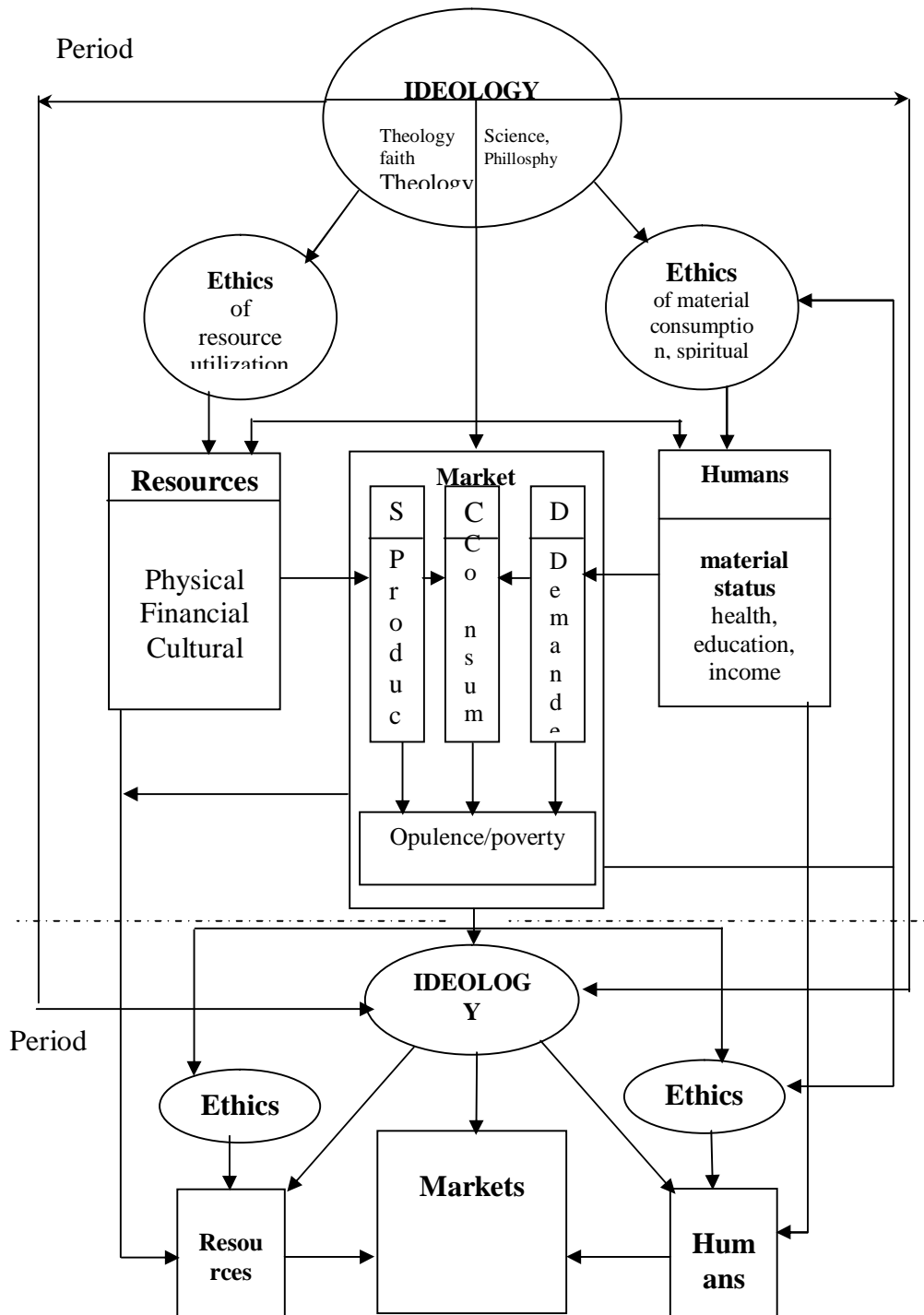
Such comparisons would also be useful for the Muslim *Ummah* to identify weaknesses of countries at different levels of well-being, so that appropriate measures can be adopted to redress the problem and bring all Muslim states to an equitable level of well being in both material as well as non material aspects.

d) Identification of investment opportunities by richer Muslim countries in poor Muslim countries.

According to some crude estimates, Muslim countries in the Middle East have invested in excess of 800 B US dollars in Western countries, while they have borrowed around 600 B US dollars from these countries. It is like borrowing one's own savings. There are many low income Muslim countries which provide a much higher rate of return to investment compared to Western countries. Muslim countries, especially those looking for foreign investment, should carry out research on establishing this fact with empirical data.

e) Action Research on appropriate financial instruments for small investors and pensioners.

Figure (1). Conceptual Framework for an Islamic Economy



Note: G = Goods, S = Services, including spiritual fulfillment

It has been observed in Islamic banks in Bangladesh, and it probably is a common phenomenon in similar banks of many other Muslim countries or non-Islamic banks with Islamic windows, that longer term profit sharing loans are denied to small investors and pensioners, and instead they are offered various short term products with dubious shariah compliance and lesser overall earnings. It is important to demonstrate through action research that this practice is detrimental and erroneous.

6. How are the gaps to be filled

A simple answer is by including all of them in future research agenda. The sponsorship has to come from national as well as international sources. The banks now interested in Islamic banking are a potential source. The World Bank, IMF, OECD, OIC are all potential sources which need to be tapped for funds. The Western bilateral agencies DFID, USAID, CIDA, SIDA, NORAD, etc, may also provide funds for cross cultural models and their comparisons.

7. How to adopt appropriate research methodologies

Fortunately this area is well developed in the Western tradition and there are very few difference between Islamic and non-Islamic methodologies apart from the obvious ones of excluding non-Sharia compliant items variables and research tools such as porc, alcohol and *riba*.

To recall briefly, the areas that needs particular attention in case of primary data generation, are

- Appropriate skill and training of researchers
- Well tested questionnaires and voluntary giving of information with protection of privacy assured constitutionally if need be
- Adopting scientific survey designs, including adequate sample size, etc.
- Judicious use of data, not comparing, for example, apples with oranges and not to try and 'in the world in a grain of sand'
- Rigorous testing of findings with an acceptable range of errors

8. Dissemination of research results

Many research reports in Third World countries often do not see the light of the day. The most frequent reason – the results are not to the liking of the sponsors.

This problem needs to be solved through a variety of ways including pre-research contract, lobbying and constitutional provisions. Leaking to donor groups or responsible journalists are sometimes practiced. But the best strategy is perhaps transmission by word of mouth – an age old method.

When sponsor's sensitivity is not a problem widest possible dissemination through multimedia channel can be carried out now-a-days with relative ease. But once again the researcher must be confident beyond reasonable doubt about the veracity of the results and must always disclose weaknesses where they exist.

9. Conclusions and Recommendations

In this article it is possible that ethical rules for Islamic economic research have been somewhat liberally defined to include not only rules for those who are responsible for doing the research, but also on the ethics of Islamic economics itself. In my view these are actually inseparable. If an Islamic economist is doing everything the right and ethical way on an unethical issue, say exploitation of the poor, he is clearly transcending the boundary of ethics.

The other point to make is about sponsorship of research. Poorer countries need research too, perhaps more than the richer countries. But research is often seen by policy makers and fund providers in these countries as not strictly necessary, unless funds are from abroad. But such funds are not abundant and/or available at times of need.

Perhaps IDB, OIC, some rich banks in the middle east and other rich countries which collect and distribute *zakat* could build a fund for helping poor countries in the *Ummah*.

Finally we make three specific recommendations to give a booster to Islamic economic research.

a) Initiation of a Peace Index by OIC

The OIC has the right organizational clout and legitimacy to start this worthwhile Index. Since Islam means peace, the OIC as the custodian of the *Ummah* would be the most appropriate body dedicated to preserving peace and keep monitoring it as a sentinel.

Such an Index could be constructed for each member country of OIC using a common formula, and each country could possibly carry the burden of cost of a Gallup poll type survey. Further details on a proposed Peace Index and how to construct it is available at the Institute of Hazrat Mohammad (SAW) and can be provided on request.

b) Invitation of a well-being index by IDB

This would be an improvement over the existing indexes; QLI (quality of life index) or a Human Development Index (HDI). It would call for time series data on a number of socio-economic parameters, eg GNP, GDP, literacy, health status, religiosity, contentment etc. Preparation of this Index could be done in cooperation with the UN as well as the special committee (to be) set up by the French President for developing a Happiness Index, comprising Nobel Laureates Amartya Sen and Joseph Stiglitz.

The IDB appears to be the most suitable organization to undertake this task.

c) Development of an Islamic Economic General Equilibrium Model by King Abdul Aziz University

This model would be an extension of the general equilibrium model with the accommodation of the non-material elements in the production, consumption and well-being variable sets. The most distinct feature would be a double variable optimization function that would capture both material and non-material well being. The conceptual framework presented under section 4 could provide a prototype to build on. Once the conceptual model is fine tuned and fully representative of the Islamic economy being modeled the exercise would boil down to estimating empirically the interrelationship between individual and/or blocks of variables in different boxes in the Analytical Framework.

This project work requires a team of experts with considerable theoretical/philosophical maturity as well as quantitative analysis skills. An ideal solution could be a collaborative network of several Muslim as well as Western research centres of excellence with close links to institutions with strength in databases of many countries, e.g. the World Bank, OECD, IDB etc. The theoretical guidance could come from King Abdul Aziz University, Al-Azhar University, Islamabad, Kuala Lumpur, on the Islamic side, and Oxford, Harvard, Wharton on the Western side.

The best approach would probably consist of developing a generic model by a Team under the guidance of world class experts. This could be replicated by national teams through continuous on line communication as well as periodic conferences at KAU.

القواعد البحث الأخلاقية في الاقتصاد الإسلامي

منور حسين

المستخلص: إن البحث في الاقتصاد الإسلامي لا يزال في مرحلة الولادة، وذلك لأنه يتركز بشكل أساس حول الصيرفة والمالية الإسلامية وذلك لإيجاد البدائل لتحريم القرآن للربا، مع دراسة السبل في كيفية استخدام الزكاة والوقف في القطاع العام، فلا توجد على سبيل المثال دراسات تحليلية مقارنة فيما يتعلق برضا المستثمر في اختياره للمصارف الإسلامية على غيرها من البنوك التقليدية، كما لا توجد دراسات شبيهة تتناول قضايا اقتصادية متنوعة تكون محل مقارنة بين النظامين.

إن على البحث في الاقتصاد الإسلامي أن يركز على الأهداف الأساسية المادية وغيرها بالنسبة للمجتمع المسلم، وذلك لأن المعايير الأخلاقية تفرض ترتيب الأولويات من حيث تقديم الأهم على المهم فيما يتعلق بتحديد برنامج عمل بحثي. لهذا السبب فإن الفروقات يجب أن تكون واضحة بين النظام الإسلامي وغيره للوقوف على حقيقة وماهية هذا الاقتصاد.

هذه الدراسة تحتاج بأنه لا بد من إتباع المنهج التحليلي الشامل والمعمق في الأبحاث المتعلقة بالاقتصاد الإسلامي، وذلك بالأخذ بعين الاعتبار العوامل المادية وغير المادية مع ضرورة دمجها لبناء نموذج متكامل. هذا الإطار سيتم عرضه في هذه الورقة من خلال رسم مبسط مع بعض الشروحات والتعليقات. لقد أظهر النموذج عدد من الفجوات في أبحاث الاقتصاد الإسلامي، ولتصحيح هذا الوضع فإنه تم اقتراح برنامج مكون من ثلاثة عناصر ليستخدما كل من: منظمة المؤتمر الإسلامي، والبنك الإسلامي للتنمية، وجامعة الملك عبد العزيز.

A Review of *Fiqh al-Mua'malat* Subjects in Economics and Related Programs at International Islamic University Malaysia and University of Brunei Darussalam

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Abstract. *Fiqh al-mu'amalat* subjects have become core subjects in the Kulliyah of Economics and Managements Sciences (KENMS), International Islamic University Malaysia (IIUM) as an institution of higher learning since its establishment in 1983. The same discipline of *fiqh* was also introduced in the Faculty of Business, Economics and Policy Studies, Universiti Brunei Darussalam (UBD). The establishment of IIUM was based on the recommendation of the First World Conference on Muslim Education held in Mecca in 1977. In conjunction with thirty years of research in Islamic economics, it would be of paramount importance to review and evaluate the contribution of *fiqh mu'amalat* subjects in strengthening the structure and contents of Islamic economics¹. As an academic discipline, Islamic economics has been introduced in a number of institutions of higher learning throughout the Muslim world and in the West. As apparent in previous research in the field of Islamic economics, the rules and guidelines of *fiqh mu'amalat* have been incorporated in the formulation of Islamic economics both in teaching and research. Hence, this paper attempts to critically review and assess *fiqh mu'amalat* subjects in economics and related programs at IIUM and UBD in order to uncover their contribution and significance in developing Islamic economics discipline.

Introduction

There is a clear and very obvious need for the study of *fiqh mu'amalat* and its related courses as a significant component in the field of economics. The discipline has become an important subject in the Kulliyah of Economics and Management Sciences (KENMS), International Islamic University Malaysia (IIUM) since its establishment in 1983. The same discipline of *fiqh* was also introduced in the Faculty of Business, Economics and Policy Studies (FBEPS), Universiti Brunei Darussalam(UBD). The establishment of IIUM was based on the recommendation of the First World Conference on Muslim Education held in Makkah in 1977. With the establishment of KENMS, the Kulliyah has offered three Bachelor degrees through three different departments, namely Department of Economics, Department of Accounting and Department of Business Administration. As part of the program to enhance disciplines of Islamic knowledge, the Kulliyah offers students the unique opportunity of integrating conventional knowledge with Islamic knowledge and values. In order to strengthen

(1) *The First International Conference on Islamic Economics*, held in Mecca in 1396H.1986M

Islamic economics as a discipline of studies, the KENMS has designed eight undergraduate courses on *fiqh mu'amalat* for students of economics, finance and business management. These courses include three courses in *Fiqh* for Economists I, II and III or Transactions in Islamic Economics (*Fiqh al-Mu'amalat*), two courses in Principles of Islamic Jurisprudence I & II (*usul al-fiqh* I & II), Economics in the *Qur'an* and the *Sunnah* (*al-Iqtisad fi al-Qur'an wa al-Sunnah*), Objectives of *Shari'ah* (*Maqasid al-Shari'ah*) and Economics of Zakat.²

As for post graduate studies, the KENMS also offered courses and research programs at diploma, master's, and doctoral levels. *Fiqh mu'amalat* subjects are also introduced in line with the teaching of Islamic economics. Before a further assessment is made on the reviewed courses of *fiqh mu'amalat*, this discussion attempts to review each undergraduate course in this discipline to uncover some hidden aspects which helped strengthen the discipline of Islamic economics studies in the above both institutions of higher learning.

A. The Theoretical Framework of Teaching Subjects on *Fiqh Mu'amalat*

This part attempts to review and analyze the data given in (Table 1.0) on subjects of *fiqh mu'amalat* and related subjects offered at the KENMS and FBEPS which provide undergraduate programs in the fields of economics, accounting and business management.

1. *Fiqh Mu'amalat* and Related Subjects Taught at KENMS, International Islamic University Malaysia

The course of *fiqh mu'amalat* which was introduced by the Department of Economics at KENMS, IIUM, used either the title as *Fiqh* for Economists or Transactions in Islamic Economics. As for an introductory course, the title "Transactions in Islamic Economics I" was used to provide students with the basic understanding on the foundation of Islamic theory of contract (*al-'aqd*). It was designed basically to acquaint them with general knowledge of various types of transactions in an Islamic economy. For the purpose of providing an introductory review of *fiqh mu'amalat*, the course examines the historical roots and the systematization of the theory of contract (*'aqd* pl. *'uqud*) in light of the *fiqh al-mu'amalat*. It also concerns the dichotomy between the legal theory and practice as it was developed from the early centuries of Islam. Discussion covers some of the topics related to Islamic legal system including issues of wealth, rights and theory of ownership (*al-milkiyyah*). On successful completion of the course students should be able to describe and critically analyze issues in transactions based on the sources and procedures as laid down by major schools of Islamic legal traditions.

The course of "Transactions in Islamic Economics II", is basically intended to equip student with knowledge on different form of bilateral contracts related to financial transactions (*'uqud al-maliyyah*). It is the continuation of the subject of "Transactions in Islamic Economics I" pertaining to the theory of contract. Unlike Transaction I, this course is focused on various forms of contracts which constitute the fundamental principles and operation of the financial activities in Islamic banking and finance.

(2) *International Islamic University, Undergraduate Prospectus* 2004, pp.121-133.

Topics concerning different types of purchase contracts such as resale without reference to original cost price (*musawamah*), resale with cost plus profit (*murabahah*), resale at cost price (*tauliah*) and resale with loss (*wadi'ah*) are discussed with a view to enhance students' perspective with respect to the applicability of certain concepts of *fiqh mu'amalat* in developing Islamic economics discipline of studies. This part also covers topics such as contract of delivery with prepayment (*buy' al-salam*), contract of manufacture (*bay' al-istisna'*) and money exchange (*al-sarf*). As for partnership, this course analyzes different forms of partnership that had been developed by Muslim jurists such as partnership in property (*sharikat al-amwal*), partnership based on labor or work (*sharikah al-abdan* or *al-'amal*), partnership in credit (*sharikah al-wujuh*) and commenda partnership (*al-mudarabah*). With respect to the source of fund, the topics on loan (*qard*) and deposit (*wadi'ah*) are also included. Topics such as transfer of obligation (*al-hiwalah*) and letter of credit (*suftajah*) are taught to familiarize students with the methods of transferring funds from one place to another. In addition, this course also covers topics concerning securities of fund such as contract of pledge (*al-Rahn*), a gratuitous contract (*kafalah*) and guarantee (*damanah*). On completion of the course students are expected to have a strong foundation with respect to the application of the bilateral contract in financial transactions.

It should be noted that the above two courses are considered as the Kulliyah core courses which are common to all undergraduate programs in the Bachelor degree programs of Accounting, Business Administration and Economics. In addition, the students of economics are required to take "Transactions in Islamic Economics III" as a department required course. This course was designed to equip specialized economic students with knowledge of unilateral contract (*al-'uqd mi al-iradah al-munfaridah*) and its related issues in daily practice. As a continuation of "Transactions of Islamic Fiqh II", the course focused on two important issues. First, it relates to the issue of the distribution of wealth by individual willingness of whether concerning financial commitment of social matters such as gift (*Hibah*) and charitable donation (*sadaqat*), or financial commitment with respect to incentives (*Ju'alah*) or surrenders such as a release from liability (*Ibra'*) and mutual consent of both parties to settle debts by using the method of exchanging liabilities (*maqasah*). Second, it analyzes the functions of *Bait al- Mal*, the Islamic Financial Institution of an Islamic state. How this institution mobilizes the sources of funds and its function and policies are also studied to enhance students with knowledge on theoretical and practical dimensions of *Baitul Mal* as an Islamic financial institution in managing funds for public.

As a source of state's revenue, topic on taxation is also covered including contingency taxation and non-Muslims taxation. This section included how taxation funds are collected and used to provide general welfare to society at large. In addition, the issue of the collection and distribution and use of *zakat* fund constitutes one of the most important topics in this section. A further discussion covers topics with regard to financial distribution of wealth of a deceased person such as debt, inheritance, will (*wasiat*) and endowment (*waqf*). On successful completion of the course students are expected to be acquainted with the knowledge of the sources and the use of funds for the state.

2) Foundation Subjects in *Fiqh Mu'amalat*

For students of economics at KENMS, they are also required to register for four department required courses classified as *fiqh mu'amalat*. These courses consist of Principles of Islamic Jurisprudence I (*Usul al-Fiqh I*), Principles of Islamic Jurisprudence II (*Usul al-Fiqh II*), Islamic Banking and Finance, and History of Islamic Economic Thought.

a) *Usul al-Fiqh*

It should be mentioned here that the two department-required courses, namely *Usul al-Fiqh I* and *Usul al-Fiqh II*, are considered as foundation courses which provide a thorough grounding of students' knowledge of the sources of *Shari'ah* and the method of juristic deduction and inference. The *Usul al-Fiqh* is primarily designed to provide the conceptual framework within which the Muslim jurists approach Islamic legal methodology which covers definition and scope of its origin and development. The course examines the science of Islamic jurisprudence (*'ilm usul al-fiqh*) based on the *Qur'an* and the *Sunnah*, both of which constitute the sources as well as the subject-matter to which the methodology of *usul* is applied. It also discusses comprehensively other sources such as consensus (*ijma'*), analogy (*qiyas*), juristic preference (*istihsan*), presumption of continuity (*istishab*), public interest (*maslahah*) and the rules of interpretation and deduction.

The subject of *Usul al-Fiqh II* is a continuation of *Usul al-Fiqh I* that was designed to provide knowledge of the methods of interpretation to understand legal texts (*ayat al-ahkam*) of the Holy Qur'an. It focuses more on various forms of textual expressions (*al-alfaz*), commands and prohibitions (*al-awamir wa al-nawahi*), textual implications (*al-dalalah*), conflicts of evidences (*ta'arud al-adillah*), abrogation (*naskh*), and the objectives of *Shari'ah* (*maqasid al-shari'ah*). The theoretical guidelines and the economic relevance of *fiqh* maxims are also covered in this course. On successful completion of the course students should be able to demonstrate deep understanding of the knowledge of Islamic jurisprudence, particularly with respect to the knowledge of the sources of *Shari'ah* and the methodologies of deriving the practical rules in various schools of Islamic law (*madhahib*). They are expected to have the ability to develop an Islamic economic methodology as an alternative to conventional one and to have a contemporary approach to resolve current economic problems in light of the science of Islamic legal methodology (*'ilm 'usul al-fiqh*).

b) Islamic Banking and Finance

As far as the course content of the Islamic Banking & Finance's subject is concerned, it emphasizes more on applied aspects of *fiqh mu'amalat*. It intends to introduce students the principles of Islamic financing and how they are put in practice in present day banking, finance, and insurance industries as well as the money and the capital market. Introductory part covers general perspective on Islamic economics, philosophy of Islamic financing, history of Islamic banking, economics of interest (*riba*) and the banking industry in Malaysia. A critical analysis also covers Banking and Financial Institution Act 1989 (BAFIA) and the Islamic Banking Act 1985 (IBA). Before analyzing different forms of Islamic banking product, this part also reviews a general theory of contract in Islamic law of transactions and in conventional legal practices as

well. Various forms of Islamic contracts applied to financial instruments are discussed including topics in relation to deposit mobilization such as *al-Wadiah yad al-Amanah* or *Damanah* and *al-Mudarabah* Investment Account.

With respect to financing services, the course also covers topics on home financing such as *al-Bay 'bi Thaman 'Ajil* (BBA) and declining partnership (*musyarakat mutanaqisah*); auto financing that is of *Ijarah Thumma al-Ba'y* (Lease ends with purchase contract); trade financing such as Overdraft (*Ba'y*) *al-Inah*, Trust Receipt (*al-Murabahah*), Bankers guarantee (*al-Kafalah*), Letter of Credit (*al-Wakalah/al-Murabahah*), Banker's acceptances/or Islamic Accepted Bill (*Bu'y al-Dayn*) and Project Financing of *al-Mudarabah* and *al-Musharakah*.

In addition, this subject also covers other issues such as capital adequacy and asset-liability management, treasury functions and the Islamic money/inter-bank market, measuring performance of Islamic banks, marketing Islamic financial products, venture capital financing and universal banking. Islamic and the equity market are also discussed including investment, speculation and gambling such as trading in the *Bursa Malaysia* (the latest name for Kuala Lumpur Stock Exchange), Islamic Unit Trust/Islamic Funds, Islamic Private Debt Securities, that is *Shahadah al-Dayn/Ba'y al-Dayn* and Issues in Risk Management such as Islamic Insurance (*Takaful*) in relation to *tabarru'* through *mudarabah*, home, automobile and family *takaful*. On successful completion of the course students are expected to have a strong command on issues related to Islamic banking and finance as a preparatory groundwork towards pursuing a career in Islamic banking, insurance and investment in Malaysia.

c) History of Islamic Economic Thought

History of Islamic Economic Thought as a department required course concerns with the study of economic ideas of the Muslim scholars and intellectuals with special reference to its general and special sources. General sources to be utilized in this course cover primary sources the *Qur'an* and the *Ahadith* together with the Qur'anic interpretation (*tafsir*) and commentaries of *Hadith*. Whereas secondary sources include books on *Fiqh*, works on Islamic history, philosophy, ethics, sufism, geography, mathematics, and encyclopedic works. Topics are also touches issues concerning *fiqh mu'amalat*, economic and financial activities of Muslims, such as *al-Kharaj*, *al-Amwal*, *al-Hisbah*, *al-Kasb*, *al-Nuqud*, *al-Tijarah*, and etc. However, the course focuses more on economic thoughts of past Muslim scholars such as Abu Yusuf, al-Shaybani, al-Muhasibi, Abu 'Ubayd, Ibn Maskawaih, al-Mawardi, al-Damasqi, Nizam al-Muluk al-Tusi, Abu Hamid al-Ghazali, al-Shirazi, Nasiruddin al-Tusi, Ibn Taimiyah, Ibn al-Qayyim, Abu Ishak al-Shatibi, Ibn Khaldun, al-Maqrizi, Shah Waliyyullah al-Dahlawi, Muhammad Iqbal, and others. On successful completion of the course students are expected to acquaint with methods and approaches to the study of economic ideas of previous Muslim scholars. These ideas are examined critically to determine their relevance to the contemporary economic problems, and wherever possible comparison is made with the contemporary western economic thought.

3) Islamic Economics Package

a) Economics of Zakat

The students who intend to choose their area of concentration either in Islamic economics, Finance, International economics at Development of Economics, KENMS, IIUM, are required to take at least four courses in Islamic economics package. In this package, four related courses of *fiqh mu'amalat* subjects are provided to enable students to better understand the relationship between the *fiqh mu'amalat* and Islamic economics since most of the rules and guidelines for Islamic economics are found in the branch of Islamic *fiqh*. The other courses include "Fiqh for Economists III", "Economics of Zakat" and "Economics in the *Qur'an* and the *Sunnah*".

As previously discussed, 'Fiqh for Economists III' constitutes the third subject of *fiqh mu'amalat* which is regarded as a continuation of *Fiqh* for Economists II. *Fiqh* for Economists III has touched briefly on the topics of *zakat* as an important subject which is directly related to certain issues in Islamic economics. In this package, a separate subject on Economics of *Zakat* was introduced not only to impart the students in the economic aspects of *zakat*, but also to equip them with the methods and guidelines of *zakat* accounting based on various opinions of *fiqh* scholars of the four major schools of law. Hence, the subject deals with conceptual issues of *zakat* with a view to explore the theoretical and operational aspects of *zakat* from economics and *fiqh* perspective.³

b) Economics in the *Qur'an* and the *Sunnah*

The third important subject that has been introduced at KENMS since 1996 is entitled, 'Economics in the *Qur'an* and the *Sunnah*' (*al-Iqtisad fi al-Qur'an wa al-Sunnah*).⁴ It was designed to equip students with general knowledge of various aspects of *fiqh mu'amalat* based on the texts (*nusus*) of the *Qur'an* and the *Sunnah*. It helped students analyze some of the *Qur'anic* and *Hadiths*' texts (*al-ayat wa al-ahadith al-ahkam*) in relation to economics. As indicated in the course, the topics cover those *ayat* and *hadiths* that deal with the trust (*amanah*), consultation (*al-shura*), justice (*al-'adl*), wealth and ownership (*al-mal wa al-milkiyyah*), contract (*al-'aqd*), bequest (*wasiyah*), endowment (*waqf*), evidence (*shahadah*), the mortgage (*al-rahn*), oaths (*ayman*), the debt (*al-dayn*) and other related issues in *fiqh mu'amalat*. On successful completion of the course students should be able to have a proper understanding of the *Qur'anic* texts and the texts of *hadiths* with respect to meaning, concepts and rules of *Shari'ah* on certain economic issues.

c) Objectives of *Shari'ah* (*Maqasid al-Shari'ah*)

The fourth course in this package is concerned the area of the Objectives of *Shari'ah* (*Maqasid al-Shari'ah*). It was designed to provide students with a proper perspective on

(3) For references see, Ghazi Inayat, 'Islamic Economics, Zakat and Taxation: A Comparative Study' (*al-Iqtisad al-Islami, al-Zakat wa al-Daribah: Dirasah Muqaranah*), Beirut: Dar al-Ihya' al-'Ulum, 1995; Shahatah, Shauqi Ismail, 'Theory of Financial Accounting From the Islamic Perspective' (*Nazariah al-Muhasabah al-Maliyah min Manzur Islami*), Cairo: Al-Zahra al-'Alam al-'Arabi, 1988.

(4) For references see, Dr. 'Isa 'Abduh, *al-Iqtisad fi al-Qur'an wa al-Sunnah*, a paper prepared for the 1st International Conference on Islamic Economics (*Al-Bahth al-Muqaddam Li al-Mu'tamar al-'Alami al-Awwal Li al-Iqtisad al-Islami*), held in Mecca, 1396H/1986M; Mahyu al-Din 'Atiyyah, *al-Kashshaf al-Iqtisadi li Ayat al-Qur'an al-Karim*, USA: The International Institute of Islamic Thought, 1991.

the application of the rules and guidelines of *the Shari'ah* in economic and financial activities. The subject analyzes the theory and application of the rules and the *Shari'ah* guidelines based on its objectives (*maqasid al-Shari'ah*). For this purpose, discussion focuses on the idea of *maqasid* among the early Muslim scholars such as Abu Mansur al-Maturidi, Abu Bakar al-Baqillani, al-Juwaini, al-Ghazali, al-Razi, al-Amidi, Ibn al-Qayyim and al-Shatibi with a view to assess contemporary economic problems in the light of the objectives of the *Shari'ah*. On successful completion of the course the students should be able to apply their critical analytical skills to the study of core Islamic sources of *fiqh mu'amalat* and Islamic economics.⁵

4. 'Issues in Islamic Economics'

The last subject in this review is concerned with 'Islamic Economics' entitled, "Issues in Islamic Economics". The course covers some important issues related to Islamic economics discipline. The scope of this study and its contents tend to adapt to the dynamics of socio-economic situation. Obviously, there are more unsettled issues than the settled ones in the nascent Islamic economics. This was designed mainly to make student familiar with some of the more controversial but important issues in Islamic economics and to highlight the nature of the confusion and suggest solutions where possible. Six major issues are selected for discussion, namely on the nature and scope of economics, economic systems: secular and Islam, replacements of *riba* by profit sharing, distributive justice in Islam, aspects of economic development and insurance: nature and issues. The first part of the course covers the secular and Islamic viewpoints with a comparative analysis on material and spiritual aspects of human existence. This part focuses on issues such as the question of scarcity of resources and the problems of economic choice, nature of economic laws and the methods of economic inquiry and analysis, and axioms of economics: secular versus Islamic.

The second issue that was raised is concerned both economic systems, namely secular and Islamic. In defining economic system a comparative approach was used in comparing views of capitalism, socialism and Islam. This part also includes discussion on sub topics such as an economic system and its elements together with elements in the *Shari'ah* that helped contribute to strengthening an Islamic economic system. The focus was on goals to be achieved, property ownership, factor relations, motivation scheme and market versus state control.

The third issue is focused on the rationale for and the consequences of the abolition of *riba* from the Muslim societies and its replacement by the profit sharing scheme (e.g *mudarabah* and *musharakat*). A number of the *Qur'anic* verses and *Hadiths* of the Prophet Muhammad (pbuh) were used to highlight the rationality of prohibition of *riba* and its classification such as *Riba al-Nasi'ah* and *Riba al-Fadl*. The explanation is an attempt to clarify as to whether profit sharing ratio is the same as the lost sharing ratio for financier in interest-free Islamic finance.

(5) For references see, al-Shatibi, *al-Muwafaqat*, Dar al-Fikr, Vols.1-2, Beirut: 1341H; Ahmad Al-Raysuni, *Nazariah al-Maqasid 'Inda al-Imam al-Shatibi* (*Imam Al-Shabtibi 's Theory of the Objectives of Shari 'ah*), Beirut: al-Mu'assasah al-Jami'iyyah li al-Dirasah wa al-Nasr wa lal-Tauzi', 1992.

The fourth issue concerns distributive justice in Islam in which a pure Islamic model is used to prove that the Islamic system has some contributions in building and safeguarding against the emergence of glaring inequalities in the distribution of income and wealth, and (ii) if such inequalities do emerge, provide adequate corrective measures.

The fifth issue deals with aspects of economic development and its objectives in a comparative setting. This part also focuses on the issues of the basic needs fulfillment, motivations, role of the state and population control. It touches other minor topics such as failures of market mechanism and the need for guided economic development using comparative approach with respect to concepts, objectives and priorities from conventional and Islamic perspectives. It also covers other issues such as consumption *versus* investment, moral hazard and Islamic ethics, human resource development and population problems.

The last issue that has been included in this subject was concerned mainly with insurance. The course covers aspects such as need for insurance, bases of insurance, risk and its measurement, and precautions from the Islamic viewpoint with respect to speculation, elements of *gharar* and interest.⁶

B. Fiqh Mu'amalat Subjects at Universiti Brunei Darussalam

Faculty of Business, Economics and Policy Studies (FBEPS), Universiti Brunei Darussalam (UBD) first introduced two courses in *Fiqh Mu'amalat*, namely Islamic transactions in Islamic Fiqh I (Theory of Contract) and Islamic Transactions in Islamic Fiqh II (Rules and Mechanism) together with Principles of Islamic Jurisprudence (*'Usul al-Fiqh*) since 2002. It has three departments: the Department of Economics, Department of Business and Management, and Department of Public Policy and Administration. In 2005 the two courses of transactions (I & II) was modified and combined into one comprehensive subject offered by the Department of Business and Management. In addition, this department has also offered related courses in *usul* and *al-fiqh* which helped strengthen the discipline of Islamic economics such as 'Principles of Islamic Jurisprudence (*Usul al-Fiqh*)', 'Principles of Islamic Business Ethics', 'Islamic Accounting and Auditing', 'Islamic Portfolio Management', and two courses in Islamic Economics, namely 'Introduction to Islamic Economics' and 'Islamic Economics'. The following discussion attempts to review some important aspects of the contents of these courses to uncover the extent to which the subjects of *fiqh mu'amalat* and its related courses helped strengthen the discipline of Islamic economics.

a) Islamic Transactions (*Fiqh al-Mu'amalat*)

This course was designed to provide students with adequate knowledge with respect to transactions in Islamic law. It covers the concept and nature of Islamic transactions. First part of the course highlights the theory of contract in Islamic law and the second part concerns the rules and mechanism of transactions in which

(6) Some of the references used for the course are Siddiqi, M., Nejatullah, 1996. *Teaching Economics in Islamic Perspective*, Jeddah: Scientific Publishing Center; Mannan, M.A. 1983., *Islamic Economics: Theory and Practice*, United Kingdom: The Islamic Academy, Cambridge; Ahmad, Khurshid, (ed.), 1980. *Studies in Islamic Economics*, Leicester: The Islamic Foundation, and etc.

different views of the Muslim scholars and jurists are studied to uncover their approaches in dealing with certain issues in transactions. The subject covers some important topics such as the nature of Islamic law, Islamic law of transactions, the nature and form of contract in Islamic law, essential requirements and conditions of contract, impediments of contract, legal effects and dissolution of contract. On the completion of the course students should be able to have a deep understanding of the theoretical framework of transactions in Islamic law, define analytically diverse areas of this discipline of studies and familiar with issues raised the *fiqh* scholars.

b) The Principles of Islamic Jurisprudence (*Usul al-Fiqh*)

This subject was intended to make students aware of the rules of any conduct including economic activities could be based on principles and guidelines in Islamic science of jurisprudence (*'ilm 'usul al-fiqh*). Hence, *Usul al-Fiqh* is a pure Islamic science for it provides the method of deducing Islamic rulings (*ahkam*) from its sources. Its systematic contents might be applied to all aspects of human activities. The subject covers as an introductory aspect of *usul al-fiqh* which discusses four main division of the study of *usul* such as the rule (*al-hukm*); sources of the rule (*masadir al-hukm*): al-Qur'an and the *Sunnah*, consensus (*Ijma'*), analogy (*qiyas*), juristic preference or equity (*Istihsan*), public interest (*Masalih al-Mursalah*), presumption on continuity (*Istishab*), blocking the means (*Sadd al-Zara'i*), opinion of the Companions (*Qaul al-Sahabi*), the previous Revelation (*Shar'a man Qablana*) and custom (*'urf or 'adah*); the method of deducing the rule (*Turuq al-Istinbat*) and *ijtihad* and its importance in Islamic law.

c) Principles of Islamic Business Ethics

The course aims at introducing the Islamic perspective into management studies. The principal purpose is to familiarize students with the sources of Islamic knowledge namely the *Qur'an* and the *Sunnah* that serve towards applying the Islamic principles into a real business situation. It examines the foundation of ethics from an Islamic as well as a Western point of view particularly in the areas of the principles and practice of management on issues leadership, motivation, quality, productivity and other social responsibilities. The course also covers various important aspects of Islamic business ethics such as introduction to Islamic ethics, sources of ethics, Islamic values and its universal nature and applicability, understanding the Islamic Worldview and alternative ethical system. This section focuses on analyzing 'Codes of Ethics' from Western and Islamic perspectives including an Islamic approach of Employer/Employee Relationship, leadership and ethics of marketing. On completion of the course students are expected to be able to impart Islamic values and principles into the practical dimension of life and a further realization that such knowledge could help improve the working environment and communication with others.

d) Islamic Accounting and Auditing

Islamic accounting and auditing subject is taught as part of the courses within the Department of Business and Management, FBEPS, UBD. The main objective of the course is to introduce the *Shari'ah* and economic frameworks of Islamic financial system. The regulatory frameworks of financial accounting and reporting by Islamic

financial institutions are discussed in order to view their similarities and differences with the conventional business identity. In this course, students are equipped with conventional auditing requirements to be utilized for the modifications of Islamic accounting. Eventually, the financial accounting standards issued by the Accounting and Auditing Organizations of Islamic Financial Institutions (AAQIFI) will replace the IAS conventional accounting standards. The course covers a number of topics such as objectives and concepts of Financial Accounting for Islamic Banks and Financial institutions; general presentation and disclosure; *murabahah*, *mudarabah* and *musharakah* financing; profit allocations between owner's equity and investment account holders, *ijarah* and *ijarah al-muntihiah bi al-tamlik*, *istisna'* financing and other related topics with respect to objectives and principles of auditing.

e) Islamic Portfolio Management

This subject which also introduced at the Department of Business and Management, concerns the distinguishing features of an Islamic investment portfolio. The main objective of the course is to provide students with an overall introduction to theoretical and practical aspects of investment analysis and portfolio management. Methods for analyzing a variety of investment opportunities and designing Islamic portfolio are also studied in order to equip the students with knowledge of theoretical and application of investment particularly in using modern techniques to evaluate portfolio strategies. Hence, the course covers various aspects of investment analysis such as the investment setting, the asset allocation, investment theories and principles and model of asset evaluation. It also focuses on analysis and management of permissible common stocks, fixed return assets, company analysis and stock selection, equity portfolio management strategies including options, futures and derivatives in Islamic portfolio, financial investment analysis, measuring investment performance and managing investment risk.

f) Islamic Economics

This course was designed as an introductory course in Islamic economics. The main objective is to introduce fundamental concepts, methodology and paradigms of the Islamic economic doctrine. It focuses more on analyzing how the Islamic economic system is different from the contemporary economic systems of the modern world. The course discusses a number of topics related to Islamic economics discipline such as a brief history of economic thought of early Muslim scholars, methodology of Islamic economics, goals and objectives of an Islamic economics system, and factors of production and factors of return. It also covers issues on controversies over theories of wage, theories of capital and interest from an Islamic perspective. The course also touches on current issues in Islamic banking and finance: the institution of interest, the performance of Islamic bank and financial stability. A number of Islamic banking products and issues are also included such as *bay' salam*, *bay' mu'ajjal*, discounting and stock market under an Islamic financial system. It also includes fiscal policy and resource allocation, *takaful*: a comparison with conventional insurance, agricultural land: issues of land ceiling, land rent and share cropping, the institution of *zakat*, environment and development strategies for an Islamic economy.

g) A Comparison between Courses offered at KENMS, IIUM and FBEBS, UBD

The subjects on *fiqh mu'amalat* and other related courses offered at the above two institutions of higher learning reflect their respective vision, mission and strategic goals. In line with vision and mission of UBD, the mission and objectives of the Faculty of Business, Economics and Policy Studies (FBEFS) is to be “an internationally recognized center of higher learning and to disseminate knowledge in the fields of economics, business and management, and public policy and administration, with special reference to the needs of Brunei Darussalam and the South-East Asian Region.”⁷ The needs for the Sultanate State of Brunei Darussalam are guided by the underlying values of its national philosophy of Malay Islamic Monarchy (MIS) in which Islam constitutes a main source of reference and guidance. Perhaps for this reason, FBEFS has eight subjects which offer courses based on the *Qur'anic* norms and values. Unlike, KENMS, IIUM, Table 1.0 shows that FBEFS offers eight courses excluding ‘Introduction to Islamic Economics’ (or ‘Islamic economics’) subject which provides a wide range of knowledge which covers various dimensions of Islamic values and norms applicable not only in business administration and policy studies but in economics discipline as well.

As for KENMS, International Islamic University Malaysia, the courses it offered were in line with the university’s vision and mission. Its establishment in 1983 was the fulfillment of one of the major aspirations of the contemporary global Muslim community to regain the *Ummah’s* leadership in the quest for knowledge. Hence, IIUM’s prime vision: “*to be an international center of educational excellence which integrates Islamic revealed knowledge and values in all disciplines and which aspires to the restoration of the Ummah’s leading role in all branches of knowledge*”.⁸ Thus, KENMS’s main objective is to provide students with an integrated knowledge of conventional and Islamic norms and values. As indicated in the Table 1.0, ten courses excluding “Issues in Islamic Economics” are offered particularly for economics students and others are mainly to equip them with necessary knowledge as part of agenda to integrate Islamic knowledge with conceptual and theories of conventional economics disciplines of studies. The table 1.0 also shows that a special focus was made on subjects of *Usul al-Fiqh* and *Fiqh Mu'amalat* which constitute foundation knowledge for Islamic economics and other areas of specialization in economics, business administration, banking and finance.

(7) *Handbook.2006-2007. Faculty of Business, Economics and Policy Studies(Undergraduate)*, Universiti Brunei Darussalam. P.,4.

(8) *International Islamic University Malaysia, Undergraduate Prospectus 2004*, p.9

Table (1.0). Courses Offered at KENMS, IIUM and FBEPS, UBD

KENMS, International Islamic University Malaysia	FBEPS, Universiti Brunei Darussalam
1. Transactions in Islamic Economics I	1. Islamic Transactions
2. Transactions in Islamic Economics II	
3. Transactions in Islamic Economics III	
4. Principles of Islamic Jurisprudence (<i>Usul al-Fiqh I</i>)	2. Principles of Islamic Jurisprudence (<i>Usul al-Fiqh</i>)
5. Principles of Islamic Jurisprudence (<i>Usul al-Fiqh I</i>)	
6. Islamic Banking and Finance	3. Islamic Banking and Finance (This course is offered by Center for Islamic Banking and Finance, UBD)
7. History of Islamic Economic Thought	
8. Economics of <i>Zakat</i>	5. Islamic Accounting and Auditing
9. Economics in the <i>Qur'an</i> and the <i>Sunnah</i>	6. Principles of Islamic Business Ethics
10. Obejctives of Shari'ah (<i>Maqasid al-Shari'ah</i>)	7. Islamic Portfolio Management
11. Issues in Islamic Economics	8. Introduction to Islamic Economics (or Islamic Economics)

C) A Critical Review on the *Fiqh Mu'amalat* Subjects in Teaching Islamic Economics

a) Methodology of Islamic Economics

More than thirty years have passed since the first International Conference on Islamic economics was held in Mecca in Safar 1396H/1986M, different methodologies have been made by Muslim scholars to integrate western knowledge with Islamic norms and values in the discipline of 'Islamic economics'. A quite systematic agenda was planned during the establishment of an International Islamic University Malaysia in 1983. The formation of the Department of Economics within the Kulliyyah of Economics and Management Sciences, the field of Islamic economics studies has gone from strength to strength in building its discipline of knowledge. Islamic economics as been developed as a new branch of human knowledge and has quickly become recognized on the international scene.

It was with the encouragement of Islamic Economic Research Institute, the King Abdul Aziz University (KAAU), the planned for research and scholarship to take place in building the foundations on the vision for strengthening the discipline of Islamic economics. This discipline of studies has been taught in many institutions of higher learning in the Muslim world and the West. However, the Islamic economics as a discipline of knowledge has been defined in various dimensions by the Muslim scholars of economics and even by the Muslim jurists.

Writing on '*The Need For A General Theory of the Islamic Economy*' Monzer Kahf highlights the distinction between the so called, 'Islamic jurisprudence which deals with business law (*Fiqh al-Mu'amalat*) and Islamic economics. The former draws up the

legal framework for the latter, while the latter studies the process and outcome of human activity relating to production, distribution and consumption in an Islamic society. Islamic economics is constrained by the Islamic laws of business,' but this is not the only constraint on the study of economics. He added that 'the Islamic social system and religious precepts exert much influence on the economic domain as does the legal system. The lack of such a distinction between *Fiqh al-Mu'amalat* and Islamic economics has been another source of the misconceptions in the modern literature on Islamic economics. Several works have used the tools of analysis of *fiqh* in economics, whereas several others have studied the economics of Islam from the point of view of *fiqh*.⁹ In view of this, the Islamic Economic Research Institute, KAAU under the auspices of Islamic Development in Jeddah has organized a number of training programs for experts in economic discipline to be acquainted with foundation of Islamic *fiqh*, its legal methodology (*usul al-fiqh*) and other related discipline of *fiqh*, particularly in the discipline of transactions in Islamic economics (*fiqh a-mu'amalat*).

Since the first international conference on Islamic economics, a number of conferences, seminars and training programs were organized to scrutinize teaching curriculum of *fiqh* for experts in contemporary economics, researchers and those who involved in teaching profession in institutions of higher learning, but have interest to enhance their expertise in *Shari'ah* knowledge. In the second introductory remarks made by Dr. Hasan Abdullah al-Amin in 'Planning for Teaching Curriculum in the Sciences of Islamic *Shari'ah* for Scholars who Specialized in Economics' (*Mashru' Manhaj Dirasi fi 'Ulum al-Shari'ah al-Islamiyyah Muwajjah Lilmukhtassin fi al-'Ulum al-Iqtisadiyyah*)¹⁰, he has selected thirteenth *Shari'ah* based subjects to be offered in Program for the Orientation Course for economists. The objective of the course curriculum provides general guidelines pertaining to the nature of *Shari'ah* based subjects which could be adopted in developing Islamic economics discipline. The curriculum was prepared under the auspices of Islamic Development Bank of Jeddah. Some of the objectives of this curriculum are:

- a) To obtain economics principles based on *Shari'ah* so as to enlarge the scope of its knowledge with proper understanding of Islamic values.
- b) To conduct a joint research in Islamic economics, combining methods of understanding the *Shari'ah* rulings (*al-ahkam*) with specific conventional economic culture.
- c) To be acquainted with the sources and references in the knowledge of Islamic *Shari'ah*.
- d) To have the capability in referring to *Shari'ah* texts from its original sources with a profound understanding and able to use them in research and teaching.
- e) To work towards establishing an understanding of economics based on *Shari'ah* and having the capacity to conduct research, teaching and discourse in the

(9) Monzer Kahf,(1978), *The Islamic Economy: Analytical Study of the Functioning of the Islamic Economy System*, Indiana: The Muslim Students' Association of the United States and Canada, pp.6-7.

(10) See also Abd al-Salam al-'Abbadi first introductory remarks on 'Planning for Teaching Curriculum in the Sciences of Islamic *Shari'ah* for Scholars who Specialized in Economics' (*Mashru' Manhaj Dirasi fi 'Ulum al-Shari'ah al-Islamiyyah Muwajjah Lilmukhtassin fi al-'Ulum al-Iqtisadiyyah*), held in Jeddah 1413H.

language understandable by the *fiqh* scholars with accepted *Shari'ah* principles and maxims.

- f) To enhance the knowledge of *Shari'ah* (well-verse in *Shari'ah*) among contemporary experts of economics, management and finance.
- g) To develop research in Islamic economics with the intention to successfully establish the knowledge of its discipline based on *Shari'ah* values and norms.

To achieve the above objectives, a number of disciplines pertaining to *Shari'ah* subjects are suggested be included in the orientation program in Jeddah as follows:

Course of Instruction in the *Shari'ah* Sciences for Economists (Daurah Jeddah 1413H/1992M)¹¹

1. <i>Aqidah</i> and its General Characteristic	١. العقيدة والخصائص العامة للشريعة
2. <i>Qur'anic</i> Sciences	٢. علوم القرآن الكريم
3. <i>Hadith</i> Sciences	٣. علوم الحديث الشريف
4. Principles of Islamic Jurisprudence and the Objectives of <i>Shari'ah</i>	٤. أصول الفقه ومقاصد الشريعة الإسلامية
5. Introduction to Islamic Jurisprudence	٥. المدخل للفقه الإسلامي
6. Islamic Jurisprudence	٦. الفقه الإسلامي
7. Theories and Maxims of <i>Fiqh</i>	٧. نظريات وقواعد فقهية
8. Islamic Institutions	٨. النظم الإسلامية
9. <i>Sirah</i> of the Prophet and Islamic History	٩. السيرة النبوية و التاريخ الإسلامي
10. Original Sources of Islamic Economics	١٠. المصادر الأصلية للإقتصاد الإسلامي
11. <i>Fiqh</i> Research Methodology and Its Sources	١١. مناهج البحث الفقهي ومصادره
12. The Maxims of <i>Usul</i>	١٢. قواعد أصولية
13. Sources of Islamic Studies	١٣. مصادر الدراسة الإسلامية

(Source: Hasan Abdullah al-Amin in his introductory remarks in 'Planning for Course of Instruction in the *Shari'ah* Sciences for Scholars who Specialized in Economics' (*Mashru' Manhaj Dirasi fi 'Ulum al-Shari'ah al-Islamiyyah Muwajjah Lilmukhtassin fi al-'Ulum al-Iqtisadiyyah*), 1413H.)

The above subjects of *fiqh mu'amalat* and its related courses are used as parameters and guidelines to assess as to whether the courses of *fiqh mu'amalat* and other related discipline of knowledge in *Shari'ah* that has been taught at IIUM and UBD are in conformity with requirements contained in the above subjects and their specific curriculum prepared by Abd al-Salam al-Ibbadi. In fact, the above subjects of the *Shari'ah* based knowledge have been studied carefully during author's revision of the subjects of *Fiqh Mu'amalat* before those courses were officially introduced in the curriculum of the Department of Economics, KENMS, IIUM, session 1997/1998 onwards. Since then, some institutions in the Muslim world, including Malaysia and the Sultanate State of Brunei have introduced courses of *fiqh al-mu'amalat* and other related subjects in their institutions of higher learning as part of academic disciplines in order to strengthen Islamic economics program.

(11) Abd al-Salam al-Ibbadi's writing on 'Planning for Teaching Curriculum in the Sciences of Islamic *Shari'ah* for Scholars who Specialized in Economics' (*Mashru' Manhaj Dirasi fi 'Ulum al-Shari'ah al-Islamiyyah Muwajjah Lilmukhtassin fi al-'Ulum al-Iqtisadiyyah*)

As mentioned earlier, the Kulliyyah of Economics and Management Sciences (KENMS), International Islamic University Malaysia and The Faculty of Economics, Management and Policy Studies (FBEPS), University of Brunei Darussalam have introduced foundation courses such as Principles of Islamic Jurisprudence I and II (*Usul al-Fiqh I & II*), Transactions in Islamic Economics in *mu'amalat* matters along with other subjects related to the discipline of 'Islamic economics'. For example, the courses focus on various aspects of Islamic *fiqh* particularly pertaining the rules and guidelines in transactions in Islamic *fiqh* which are significant to Islamic economics discipline. As the title suggests, the approach to analyzing such a course could be perceived from the perspective of Islamic science of jurisprudence (*'ilm 'usul al-fiqh*) and *fiqh*. This is partly due to the fact that Islamic *fiqh* constitutes a discipline of Islamic *Shari'ah* that studies rules and guidelines for all practices including economic activities of Muslims categorized as *al-Mukallafun*. Hence, it would be more appropriate for the rules and guidelines to be studied directly from the parent subject of '*Usul*' and '*Islamic fiqh*' that are extremely importance for developing Islamic economic discipline. An obvious example is that, one of the definitions of '*al-'aqd*', which may be loosely translated as 'contract' in *fiqh*, is in fact, 'the result of the offer and acceptance (in performing a contract) which established its effects upon the objects of the contract'.¹² Hence, in performing a valid contract (*al-'aqd*), Islamic *fiqh* is practically concerned with the offer (*al-ijab*) and acceptance (*al-qabul*) in which the expressions indicating consent (*rida*) towards the '*aqd*' must be proper, valid and fulfilling the necessary conditions to ensure that the contract is performed according to prescribed rules of *fiqh*. At the same time, Islamic *fiqh* must also ensure that the performers of the contract (*al-'aqidayn*) are competent (acquired legal capacity or *al-ahliyyah*) and the object involved are valid so as to ensure the effects of such a contract is fully established.

Islamic economics, on the other hand, is more concerned with the behavior of man in their economic and business activities in which the rules and guidelines are provided by the discipline of *usul* and Islamic *fiqh*. Since Islamic economists are more concerned with the application of rules and guidelines of *fiqh*, they are vary much interested in more comprehensive rules that are applicable in economic and business activities.

Evidently, most of the rules and guidelines for Islamic economists are contained in the branch of *fiqh*'s studies called "*Fiqh al-Mu'amalat*", this subject has become important to undergraduate and post-graduate students, in KENMS, International Islamic University, and FBEPS, University of Brunei Darussalam as well. In their studies, the students are not only taught the extracted rules of Islamic *fiqh* but they are also exposed to the sources of the rules and guidelines of Islamic law. Since the rules of Islamic are the results or end products of the Science of Islamic jurisprudence (*'ilm 'Usul al-Fiqh*), *usul al-fiqh* as discipline has become an important subject in Islamic legal methodology to be utilized in deducing the rulings regarding transactions in Islamic economics either from the *Qur'an* as and the *Sunnah*, or from consensus of opinion of the Muslim jurists (*al-mujthidun*), or by using the method of deductive reasoning (*qiyas*), or juristic preference (*istihsan*), or public interest (*istislah* or *masalih al-mursalah*), etc.

(12) Wahbah Zulaili, *Al-Fiqh wa 'Adillatuh*, Vol. 4,

However, in the extraction of the rules, guidelines of the objectives of *Shari'ah* (*Maqasid al-Shari'ah*) and the maxims of *fiqh* (*al-Qawa'id al-Fiqhiyyah*) would also be referred to obtain a precise and exact rulings of *fiqh* (*ahkam al-fiqh*) in light of the *Shari'ah* perception (*al-dhauq al-shar'i*). This is because the objectives of *Shari'ah* are used to ensure the extracted rules do not deviate from the basic objectives intended by the Law Giver and the *fiqh* maxims are also utilized to guarantee the flexibility and the capability of Islamic *fiqh* to adapt to the changing conditions since the ruling may change with the changing of space and time (*taghyir al-ahkam bi taghayur al-zaman wa al-makan*).

As indicated in the Abd al-Salam al-Ibbadi's writing on 'Planning for Teaching Curriculum in the Sciences of Islamic *Shari'ah* for Scholars who Specialized in Economics', the courses he has listed also contain an introductory aspects of Islam including explanation of its precise meaning, the *Shari'ah* and its two major disciplines, namely *al-Tauhid* and Islamic ethics (*al-akhlaq*). These courses are included in the university required courses offered by the Kulliyah of Revealed Knowledge, IIUM.

As for the study of the original sources, namely the *Qur'an* and the *Sunnah*, the Department of economics has offered the subject on economics in the *Qur'an* and the *Sunnah* as part of six elective courses in Islamic economic program. Though the department does not offer a specific subject on *Sirah* of the Prophet, but in the course of History of Islamic Economic Thought some similar contents are also covered so that the students are equipped with some important historical facts pertaining Islamic economic operation in history.

D) Evaluation & Outcomes

After the implementation of revised courses prepared for *Bachelor of Economics: Graduation Requirement* by the Department of Economics in 1998, the department observed significant development through a process of restructuring of courses into different packages such as finance package, development package, international package elective package and including Islamic economic package. It was intended mainly to enhance quality assurance systems, both for the delivery of teaching programs and for the strengthening the discipline of Islamic economic. A key issue for the department at that time has been to ensure that the courses in *fiqh mu'amalat* in particular contributed to enrich the structure and contents of Islamic economics discipline. Indeed, the revised curriculum development laid the foundation for the strategic development of the department to continuously develop post-graduate studies in Islamic economics and other sub-discipline of studies.

The curriculum of *fiqh mu'amalat* and other related subjects in Islamic economics provides opportunities for students to develop and demonstrate knowledge and understanding, qualities and skills and research methodologies. The students are equipped with a proper understanding of new terminologies in *fiqh* and other related field of studies and be familiar with the definition of these new field of studies particularly in the theoretical and conceptual framework within which Muslim scholars approach issues pertaining to transactions in Islamic economics. In addition, students

are also exposed to some critical and methodological techniques in analyzing issues in their field of concentration.

With respect to teaching/learning methods and strategies, the above knowledge and methodological approaches and techniques are acquired by students through a combination of two hours lectures and one hour tutorial discussion, all within the contexts of small-group teaching, with strong emphasis on group discussion. Through the course students are also encouraged to participate in discussion and to undertake independent reading on required text(s) and references both as preparation and to supplement classroom based discussion and learning, and to broaden his/her individual knowledge and understanding of the subject. As for assessment students are evaluated through various forms of coursework, including assignments or essays, critical reviews of specific literature, short projects, oral paper presentation, and a research project or a short dissertation.

Regarding intellectual (or thinking) skills, on completion of the course students are expected to be able to apply critical analytical skills to their field of Islamic economics studies and analyze case studies, and apply research methods to assigned research projects. In view of this, they are expected to have the ability to identify an area of research and conduct a research project using contemporary research method, present sound written and oral arguments. Through the project, they should demonstrate the ability for independent thinking and provide personal views and solutions to the problems identified in the project.

E) Conclusion

It is apparent that *fiqh mu'amalat* and other related courses in *Shari'ah* have become very important subjects both in the KENMS, International Islamic University Malaysia and in the FBEPS, Universiti Brunei Darussalam. The purpose of this review of *fiqh mu'amalat* subjects in these institutions of higher learning is mainly to assess the extent to which the role plays by the *Shari'ah* based courses in integrating Islamic norms and values in the discipline of Islamic economics. Based on comparison between the courses that have been offered at IIUM and UBD, it is obvious that for the experts in the discipline of conventional economics, they are expected to acquire a strong foundation in *Shari'ah* sciences (*al-UlĒm al-Shar'iyyah*) to enable them to teach Islamic economics discipline effectively. For this reason, continuous efforts initiated by Islamic Economic Research Institute, the King Abdul Aziz University (KAAU) in organizing and conducting seminars and conferences would help enrich the form and contents of Islamic economics discipline.

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مراجعة موضوعات فقه المعاملات في الاقتصاد وبرامج ذات صلة في الجامعة الإسلامية العالمية بماليزيا وجامعة دار السلام ببيروناي

إسماعيل مات

المستخلص: تحتل موضوعات فقه المعاملات محوراً أساسياً في برامج كلية الاقتصاد وعلوم الإدارة في الجامعة الإسلامية منذ إنشائها كمؤسسة للتعليم العالي عام ١٩٨٣. لقد تم تبني نفس البرنامج من قبل كلية الأعمال والاقتصاد ودراسة السياسات في جامعة دار السلام ببيروناي. لقد تم إقامة الجامعة الإسلامية العالمية بناء على توصية المؤتمر العالمي الأول للتعليم الإسلامي الذي عقد في مكة عام ١٩٧٦م. إنه من الأهمية بمكان بعد مرور ثلاثين سنة من البحث في مجال الاقتصاد أن تتم مراجعة وتقييم مساهمة مواضيع فقه المعاملات المعتمد في كلا المؤسستين في تقوية تركيب ومحتويات الاقتصاد الإسلامي. لقد تم إدراج الاقتصاد الإسلامي كتخصص أكاديمي في العديد من مؤسسات التعليم العالي في العالم الإسلامي والغرب. كما هو واضح من خلال الأبحاث السابقة في حقل الاقتصاد الإسلامي فإن أحكام ومحددات فقه المعاملات تم إدراجها في صياغة مكونات الاقتصاد الإسلامي في مجالي البحث والتدريس. بناء عليه فإن هذه الورقة تحاول مراجعة وتقييم برامج فقه المعاملات في الاقتصاد في كل من الجامعة الإسلامية العالمية، وجامعة دار السلام ببيروناي من أجل الوقوف على مساهماتها وأهميتها في تطوير الاقتصاد الإسلامي كعلم مستقل.

Thirty Years of Research on History of Islamic Economic Thought: Assessment and Future Directions

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Abstract. The present paper examines and evaluates research experiences in the area of the history of Islamic economic thought during the last 30 years with the objective to see the pace of research and its coverage, both author-wise and idea-wise, and to determine the future research agenda in the light of the past progress and trends of the literature. The paper begins with a brief survey of the early literature on the history of Islamic economic thought, prior to 30-years, to provide a background. Then it studies and evaluates the research during the last thirty years, 1976-2006. It finds that hitherto the research in the history of Islamic economic thought has been language, region and period specific – Arabic, the Middle East and up to 9th/15th century respectively. More attention has been paid to write on economic thought of few personalities than others. The situation is still worse in case of idea-wise research. However, this literature has exerted some effects on scholars of the main stream economic thought and a few of them are trying to rehabilitate it in the main body of economic thought. At the end, the paper emphasizes on need for intensive and extensive research to include more personalities, ideas, periods, languages and regions and to write a systematic history of the subject.

Introduction

The modern development of Islamic economics began with the turn of the 20th century¹. Research on the history of Islamic economic thought started much later – during 1930s². The study on contribution of Muslim scholars of the past was not for the sake of enjoyment or to have pride in the intellectual heritage of Islam. It was a natural step to turn to the bright lights of the past to have guidance from their experiences and to know how they solved economic problems they faced in their own times. It was intended to learn lessons from the history of Islamic economic thought and develop insights in dealing with our own economic problems.

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(1) For a long time we held that the development of modern Islamic economics started in nineteen-twenties. But recently we discovered a work entitled *al-Mirsad fi Masa'il al-Iqtisad* by Abd al-Qadir al-Mijawi and Umar Burayhimat, dated 1904, Fontena, Algeria.

(2) Perhaps the first article to introduce economic thought of Muslim scholars was written by Salih (1933) in Arabic entitled 'Arab Economic Thought in the Fifteenth Century' in which he discussed economic ideas of Ibn Khaldun (d. 808/1406), al-Dulaji (d. 838/1435), and al-Maqrizi (d. 845/1442). Next, al-Hashimi (1937) published his paper on "Economic Views of al-Biruni" (d. 442/1048), again in Arabic. The same year Rif at (1937) wrote on 'Ibn Khaldun's Views on Economics' in Urdu. The first paper in English was written by Abdul-Qadir (1941) entitled "The Social and Political Ideas of Ibn Khaldun". And the first Ph.D. on the subject was awarded by Cairo University to Nash'at (1944) on 'Economic Thought in the Prolegomena of Ibn Khaldun' written in Arabic.

But the pace of research in this area and its coverage has not been alike. The present paper aims to examine and appraise research experience in the area of Islamic economic thought in English language during the last 30 years – from 1976 to 2006 - with the objective to assess the progress of research and its coverage, both author-wise and idea-wise. Thus in the light of the past progress of literature and trends of research in this area an effort will be made to determine the future research agenda. The paper will begin with a brief survey of the early literature on the history of Islamic economic thought, prior to the study period, to provide a background. Then it will study and evaluate the research during the last thirty years and try to find out the trends, focus, emphasis and thrust of this literature. This will enable us to point out the gap in the literature in coverage of personalities, ideas, regions, periods and languages. The paper will also examine whether this literature could exert any impact on the history-works of the main stream economic thought. At the end, the paper will seek to present future agenda for historical researches on Islamic economics. We hope that this study will come up with results that will help the researchers to streamline their efforts and fill the gap still existing in study of various aspects of Islamic economic thought.

1. Phases in development of Islamic Economic thought

The development of Islamic economic thought, in its long history, has not followed a smooth path. Ignorance of this fact led many writers to wrong conclusions.³ It has also resulted into unevenness and repetitiveness in selection of idea and authors. It is hoped that knowledge of various phases in development of economic thought in Islam will be helpful in the study of the subject. Thus, one has to be aware of the various phases it has passed.

Siddiqi (1992) divides it into four phases. First the ‘foundation’ phase which dates from the early period of Islam up to 450AH/1058AD (Henceforth the first figure would mean A. H. and after / A.D). In this period jurists, sufis, and philosophers contributed to economic thought. The second phase spreads over four centuries – up to 850/1446. In this phase the scholars drew upon the rich intellectual heritage of Islam in addition to the Qur’an and Sunnah. The third phase ranges between 850-1350/1446-1932. It began when stagnation took the Muslim mind in its grip. This phase came to an end when fresh stirring started. The fourth phase is the current situation which starts from 1350/1932 and continues.

A little more expanded distribution of phases in development of Islamic economic thought may be the following:

- I. First phase, the formation period. This covered the period just after cessation of the revelation to the end of the Companions’ era (11–100/632–718) when economic ideas were fully based on Islam’s internal sources.

(3) For example, Heffening (1934, vol. 4, p. 595) reports that Ritter attributes the entire economic literature of Islam to Neo-Pythagorean Bryson – an unknown personality, while Meyer (1956, pp. 66-74) observes that "Arabic, Turkish and Persian speaking East has experienced no continuity of economic ideas such as those which come from the Judeo-Christian West."

- II. Second phase, the translation period when foreign ideas were translated into Arabic language and Muslim scholars got an opportunity to benefit from the intellectual and practical works of other nations (2nd–5th/8th–11th centuries).
- III. Third phase, the re-translation and transmission period, when Greco-Arab Islamic ideas reached Europe through translation and other contacts (6th–9th/12th–15th centuries).
- IV. Fourth phase imitation and stagnation period, when formation of new ideas almost stopped (10th - 11th/16th - 17th centuries).
- V. Fifth phase awakening and stirring phase, when voices for renovation and fresh thinking were raised from various corners of Muslim world (12th - 13th/18th - 19th centuries).
- VI. Sixth phase the period of modern Islamic economic thought (14th century/20th century, the recent past)⁴.

Again, the last phase may be divided into four sub-phases.

- a) First quarter of the twentieth century. It may be termed as “pre-take off” period when establishment of modern institutions progressed, attention was paid to edit and publish classical Islamic literature on socio-economic issues and many leaders were born who called for reform and revival.
- b) The second quarter of the 20th century. It may be called as “take off” period, when writing on economic thought of Islam and economic problems with Islamic perspective started mainly as a result of interaction with the West.
- c) The third quarter of the twentieth century. In this period generally private individuals led the movement of Islamic economics to forward. It may be called big-push, and
- d) The last quarter of the 20th century when institutions also joined hands to develop it. It is the period of reconstruction and recognition of Islamic economic thought. And this is the phase that we intend to study in this paper. But let us have first an overview of the previous period.

2. Earlier works on the history of Islamic economic thought

A. Works during the first half of the Twentieth Century. There is nothing much to report from the first half of the twentieth century. The only figure⁵ that could attract the attention of scholars in this period is Ibn Khaldun. Abdul Qadir (1941, 1942) discussed his economic thought highlighting his labor theory of value.

As far the earliest research on an economic institution is concerned, it was *bayt al-mal* or public treasury in Islam which was conducted by Aghnides (1916). The work is jurisprudential in nature. Next came the institution of *al-hisbah* or market supervision.

(4) Dates are rounded and roughly corresponding, not exactly.

(5) In 1939 the French scholar Henry Laoust published his work entitled *Essai sur les Doctrines Sociale et Politique de Taki-d-din b. Taimiya* in which he highlighted in one of its section the economic ideas of Ibn Taymiyah. Perhaps that inspired many writers in the second half of twentieth century to make it the subject of their research.

Amedroz (1916) examined the hisbah jurisdiction in the *Ahkam al-Sultaniyah* of Mawardi, while Levy (1938) edited with his valuable notes Ibn al-Ukhuwwah's work on *al-hisbah*. It may be noted that the literature on *al-hisbah* proved one of the important sources of economic thought of Muslim scholars.

First time economic significance of zakah was discussed by Datta (1939), a non-Muslim. It was published in the prestigious economic journal, the *Economic Journal*, London, the famous economist J. M. Keynes as its editor. Hussain (1947) examined the provision of zakah as a scheme of social insurance in Islam.

B. Progress of literature from 1950 to 1975. In the second half of the twentieth century also Ibn Khaldun topped the list and maximum researches appeared on his economic ideas. Sharif (1955) and Irving (1955) were the first to write on economic thought of Ibn Khaldun. The others who wrote on his economic ideas include Alam (1960), Ali (1970), Andic (1965), Boulakia (1971), Sattar (1973), Sherwani (1970). Perhaps this was facilitated by the translation of *Muqaddimah* in English language by Rosenthal in 1958 and a translation of selected passages from *Muqaddimah* related to economic issues by Issawi (1950) at an earlier date. El-Alfi completed his Ph. D. in 1968 on *Production, Exchange and Distribution in Ibn Khaldun's Writing*, from the University of Minnesota. This was the first doctoral dissertation on economic ideas of a Muslim thinker accomplished in the West. An excellent introduction to Ibn Khaldun's ideas was presented by Spengler (1964)⁶. Mirakhor (1987, p. 250) remarked about Spengler's paper: "Although the paper is riddled with an 'oriental attitude', it is a valiant effort by a distinguished historian of economic thought to deal, partially, with the economic thought of Islam. This indeed was the first attempt of its kind in the field. It contained a wealth of ideas for further research." In another paper published in the *History of Political Economy*, Spengler (1971) held al-Biruni a forerunner of Malthus.

Ibn Taymiyah was next to Ibn Khaldun whose economic ideas were subject of research in this period. Works by Sherwani (1956) and Ilyas Ahmad (1961) formed the earliest writings on his economic ideas. These writers seem to be influenced by the work of French scholar Laoust (1939). Especially the former's paper seems to be an English version of Laoust's reflections on economic ideas of Ibn Taymiyah. In 1973 Monzer Kahf prepared his monograph on economic views of Ibn Taymiyah⁷. A year later a Ph. D. program was registered at the Aligarh Muslim University, India, on "*Economic Views of Ibn Taymiyah*"⁸.

A significant aspect of research in this period is investigation about economic ideas of early administrators and scholars of Islam, such as, the second caliph Umar (Rana 1970), Abu Dharr al-Ghifari (Yusuf 1970), Ibn Marwan (Grierson 1960), Umar b. Abd al-Aziz (Gibb 1955). During 1960s Ben Shemesh published English translations of the works of Abu Yusuf, Yahya b. Adam and Qudamah b. Ja'far on *kharaj* entitled

(6) Although Spengler's focus was Ibn Khaldun's economics, he mentioned names of a large number of Muslim scholars who had something to say on economic issues.

(7) Later it was published in *al-Ittihad* (Indiana/Plainfield), 1981, vol. 18, no. 3, pp. 9-21.

(8) The thesis was completed in 1980 and degree was awarded in 1981. Later its revised version was published by the Islamic Foundation, U.K. (Islahi, 1988). See the next section.

Taxation in Islam. Thus he provided a source for non-Arab scholars to investigate the economic substances in these works. But no research appeared until 1990s⁹.

The other original sources that were edited and rendered into English language in this period include Miskawayh's *Risalah fi mahiat al-'Adl* which was translated and edited by Khan (1964), Nizam al-Mulk al-Tusi's *the Book of Government and Rules for Kings (Siyasat Namah)* by Rake (1960), and Ibn Taymiyah's treatise *al-Siyasah al-Shar'iyah* was translated by Farrukh Omar (1966).

Sharafuddin (1965) introduced *al-Dawudi's Kitab al-Amwal*. Minorsky (1964) wrote on Nasir al-Din al-Tusi (597-672/1201-1274). In the same period Anzarul-Haq (undated) made *a Critical Study of Jalal al-Din al-Dawwani's Contribution to Social Philosophy*.

From among the modern thinkers only al-Afghani received the attention of Hanna (1967) who considered him a pioneer of Islamic socialism.

In the third quarter of the twentieth century writers on economic thought covered a number of important economic ideas and institutions, such as, landed property and land tenure (Abd al-Kader 1959), *kharaj* and taxation (Denet 1950, Duri 1974, Gibb and Bowen 1950, al-Labban 1964, Qureshi 1961), partnership and *mudarabah* (Gaiani 1953, Udovitch 1967, 1970), money and banking (Goitein 1966), property right (Ali 1959, Bravmann 1962), *al-hisbah* and *al-muhtasib* (Foster 1970, Glick 1970, al-Husaini 1965, Imamuddin 1963, Latham (1960), Wickens (1956), Serjeant 1953, Siddiqi 1963, Ziadeh 1962), *al-riba* (Muslim 1971), trade and commerce (Lopez 1970, Somogyi 1967, 1965, Udovitch 1970), etc. The writers in this period were mostly nonprofessional economists.

3. During the last 30 years: Between 1976-2006

A. The First international conference on Islamic Economics: a Turning Point. In the month of February 1976, King Abdulaziz University organized the first international conference¹⁰ on Islamic Economics in the holy city of Makkah al-Mukarramah. The conference provided a golden opportunity for scholars working scatteredly on Islamic economics to be aware of existing state of affairs in the field of Islamic economics, to exchange ideas with each other, to take stock of the existing literature on the subject and realize the challenges ahead. Islamic economics got a momentum after this conference never seen before. It led to intensive and extensive researches on various aspect of the discipline, development of curricula on Islamic economics, foundation of research centers and study departments, establishment of a chain of Islamic banks and financial institutions which were already founded in few

(9) The only paper written in this period about Abu Yusuf's economic thought was by Siddiqi (1964) in Urdu based on Abu Yusuf's original work in Arabic. Siddiqi (1966) has to his credit an excellent Urdu translation of Abu Yusuf's *Kitab al-Kharaj* with highly useful notes.

(10) According to Siddiqi (1992, p. 26), 'This conference ushered in a new era in Islamic economic thought as it carried the subject to the Muslim academia the world over. Simultaneously, it provided a great impetus to nascent "movement" of establishing Islamic financial institutions'.

places and issue of specialized journals on Islamic economics. The need to benefit from the Islamic intellectual heritage in the area led to increasing effort to explore economic thought of past Muslim thinkers. The works completed in this particular aspect of the discipline is many times more than what was done in the past three quarters of the twentieth century, both in terms of quality and quantity¹¹. However, as compared to 1400 years of Islamic tradition of knowledge and culture and leading role of Muslim scholars in most of fourteen centuries, the researches carried on hitherto are still far less than they deserved. In this period role of professional economists enhanced, while that of others contracted.

B. Author-wise. Siddiqi in his two survey articles on the history of Islamic economic thought (1982, 1992) introduced briefly the economic ideas of more than two dozen scholars and drew the attention of researchers towards their deep and detail study.¹² The list included: Zayd b. Ali (d. 120/738), Abu Hanifah (d. 150/767), al-Awza'i, (d. 157/774), Malik b. Anas (d. 179/796), Abu Yusuf (d. 182/798), Muhammad al-Shaybani (d. 189/804), al-Shafi'i, (d. 204/820), Abu Ubayd al-Qasim b. Sallam (d. 224/838), Ahmad b. Hanbal (d. 241/855), al-Muhasibi (d. 243/857), al-Jahiz (d. 255/869), Junayd al-Baghdadi (d. 297/910), Qudamah b. Ja'far (d. 337/948), Abu Jafar al-Dawudi (d. 401/1012), Ibn Miskawayh (d. 421/1030), al-Mawardi (d.450/1058), Ibn Hazm (d. 456/1068), al-Sarakhsi (d. 483/1090), Nizam al-Mulk al-Tusi (d. 485/1093), al-Kasani (d. 578/1182), al-Shayzari (d. 589/1193), Fakhr al-Razi (d. 606/1210), Najm al-Razi (d. 654/1256), Nasir al-Din al-Tusi (d. 672/1274), Ibn al-Ukhuwwah (d. 729/1329), al-Shatibi (d. 790/1388) and al-Maqrizi (d. 845/1442).

But after passing more than two decades researches could not be initiated on majority of them. Only Aidit Ghazali (1992) wrote on al-Muhasibi, Ibn Hazm, Ibn Tufayl and Nizam al-Mulk al-Tusi. The other few who could receive the attention of researchers include: Al-Ghazali (Orman 1985, 2001, Ghazanfar and Islahi 1992, 1998, Islahi 2001, Sadeq 1992), Ibn al-Qayyim (Islahi 1984, Ghazanfar and Islahi 1996), , Ibn Abi al-Rabi' (Hasanuzzaman 1992) and al-Shatibi (Khan and Ghifari 1992). Even in this period maximum number of researches came out on Ibn Khaldun (Andic 1985, Alattas 1990, 2001, Charnay 1979, Gausau 1991, Rozina 1994, Salama 1979-80, and Oweiss 2003). In November 2006, the IRTI/IDB organized, in collaboration with UNED (*Universidad Nacional de Educacion a Distancia*) of Spain, and Islamic Cultural Centre of Madrid, an international conference on Economics of Ibn Khaldun at Madrid in Spain in which a quite large number of papers were presented on various

(11) At that occasion Siddiqi (1981) presented a survey of contemporary literature on Islamic economics in three major languages, English, Arabic and Urdu and a comprehensive bibliography up to 1975, while Zaim (1980) prepared a bibliography of works in Islamic economics in Turkish language. It may be noted that in his bibliography Prof. Siddiqi listed about 25 works in English on Islamic economic thought. Twenty years later the present writer (Islahi 1996) was assigned by the Islamic Economics Research Center to prepare a bibliography exclusively on economic thought in Islam. This time the number of entries, including the works in previous years (those covered by Dr. Siddiqi), reached 180. In less than quarter a century the number of works increased more than five times. This shows how a fast increase was in Islamic economics literature during the post Conference period.

(12) In a recent publication (Islahi 2005) that examines contribution of Muslim scholars to economic thought and analysis up to 9th/15th century, the present writer added to this list more than 60 names that have been quoted for their economic views. If the scholars of later centuries are also included, the list may cross hundred.

aspects of Ibn Khaldun's economic thought which showed the relevance and vitality of his ideas¹³.

Researches leading to award of Ph D. increased during the last 30 years. Islahi concluded his dissertation on *Economic Views of Ibn Taimiyah* in 1980.¹⁴ Ibn Battah completed his Ph. D. dissertation on *Ibn Khaldun's Principles of Political Economy: Rudiments of a New Science*, in 1988.

Another Ph D. work on economic thought of a Muslim scholar is the translation and critical edition of al-Dawudi's *Kitab al-Amwal*, prepared by al-Fili (1989) in two volumes from the University of Exeter, U.K. The first volume mainly consists of the Arabic text, while in the second volume a critical study of the author, his period and his book has been presented. Apart from his intellectual independence and particular treatment of the subject, al-Dawudi's work is more significant in that it makes use of earlier, now lost, Malikite and non-Malikite studies of the topic.

(13) The conference may be considered first of its kind as it was held in a European country and exclusively on Ibn Khaldun. About two dozens research papers were presented in English, Spanish and Arabic languages. Following is the list of authors and their papers on diverse aspects of economic ideas of Ibn Khaldun and the link to access them:

1. Abdul Azim Islahi
[Ibn Khaldun's Theory of Taxation and Its Relevance Today](#)
2. Cecep Maskanul Hakim
Ibn khaldun's thought in microeconomics: dynamic of labor, demand-supply and prices
3. Haniza Khalid
Comparing Ibn Khaldun and the new institutional economics
4. Irfan Syauqi Beik and Laily Dwi Arsyianti
Ibn Khaldun's contribution on modern economics development: an analysis based on selected economic issues
5. Ismail Ahmad and Abdul Razak Mahmud
Ibnu Khaldun and the international trade
6. James R. Bartkus and M. Kabir Hassan
Ibn Khaldun And Adam Smith: contributions to the theory of the division of labor and modern economic thought
7. Mohaned Talib Al-Hamdi
Ibn Khaldun: the father of the division of labor
8. Salman Syed Ali
Economic thought of Ibn Khaldun (1332-1406 a.d.)
9. Selim Cafer Karatas
Economic theory of Ibn Khaldun and rise and fall of nations
10. M. Umer Chapra
Ibn Khaldun's theory of development: does it help explain the low performance of the present-day muslim world?
11. Zubair Hasan and Nurhafiza Abdul Kader.Malim
The source of value and capital formation: Ibn Khaldun, Ricardo, and Marx – a comparison
12. Zuriah Abdul Rahman
Ibn Khaldun's new science and its contribution to the social sciences and risk management
<http://www.uned.es/congreso-ibn-khaldun/ponencia.htm>
Accessed on 25th November 2007.

(14) When its revised version was published under the title *Economic Concepts of Ibn Taimiyah* in 1988 from the Islamic Foundation, Leicester (U.K.), Prof. Siddiqi held its publication as 'a singular event of Islamic economics'. In its introduction he observed: "With the exception of an unpublished thesis on Ibn Khaldun, I am not aware of any book-length treatment of the economic concepts of any Islamic scholar, in the English language" (p. 22).

In 1995, Azmi, completed his M. Phil. dissertation on “*Abu Yusuf’s Contribution to the Theory of Public Finance*” from the Aligarh Muslim University. Prior to the said dissertation, to our knowledge, there was no study in English language on this leading scholar of Islam. Siddiqi who wrote on Abu Yusuf’s economic thought in Urdu as early as 1964, presented, in a joint paper with Ghazanfar (2003), ‘some key aspects of his commentaries on public finance issues’ and introduced them to Western readers.

Surprisingly one of the earliest contributions to Islamic public finance and rather more comprehensive in nature – *Kitab al-Amwal* by Abu Ubayd al-Qasim b. Sallam¹⁵ – could be translated in English in 1991 by Ghifari. The only research work in English on Abu Ubayd’s *Kitab al-Amwal* is a Ph. D. dissertation by Ugi Suharto (2000) entitled *Early discourse on Islamic finance: A study based on Kitab al-Amwal of Abu Ubayd al- Qasim bin Sallam (d.224/836)*.

In this period a few other classical works of economic importance were edited and translated with useful notes, for example, Ibn Taymiyah’s *al-Hisbah* under the title *Public Duties in Islam* (Muhtar 1982) and al-Maqrizi’s work *Ighathat al-Ummah* under the title *Mamluk Economics* (Allouche 1994). These works removed the barrier of language for the researcher community and the translators’ notes helped them greatly.

A worth mentioning aspect of research in this period is attention towards the economic ideas of some Muslim thinkers of later centuries. Except one article on Jamal al-Din al-Afghani, all researches in the era prior to our study period were confined to economic thought of scholars who lived up to 15th century (9th century Hijrah). But during the last thirty years economic ideas of a few thinkers of 18th, 19th and even twentieth centuries have been discussed. For example, Shah Wali-Allah Dehlawi (d. 1762) (Islahi 1990, Baljan 1992), Usman Dan Fodio (d. 1817) (Gusau 1989), Muhammad Bello (d. 1837) (Malami 1994), Sir syed Ahmad khan (d. 1898) (Islahi, 1992), Iqbal (d. 1938) (Tahir 2001), Malik b. Nabi (d.1973) (Basha 1991-92) and Baqir al-Sadr (d. 1982) (Wilson 1998). These researches are important not only because they belong to a neglected period but also because they are outside of the traditional region of research. Some of these scholars wrote in a language other than Arabic. It is astonishing that till date no worth mentioning study appeared in English language on economics of Mawlana Mawdudi (d. 1979). His circle of influence is much wider and his contribution to the development, exposition and articulation of Islamic economics is much more significant than many of his contemporaries.

C. Idea-wise. Since early days of Islam, public finance attracted the attention of scholars. Azmi in his Ph. D. dissertation in 1999 on *Public Finance in Early Islamic Thought*¹⁶ analyzed ‘early Islamic fiscal institutions and practices and the underlying theories and principles evolved by some early writers within the broader theoretical

(15) About a quarter century ago Siddiqi (1982), in his survey of works on history of Islamic Economic thought observed that Abu Ubayd surprisingly failed to attract the attention of economists and researchers in spite of his work being very rich in historical as well as juridical material and widely quoted by recent writers on Islamic economics.

(16) The thesis was later published under the title *Islamic Economics: Public finance in Early Islamic Thought* by Goodword, New Delhi, 2002.

framework' (Azmi, 2002, p. 12). Public Finance and its various provisions have also been discussed by Fathi (1976), Ahmad (1988), Denet (1950), el-Fadl (1992), Lokkegaard (1979), Meera and Ahsan (1992), Moderressi (1982), Oran and Rashid (1987), Simonsen (1988) and Syedain (1989). Market and pricing being the core of economic science has naturally attracted attention of many scholars in dealing the economic ideas of Muslim scholars (Islahi 1985, 1995, Hosseini 2003a, Oguz and Tabakoglu (1991), Bashar (1997), and many others). This should be enough to correct the statement of Schumpeter (1954, p. 305) who remarked: "As regard the theory of the mechanism of pricing there is very little to report before the middle of the eighteenth century". The next most discussed topic is money and banking (Ehrekreutz 1992, Imamuddin 1990 and Lowack 1990). Some other discussed topics are Partnership and *Mudarabah* (Siddiqi 1985, Cizacka 1986, Gerber 1981, Hasan 1989), *al-hisbah* (Amine 2002, Izzi Din 1997) and Waqf (Cizacka 2002, Baer 1990, Mandaville 1979).

Islamic countries historically have been agricultural economies. But relatively less importance has been given to the study of sharecropping, agrarian relations and land management. We have few names in this area such as Ziaul-Haq (1977, 1976), Watson (1983), and Zafarul-Islam (1987). Increasing importance of voluntary sector and withdrawal of government from performing an active economic role led tremendous researches during the last 30 years on institutions of zakah and waqf (Islahi 2003, 2005b) aiming at their re-activation as an alternative to government's role of helping the down trodden section of the society and improving their economic condition.

D. Collected papers and General Themes. With the introduction of Islamic economic thought as a paper of study in this period at various levels in different universities, the demand for reading materials in the subject increased. This was met to some extent through preparation of collective papers. Sadeq and Ghazali (1992) presented *Readings in Islamic Economic Thought*. Addressing the Western scholars Ghazanfar (2003) edited his own and some others articles that fall in the period of so-called "Great Gap"¹⁷ under the title *Medieval Islamic Economic Thought: Filling the "Great Gap" in*

(17) Joseph Schumpeter (1997, pp.73-74) talked of 'the great gap' in evolution and development of economic thought in his monumental work *History of Economic Analysis*, first published posthumously in 1954. Siddiqi (1964), writing on economic thought of Qadi Abu Yusuf ten years after publication of Schumpeter's work, took notice of that assertion. In 1987, Mirakhor penned down a well-documented paper in which he questioned the Schumpeterian great gap thesis and pointed out to the 'serious omission in the history of economics of profound contribution made by Muslim scholars'. He showed that 'both motive and opportunity existed for the Medieval European scholars to be influenced by the economic ideas and institutions developed in medieval Islam and that based on the available evidences, they availed themselves of such an opportunity by using some of the available knowledge to advance their ideas'. (Mirakhor, 1987, p. 249) The echo of this paper was heard at the History of Economics Society Conference in Toronto, Canada, June 1988 in which Ghazanfar (2003, p. 19, footnote 1) presented his study on "Scholastic Economics and Arab Scholars: The Great Gap Thesis Reconsidered". The so-called gap in the economic thought motivated this writer in a joint work with Ghazanfar to show that a substantial body of contemporary economics is traceable to Muslim scholastics such as al-Ghazali and others (Ghazanfar and Islahi, 1990). Ghazanfar (1995, p. 235) further reinforced it in his paper "History of Economic Thought: The Schumpeterian 'great gap', the Lost Arab-Islamic Legacy and the Literature Gap". While 'disputing the validity of the great gap thesis', the author has shown by survey of some major works on the subject, that the literature gap is 'manifest in almost all relevant works in economics'.

*European Economics*¹⁸. He highlights ‘inexorable historic connections between the two worlds whose origins lie in the same crucible’ (p.1). His thrust is that the history of economic thought provides a common ground for civilizational dialogue because of its ‘multi-dimensional linkages and influences, extending over several medieval centuries, between the then vibrant Islamic civilization and the evolving Latin-European culture’ (ibid).

Ahghari’s Ph. D. (1991) on *The Origin and Evolution of Islamic Economic Thought*, from the Florida State University, must be mentioned here, as she discusses a number of Persian scholars’ economic thought, perhaps first time, in some details. Hosseini (2003b) has also taken the note of Persian Muslim contribution to economic thought to disprove Schumpeterian “great gap” thesis. It would have been a useful article for researchers had he provided the bibliographical details at the end of the paper for references noted in the middle of the text.

Another work that addressed Western audience and published in the West was authored by Essid (1995) entitled “*A Critique of the Origins of Islamic Economic Thought*”. He maintains that Arab-Muslims have made a significant contribution, one which is not yet well recognized in the West. He rightly admits that Arab-Muslim thinkers were indebted to Greek scholars. But his thrust in this work is on indebtedness of Muslim scholars to Greek ideas, not their additions to and improvements over them. In many cases the author accepts assertions of Western critics of Islamic economics at their face value without checking them in the basic sources of Islam. One who has knowledge of the basic sources of Islam would surely be surprised to see that the concept of “mean” or “middle course” emphasized in Muslim sources is regarded as the Greek or Persian origin (see Essid, 1995, pp. 33-34). Similar course is adopted by Hosseini (2003a, p. 94). In an effort to show objectivity (or to imitate Western style¹⁹, these authors try to trace for many Islamic provisions an origin in Greek or ancient Persian traditions without substantial proofs and in many cases just repetition of the statements of Orientalist writers. As an example, myth of Bryson may be presented here. The German scholar, Helmut Ritter, in 1917 somewhere observed that ‘*the whole economic literature of Islam*²⁰ can be traced to economics of Neo-Pythagorean Bryson’ (Heffening, 1934, p. 595, emphasis added). The ‘unidentified Greek Bryson or Brason or Brasson (Brusson), whose work was unknown to the West (Spengler, 1964, p. 276

(18) In addition to ‘Introduction’ by the editor, and a ‘Foreword’ by Prof. S.T Lowry, the volume contains seven articles individually authored by Ghazanfar, four joint works with the present writer and one with Siddiqi. It also contains two articles of Hamid Hosseini that highlight the Persian-Islamic contribution to economic thought. It may be noted that all these papers were first published in prestigious Western journals.

(19) Here are a few examples of such statements: ‘Islam tried to incorporate and internalize Hellenic and Iranian thought (such as Zoroastrianism and Manichaeism) from its earlier days’ (Hosseini, 2003, p. 90)! Similarly, using and highlighting unnecessary and some times wrongly coined terms like “medieval Islam” (ibid. p. 88), ‘sunni theologian’ (ibid. pp. 94, 102), ‘sunni jurist’ (ibid. p. 95), and ‘the strict Wahabi sect’ (ibid. 102), etc. shows ‘oriental attitude’.

(20) Ritter, while writing in 1917, never meant by ‘economic literature of Islam’ what we know today as Islamic economics or Islamic economic thought, as some contemporary writers have understood it. He was talking about the subject known by Muslim philosophers as “*tadbir al-manzil*’ or household management. But that is also not entirely owed to Greeks because Muslim scholars made substantial improvements and additions to it.

footnote) was, perhaps, first mentioned by Ritter which was picked up by many others²¹. Now to Hosseini (2003a, P. 93) and Essid (1987, pp. 182, 221), al-Dimashqi and many other Muslim scholars based on Bryson. Another example is of ‘Persian mirror’. When one Western writer used this term, these scholars also started talking in the same term and attributed all political writing of Muslim scholars to the Persian books of mirrors (see Essid, 1995, pp. 19-40; Hosseini, 2003b, pp. 116-117), although a wide difference exists between so called Persian ‘mirror for princes’ and Islamic socio-political and economic writings.²²

4. Impact on history-works of main stream economic thought

Research on history of Islamic economic thought during the last thirty years has enriched the discipline with tremendous literature. Writings in this period are characterized by rigorous analysis and professional skills. They provide materials that may be used to make up existing deficiency – the great gap – in the literature on the history of economic thought. It should benefit Western economists as well, who admit on their part the existence of a great gap between ancient Greek thought and scholastic economic thought but are unable to explain it. It has already exerted its impact on main stream economic thought. Many Western scholars now realize that any work on the history of economic thought will be incomplete if Muslim scholars’ contribution is excluded from such a work²³. They have, therefore, included in their edited volume or

(21) It may be noted that there is no mention of Bryson in Schumpeter’s encyclopedic work ‘*History of Economic Analysis*’ which presents minute details of the history of the intellectual efforts ‘from the earliest discernible beginning’ (Schumpeter, 1997, p. 3). History of economic thought has numerous instances when an idea mentioned by some writer in the past re-emerged later with more details and clarity. For instance, the idea that ‘the bad money drives out good money’ known as Gresham’s law is a case in point which was mentioned by many scholars like Ibn Taymiyah (d. 1328) Nicole Oresme (d. 1382), etc., much before Thomas Gresham (1519-79) (Islahi 1988, pp. 139, 143). The idea of division of labor is another case which was explained by al-Ghazali citing the example of a needle, analogous to Adam Smith’s famous pin-factory example seven centuries later Ghazanfar and Islahi, 1992, 1998).

Moreover, certain ideas were developed simultaneously by different authors at different places without being aware of each other. “The theory of rent was developed separately by four writers all published during Feb. 1815, Malthus, Edward West, Ricardo and Robert Torrens. ‘This coincidence is an interesting example of how a pressing contemporary issue can call forth a theory developed independently by different people’ (Oser and Blanchfield 1975, pp. 93-94). Again, ‘marginalist school developed in several countries and through the efforts of different people working independently by each other at first, another interesting case of new ideas arising almost simultaneously in different places and from different people’”. (ibid., p. 220). Thus, a mere resemblance between ideas of two persons does not necessarily mean that one has borrowed or copied from the other unless enough documentary evidence is available to that effect.

(22) It is not known why they call it ‘mirror’, for which Arabic equivalent is “*mir’at*” and Persian is ‘*ā’īnah*’. To the best of our knowledge, no Arab writer has used the word ‘*mir’at*’ in his title in that sense. However, some Persian writers have used the word ‘*ā’īn*’, such as *Ā’īn-Namah* by Ibn al-Muqaffa’ or *Ā’īn-e-Akbari* by Abu’l Fazl. Western writers either have confused the word ‘*ā’īnah*’ (mirror) with ‘*ā’īn*’ (rule or manual) or the term has been used because these works, like mirrors, reflect ideas that should be followed by rulers. These types of works are not confined to Persian language. In every civilized society such writing had existed. In ancient India Kautilya’s *Arthshastra* is a well-known example.

(23) In a letter Harry Landreth writes: “I agree that Schumpeter erred and that modern historians of economic thought have followed Schumpeter in failing to appreciate the Arab-Islamic writings in

original writing a section or chapter on this aspect. In 1978 Grice-Hutchinson authored *'Early Economic Thought in Spain'* in which she extensively wrote how Greek economics was developed and propounded by Muslim scholars and how they transmitted it, along with their own original ideas, to the Christian West (Grice-Hutchinson, pp. 61-80). In 1987 Lowry presented his excellent edited volume *Pre-Classical Economic Thought* in which he has rightly assigned a place to 'Islamic Economic Thought' (Chapter four) between "Biblical and Early Judeo-Christian Thought" and "Scholastic Economics" (Lowry, pp. 77-114).

In his another edited volume *'Perspectives on the History of Economic Thought'*, volume seven, Lowry included two papers on aspects of Islamic economic thought - one "Greek Economic Thought in the Islamic Milieu: Bryson and Dimashqi" by Essid (1992, pp. 39-44) and another "Explorations in Medieval Arab-Islamic economic thought: Some aspects of Ibn Taimiyah's economics" by Ghazanfar and Islahi (1992, pp. 45-63).

In 1994 Louis Baeck published *'The Mediterranean Tradition in Economic Thought'* in which he has extensively dealt with "the Economic Thought of Classical Islam and Its Revival", (pp. 95-124). The book surveys the Mediterranean Tradition over four millennia. Although the theme of the book is wide, it gives substantial coverage to the history of economic thought in Islam, an area generally ignored by the historians of the subject. In addition to a complete substantial and illuminating chapter on Islamic economic thought, references to Islamic and Arab scholars are scattered at various places in most of the chapters. The author admits that in most handbooks on economic thought the contribution of the Islamic scholars finds no place. (p.118). But he does not attempt to find out the reason behind it. He pays a rich tribute to Islamic scholars of the past and admits superiority of Islamic culture to its Greek and Oriental ancestors intellectually as well as in the material field. (p. 119). He puts on record the influence of Muslim scholars on Western scholastics (pp. 158, 160, 162). The author suitably highlights the importance of Ibn Khaldun's *Muqaddimah* in economic literature. To him it is a piece of work which was ahead of its time. The author points out various important concepts of modern conventional economics which are found in the *Muqaddimah* in embryonic form (pp. 116-117). He openly acknowledges the role of Islamic thinkers in the development of scholastic economics when he says that, in the eleventh to the thirteenth centuries the Islamic symbiosis started to infiltrate the Latin West (p. 119)²⁴.

the approximately 500 years before Aquinas. the failure of economists on this issue is part of a broader failure of Western scholars to fully understand the important contributions of Arab-Islamic scholars. I have a first draft of a rewrite of Chapter 2 and have added a new section entitled "Arab-Islamic Thought...." (IAFIE, 2000, Vol. 10, No. 6, p. 4).

Similarly, Ingrid Rima wrote to a colleague of present writer: "I want to let you know that the sixth edition of *Development of Economic Analysis* has tried to give better recognition to the importance of Arab-Islamic scholars" (IAFIE, 2000, *Islamic Economics Bulletin*, Vol. 10, No. 6, p. 4, November-December).

- (24) In spite of so much applaud for Islamic economics and appreciation of Muslim contribution to economic thought, the book is not free from factual errors and misrepresentation of the Islamic stand at several occasions. In a statement he combines 'Muslims holy zeal for Allah with *lust for booty*, as the *main factors* behind Islam's early conquest from Persia to Morocco and up to the Pyrenees in Europe' (p. 96) (emphasis added), which is just an effort to malign the holy war of Islam. The war was fought as the last resort to remove hurdles in the way of establishment of peace and security and

These works show that Islamic economic thought and the role played by Muslim scholars and its place in development of mainstream economics are increasingly attracting the attention of scholars and researchers. However, unless at least a chapter is not introduced on Islamic economic thought in the textbooks, ignorance and misconception will persist. It is inspiring that some writers are taking steps in this direction to remove this deficiency. For instance, Landreth and Colander (2002, pp. 32-34) have included a section on Arab-Islamic thought in the revised edition of their text book and provided some references for the interested readers. Another writer Ingrid Rima (2001, p.10) has provided a reference to Islamic scholarship in the sixth edition of her work *Development of Economic Analysis*. No doubt, such changes not only bridge the gap in history of economic thought left by the earlier writers but increase understanding between the East and the West and facilitate interaction at academic and intellectual levels.

5. Future research agenda

In the preceding pages we have seen that there has been concentration on few personalities for example Ibn Khaldun, Ibn Taymiyah, al-Ghazali, etc. While there are repeated writings on some thinkers, many others received less attention or no attention at all. We have no work in English language on economic ideas of Muhammad b. al-Hasan al-Shaybani (d. 189/850), the author of *Kitab al-Kasb* (the Book of Earning), Izz al-Din Ibn Abd al-Salam (d. 660/1262), Ibn al-Jawzi (d. 697/1200), Ibn al-Hajj (d. 737/1337), al-Wasabi (d. 782/1380), al-Maqrizi (d. 845/1442), Ibn al-Azraq (d. 896/1489), al-Asadi (lived in 9th / 15th Century). These are a few names in addition to what we already mentioned in section three above. There is need to investigate in a systematic and rigorous manner the economic ideas of all outstanding Muslim scholars and social thinkers.

acceptance of the just system of Islam as Muslims were ordained to do that in their capacity as bearers of the last message of Allah. Similarly, his statement that, ... 'The Quran prescribes the distribution of an inheritance according to a formula regulated by the custom' (p. 99), merely shows his ignorance of the Qur'anic law of inheritance. After describing the rules for distribution of inheritance, the Qur'an has clearly mentioned that "These are settled proportions ordained by Allah and Allah is All-knowing and All-wise" (The Quran 4:11). It further says, "Those are limits set by Allah" (ibid 4:13). The author's understanding of the taxation system of Islam needs correction. Contrary to his statement (p. 99), we are *not* left in the dark as to whether within the Islamic community other taxes may also be levied.. One of the authentic traditions states .There *is* a claim on one's property other than zakah (Ibn Taymiyah: *Majmu` Fatawa*. Riyadh 1483 A.H., Vol. 29, p. 187). It is also based on misunderstanding and not factual to say that 'the taxes for financing general public spending were originally levied on the groups in population that did not belong to the *umma*: i.e. on the Jews and Christians. (p. 99). In fact the *fai* 'revenue, one-fifth of *ghanimah*, *kharaj*, unclaimed property, heirless property, etc., were meant for general public spending. The only special tax on *ahl al-dhimmah* (non Muslim citizens of Islamic state) was *Jizyah* which was much less than *zakah* imposed on Muslims. The author is not just when he intends to give an impression that *al Hisbah* system owes its origin to a Roman institution and that the *Muhtasib* is an Islamicization of a Byzantine market officer (*agoranomos*), (p. 101). The origin of Islamic *hisbah* goes back to the teaching of the Qur'an and practices of the Prophet (p.b.u.h.) and his Caliphs. The Islamic *hisbah* had much wider scope than the market supervision. (For more details on this issue, refer to Islahi, 1988, pp. 186-91).

There is no doubt that more doctoral researches have been completed in the last thirty years. However, in comparison to Ph. Ds. in other areas of Islamic economics their number is small. As noted above, there is very large number of Muslim thinkers who wrote on economic issues but their works have not been explored.

Researches on development of various ideas are still smaller in number while their benefits are far greater. One can find a continuous development and refinement of many economic ideas and institutions in Islamic history that has not been fully investigated²⁵.

Research in the history of Islamic economic thought has been predominantly confined to a particular region, the Middle East. Scholars of erstwhile Andalus, West Africa, Turkey, Persia and South east and Far East Asia have not been made subject of enquiry.

Similarly the research has been language specific. Mostly the works written in Arabic have been explored. Works written in Turkish, Persian, and in other Muslim spoken languages have scarcely been reported and studied. It is high time to extend the research on history of Islamic economic thought focusing the other regions and languages.

There is no doubt that Muslim scholars had translated, learnt, discussed, improved and transferred Greek ideas to scholastic scholars. They were a connecting link between Greek originators and scholastic followers. Muslim scholars extended this branch of knowledge 'far beyond the household, embracing market, price, monetary, supply, demand phenomena, and hinting at some of the macro-economic relations stressed by Lord Keynes' (Spengler, 1964, p. 304). But writers on history of economic thought had tended to ignore the contribution of Muslim scholars to the subject, even their connection to Greek economics. (Essid, 1992, p. 32, Hosseini, 2003a, p. 89). On the other extreme, some writers tried to attribute all Muslim economic thought to Greek (See section three above). The fact, as we noted above, is between these two unjustified stands. It would be interesting to scrutinize Muslim scholars' original ideas, their addition to and improvement over Greek economic ideas. This would require a thorough comparative study of Greek economics and contribution of Muslim scholars with reference to their respective original sources. It is a full research topic.

As we have seen above, we have works on economic thinking of Muslim scholars right from the 1st century AH/7th century AD to 9th/15th century. This literature has successfully refuted "the Great Gap" thesis propounded by Joseph Schumpeter (1954) in his encyclopedic work *History of Economic Analysis*. However, we could not cross

(25) The present writer has tried to show such continuity in some of the major areas in one of his recent works (Islahi, 2005, pp. 25-72). It may be noted that as a source guide on Muslim institutions and practices Mu'assasah Aal-al-Bayt of Jordan has prepared in five volumes *al-Faharis al-Tahliliyah li l-Iqtisad al-Islami* in Arabic language (1985-86, Amman, Jordan, Maktabah Saleh Kamil & al-Majma'al-Malaki li-Buhuth al-Hadarah al-Islamiyah. It lists reference on more than hundred topics of Islamic economics. This should prove to be a great help in exploration of economic ideas, institutions and practices throughout Islamic history. However, it is confined to Arabic literature and predominantly the period when Islamic culture and civilization was leading the world. There is need to extend this work and cover the later period and other languages.

the age of Ibn Khaldun and al-Maqrizi. We hardly find a reference to scholars who lived in 16th or 17th century in the works dealing with the history of Islamic economic thought. In fact the period after 15th century AD remained largely unexplored. There is literature gap after 15th century on economic ideas of Muslim thinkers. Absence of work on their economic thought in the later period raises another serious question: Do we have blank centuries after heyday of Islamic civilization? Has Islamic economic thought not experienced continuity or change in the later period?²⁶ This situation poses a great challenge before the students of Islamic Economic Thought. Researcher should come forward to seek answers to these questions.

There is need to translate researches done in other languages to English and the other way round. Some researches on economic thought of various Muslim thinkers have been accomplished in Arabic and Turkish but only English knowing audience cannot benefit from them same way as only Arabic or Turkish knowing scholars are unaware of the progress of literature in English.

Last but not the least, an important part of the future agenda should be to write systematic and uninterrupted history of economic thought in Islam. There is also need to prepare textbooks on the subject to fulfill the growing needs of the departments of Economics in the wake of introducing study papers on the history of Islamic economic thought at the under graduate and graduate levels.

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(26) The Islamic Economics Research Center considers it as one of the priority areas to fill this research gap in the history of Islamic economic thought. With this objective in mind, the present writer has initiated a study on Muslim economic thinking and institutions in the 10th/16th century. In spite of the author's utmost efforts to explore all the available sources, he could present only a sketch of the economic ideas and a general picture only. One thing is clear, irrespective of the standard of the works, economic writing did not stop in the later period and we do not have a gap in Muslim economic thinking in the period after the fifteenth century (Islahi, 2007). The said study is first of its kind. As the author admits, it is just a moderate beginning and a research initiative, covering the sources available in Arabic and focusing on the heartland of Islam. There is need to explore Muslim economic ideas in works written in Persian, Turkish and other languages as the importance of these languages increased in later period. Another study on Muslim economic thinking during the 11th/17th century is also near completion.

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ثلاثون عاماً من البحث في تاريخ الفكر الاقتصادي الإسلامي: تقييم واتجاهات مستقبلية

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المستخلص. تهدف هذه الورقة إلى فحص وتقييم تجربة البحث في مجال الفكر الاقتصادي الإسلامي خلال الثلاثين سنة الماضية ١٩٧٦ - ٢٠٠٦ من أجل الوقوف على وتيرة البحث وتغطيته على حد سواء، بالنظر إلى زاويتين: المصنف والفكرة. على ضوء التطور الذي حصل في هذه الكتابات واتجاهاتها البحثية في الماضي نحاول تقديم برنامج عمل لأبحاث المستقبل.

تبدأ الورقة بعملية مسح وجيزة للدراسات التي سبقت الثلاثين سنة -المدى الزمني لهذه الورقة- فيما يتعلق بتاريخ الفكر الاقتصادي الإسلامي لتقديم خلفية عن الموضوع، بعد ذلك تقوم الورقة بدراسة وتقييم البحث خلال الثلاثين سنة الأخيرة. لقد وجدت الدراسة أن تلك الأبحاث الخاصة بتاريخ الفكر الاقتصادي الإسلامي خلال الفترة المعنية تركزت في لغة واحدة ومنطقة محددة، وهي اللغة العربية، ومنطقة الشرق الأوسط في حدود القرن التاسع الهجري (الخامس عشر الميلادي). من جانب آخر لقد تم التركيز في تلك الكتابات على الأفكار الاقتصادية لبعض الشخصيات دون غيرها. والوضع أكثر سوءاً عندما يتعلق الأمر بجانب الأفكار المدروسة في تلك الأبحاث. لقد مارست هذه الكتابات بعض التأثير على عدد من علماء الفكر الاقتصادي السائد مما حدا ببعض منهم إلى محاولة تأهيل هذه الدراسات لتكون ضمن المواد التدريسية الرئيسية لتاريخ الفكر الاقتصادي.

في النهاية تؤكد الورقة على ضرورة القيام بأبحاث مكثفة ومعقدة من أجل إضافة شخصيات أخرى، وأفكار أخرى، وتغطية فترات ومناطق أخرى، بالإضافة إلى إعداد كتب ومواد دراسية في هذه المادة.

Funding Research in Islamic Economics and Finance

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Abstract. This paper presents some preliminary thoughts on funding research primarily in Islamic economics. It bases its proposals on the fact that despite more than 30 years of research and publications in the area of Islamic economics and finance, the overwhelming proportion of attention has been given to the latter, with research in Islamic economics not keeping up, in both total number of researchers and funding sources and allocation. The paper highlights the need to allocate resources, both human and financial, to more fundamental research in Islamic economics as these foundational areas have not been sufficiently researched. The paper also argues, citing the experience of western economics that without sufficient attention on these foundations, applied areas including finance, will also be adversely affected in the long run. Data from Malaysia is used to support this main thesis that much more needs to be done to support research in Islamic economics. The paper also highlights the need to establish an International Fund for Research in Islamic Economics (IFRIE) and discusses possible features, sources scope and priority research areas, types of funds combined with proposals to ensure that the fund is administered efficiently. The paper ends with calls for immediate action in the setting up of a joint international Islamic economics Research Council to oversee the development and management of the proposed fund.

Introduction

The establishment of the OIC in 1969 and The Islamic Development Bank (IDB) in 1975 proved to be historic landmarks in the contemporary history of the Muslim ummah. These two institutions clearly provided an avenue for the revitalization of the ummah's hopes and aspirations. As far as Islamic economics and finance is concerned, the IDB in particular must be credited for its commitment and consistent support in financing economic trade and development of member countries, thus providing a valuable input in demonstrating the possibility and viability of Islam as a source of contemporary Islamic development. In 1976, the First International Conference on Islamic Economics was held in Makkah al-Mukarramah, bringing together economists, jurists and scholars of other related disciplines for the first time to discuss issues of concern to the Muslim ummah, leading eventually to the birth of the discipline of Islamic Economics. Since 1976, five other conferences have been held: in Islamabad (1983), Kuala Lumpur (1993), Loughborough (2000), Bahrain (2003) and Jakarta (2005). In addition many other international and national conferences, workshops, symposiums and seminars have been organized all over the world attempting to discuss

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economic issues and its related disciplines from Islamic perspectives. Thousands of articles, books and seminar papers have been written, numerous Islamic economic research and teaching institutions have been set up, while many universities and institutions of higher learning have introduced courses/programs on Islamic economics and its related fields. At the governmental level, a few Muslim countries have attempted to introduce Islamic banking and finance reforms in their economies.

Despite all the meetings, research, publications and policy reforms that have been attempted, there has not been a concerted effort to systematically analyze and evaluate the discipline. For example, seminars have been and are, constantly being organized, usually involving a huge amount of financial and human resources. Notwithstanding some efforts by individual scholars, no thorough evaluation of the proceedings/recommendations of these seminars has, to our knowledge, been effectively done. Similarly, no *comprehensive analytical survey and 'evaluation' of the literature and policy reforms in various countries* is, to our knowledge, available, indicating a lack of *meaningful and systematic research activities*. There is generally a lack of serialized, analytical reference materials available. At the practical policy level there is also no comprehensive evaluation of the various institutions and policies adopted by the ummah, be it at the national or international level, even less if we ask for *'Islamic benchmarks'*. This is very odd as Islam places great importance on constantly evaluating oneself and one's performance. In the field of Islamic finance, that has easily overshadowed its mother discipline Islamic economics, efforts have been boosted by the involvement of the private sector, mainly commercial Islamic banks as well as the support of some central banks of some countries.¹ There also seems to be a **general lack of coordination** and maybe a **'lack of direction'** as to what has been achieved, what the successes have been, what weaknesses and challenges are faced and what needs to be done to take the discipline forward.

Despite the active interest in the area of Islamic banking and finance, one is still faced with the fact that research in Islamic economics has declined, the enthusiasm of the late 1970s and 1980s has waned, the growth rate of people still actively working in Islamic economics has declined and the second/third generation of Islamic economists have become quite a rare breed. This is why the effort by the organizers to dedicate the 7th International Conference to the task of beginning this long overdue evaluation and strategically planning for the future of Islamic economics is most welcome.

Research in Islamic Economics and Finance

Using data from a few, mainly publicly available sources, a recent study by Nazim Ali (2007)², attempted to do the following:

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- (1) Malaysia, Pakistan, Iran and Indonesia are 4 countries that come immediately to mind.
 - (2) 'Islamic Finance and Economics as Reflected in Research and Publications', paper presented at Workshop organized by INCIEF, Kuala Lumpur, 2007. The use of the phrase 'Islamic Finance and Economics' indicates the turn of events over the last 3 decades that has seen Islamic economics being 'hijacked' by Islamic finance. Hence for purposes of the present paper, we will revert to the phrase 'Islamic economics and finance' as reflected in the title of the conference and in the proper adab of classifying sciences in Islam.

1. document the current status of Islamic economics and finance research based on available publications
2. to identify trends in research activities (in terms of type and content of work), thereby looking at the evolution of Islamic economics and finance over the years
3. to present information on various institutions involved in research activities in the area of Islamic economics and finance
4. to discuss sources of funding for these research activities and identify some areas for further research.

The following findings are from his paper, but the present writer makes some observations relevant to the theme of our conference.

1. The numbers of research output in the form of articles, books, conference papers and ‘other materials’ (till 1999/2000) is quite significant at 6484 items. Progress was especially visible in the 1990s, where output more than doubled from the previous decade, mainly due to the establishment of Islamic financial institutions.

While the total numbers and the growth rate in the last decade may give an impression that Islamic economics is gaining popularity and is on the right track, it would probably be accepted that a huge proportion of these publications would be in the area of Islamic banking and finance, not in Islamic economics, especially in areas dealing with theory and foundations. While Ali’s paper does not elaborate on the areas of publication, in an unpublished work done with colleagues involved with the IIUM Journal of Economics and Management that looked at the four major Islamic economics journals since the mid-1980s, this ‘trend’ was very clear.

2. According to Ali, while the major teaching and research centers (universities) in Islamic economics are based in Asia (Kuala Lumpur and Pakistan) the major share of the output (articles) is from Europe while books and conference papers are from the middle east. This indicates greater academic orientation in Europe (and the USA) compared to areas considered to be in the Muslim world. The output from the Middle-East consists more ‘applied research’ and ‘product development’ output in the area of Islamic finance.

This finding deserves greater attention among Islamic economists and those who are in the funding agencies. Certainly in the case of the Kulliyyah of Economics and Management Sciences, IIUM, the first 25 years of its existence has been primarily focused on teaching. While proud that the KENMS has produced about 2,000 graduates from about 80 countries, the research agenda and publication record in the area of Islamic economics is still very much in its infancy. Even the number of active teachers and researchers who are fully dedicated to the teaching of Islamic economics is less than 25% of its faculty, indicating a serious need to re-focus on creating the next generation of Islamic economists. From discussions with colleagues

in other institutions in Malaysia and other countries, the same trend seems to exist everywhere.

Ali also mentions that recently, some major publishing houses based in the west have become involved in publishing materials in Islamic economics and Finance. However, a cursory look into the titles produced in the last five years indicates a very clear bias to Islamic banking and Finance. Where is Islamic economics? Has commercial interest and market forces totally determined the direction and areas of research? Is this a healthy trend and are we to allow this to continue?

3. In the section on research trends, Ali (2007) divides research into two main categories, theoretical and applied. One limitation that was noticed in his write up was that he seemed to focus primarily on Islamic finance, rather than including Islamic economics. Hence when he observes that 'the industry has long realized the importance of academic research for its growth' he seems to be referring primarily to the Islamic finance industry. He rightly sees universities and other higher institutions of learning as the main seats of research in Islamic finance and points to the fact that it is mainly academics, researchers and graduate students who form the bulk of researchers in the area.

However two issues have to be pointed out. Firstly, if we accept the premise that Islamic banking and finance has to have Islamic economic foundations, then here has not been a sufficient amount of research in those foundations. Secondly, if we accept the statement that the 'industry' realizes the importance of academic research to its own survival, we must also ask who sets the agenda of research? Does 'theoretical/academic' research in Islamic finance answer to the demands of industry or does it chart out the future path of the industry? While some may say that it is a two way process, my view is that it has been and is, the industry that determines the direction of theoretical research in academia and this trend is ever-increasing. In terms of funding, it does not take a genius to figure out that if left to its own, private financial institutions will fund research in areas and in directions that it sees important and not easily fund research in areas that only seem to be theoretically stimulating but with no apparent 'practical' outcome.

Are pure 'theoretical' studies not important? If we say that pure theoretical studies are important, who will fund it? Also very important is *who will conduct this type of research?* From the example of the KENMS, the number of academics and students who choose to do 'pure' theoretical research are even a smaller and rarer commodity.

The situation is equally depressing in Islamic economics proper. Very few academics continue to work in building the theoretical foundations of Islamic economic theory and not many bother to focus on policy areas in Islamic economics. Before the west developed such sophisticated analyses of Islamic finance, did they not dedicate sufficient resources- financial, human

and time- to the development of solid theoretical foundations in economics and finance? Unfortunately, in Islamic economics, after less than 20 years of contemporary Islamic economics, we Islamic economists abandoned our own field and many decided to join the juggernaut of Islamic finance. While we need people in Islamic finance, we have to find the resources and help create a 'critical mass' in the theoretical foundations area if we want to sustain Islamic economics and finance.

4. Unfortunately, Ali's paper does not discuss funding for research much. While industry led research has sufficient funding, he admits that research in other areas is very constrained due to limited funding, relying on general all-purposes grants from universities or institutions or from personal funds. While mention is made of IRTI's Scholarship Scheme to fund PH.D programs in Islamic economics, it certainly shows that there is a major problem in funding research in Islamic economics. He mistakenly assumes that public institutions like the IIUM have reasonable funding for Islamic economic research (especially for the 'academic/theoretical category'). The remaining parts of this paper will try to discuss this very important issue of funding research in Islamic economics. It will argue that by international standards, the amounts of public financial resources dedicated to research in Islamic economics, is insufficient. The paper will also identify priority areas of research, possible types of research funding, possible obstacles and challenges faced and procedures that could be followed to try and ensure optimization of resource utilization to produce the desired outcomes.

Expenditure on Research in Muslim Countries: The Case of Islamic Economics

It is a fact that Muslim countries, even those that are considered Middle-income, are not spending what they should be on R & D. A good example is Malaysia, by all measurements and criteria one of the most 'successful' OIC nations. Unfortunately, as far as R & D expenditure, the figure is a mere 0.69% of GDP for the year 2006. Compare this to countries that were almost at par with Malaysia during independence 50 years ago like Singapore (2.2%), South Korea (2.5%) and Taiwan (2.2%) and we can possibly understand why these latter group of countries have outpaced Malaysia.

However, Malaysia, and I am assuming many other middle income Muslim countries realize that more funding has to go into R & D if development in this era of knowledge is to be sustained. In the case of Malaysia, about 20% of its annual expenditure is spent on education as a whole. While much of this is spent on infrastructure (i.e. the setting up of new schools and universities), more attention is being paid to human resources and R & D as well. For example, in 2006 about 25% of academic staff in higher education institutions have Ph.Ds. By the end of the 9th Malaysia Plan (2006-2010), the target has been set to achieve 60%. RM1.2 billion has been allocated for this. While there were only 21.3 researchers per 10,000 workers in 2003, the target has been set to reach 50 researchers per 10,000 workers by 2010.

As far as R & D funding, one major source of public funding for Universities in the last decade has been the Intensification of Research in Priority Areas Fund (IRPA Fund).

The following tables show the amounts of funding since 1996 and as an example, look at the funds that went to the National University of Malaysia, UKM. While these figures may seem substantial to some, one has to keep in mind that for the 8th Plan, the research expenditure per GDP was only 0.49%. This figure has been targeted at 1.5% in 2010.

Table 1- Distribution of IRPA Grant Between Universities (No. Of Projects)

University	7th Malaysian Plan (1996-2000)	8th Malaysia Plan (2001-2005)
UPM	123,194,573.00 (646)	167,007,637.00 (498)
UKM	77,326,697.00 (350)	151,734,290.00 (274)
UM	78,868,611.00 (438)	106,348,952.00 (149)
UTM	81,941,118.00 (404)	119,694,845.00 (310)
USM	76,412,225.00 (361)	81,105,845.00 (202)
UiTM	456,600.00 (5)	10,217,616.00 (44)
UIA	2,732,840.00 (27)	4,707,180.00 (14)

Source: Yassin, Othman and Sembok, undated.

Table 2- UKM's IRPA Projects by Category

Category	No. of Projects	Amount(RM)
Experimental Appl. Research	219	37,111,427.00
Priority Research	9	50,855,184.00
Strategic Research	1	38,207,048.00
NBD(Biotechnology)	21	18,629,449.00
Total	250	144,803,108.00

Source: Yassin, Othman and Sembok, undated.

Table 3- Distribution of IRPA Experimental Applied Research Grant in UKM

Sector	No.of Projects	Amount (RM)
Science and Engineering	89	14,142,256.00
IT & services	39	7,643,883.00
Social Sciences	33	4,804,857.00
Health	23	3,753,935.00
Environmental	12	2,456,590.00
Energy and Minerals	6	1,282,696.00
Manufacturing	10	1,743,370.00
Agro-Industry	5	953,000.00
Economy	2	330,840.00
Total	219	37,111,427.00

Source: Yassin, Othman and Sembok, undated.

While research funding has continuously increased over the years, the funding for non-science and technology has not benefited much. For example, various funds were set up under the 9th Malaysia plan:

1. Science Fund - RM 1.2 billion
2. Techno Fund – RM 1.5 billion
3. Fundamental Research Grant Scheme – RM200 million

While the first two are administered by the Ministry of Science, Technology and Innovation, the third is handled by the Ministry of Higher Education and was set-up to cater for ‘fundamental’ research that leads to further research and development. In addition, smaller amounts of research funds are made available to universities to administer, especially via the establishment of about 100 ‘Center’s of Research Excellence’. For the 2008 national budget, most of the RM12 billion was allocated for R & D and commercialization of Science and technology in the 4 Research Universities or RUs. These RUs are expected to focus much more on graduate studies and to spearhead research work.

The above scenario in Malaysia is probably reflective of many other middle-income Muslim countries. However, as in the case of Malaysia, it is a fact that most of these allocations are for Science and technology research. The figures for social sciences would be relatively small. Trying to further breakdown the social science allocations to identify amounts spent on research in Islamic economics is a very difficult task since no such figures are readily available.³ In the case of UKM as seen in Table 3, one of the designated Research Universities, funding amounts are relatively large. But as the figures clearly show, economics (not to mention Islamic economics) receives a very small amount of funding. Using the IIUM case as an example, we can try to estimate very generally, the amounts that we are talking about. If we take the FRGS funds for the last two years we get the following figures:

Fundamental Research Grant Scheme (2006-2007)

	2006	2007
Number of Projects Applied	138 (Econs-13)	120 (Econs-4)
Amount Applied	RM27.8 million (Econs-RM870,000)	RM19 million (Econs-RM413, 500)
Applications Approved	42 (Econs- 3)	44 (Econs-2)
Approved Amount	RM2.7 million (Econs-RM102,000)	RM3 million (Econs-RM90,000)

Source: IIUM Research Center.

(3) Keep in mind also that since we are focusing on research funding for Islamic economics, we are leaving out leave out the funds from the private sector thus far, as these have been primarily for research in Islamic banking and finance.

As mentioned earlier, besides smaller amounts of funding from academic institutions themselves⁴, the main source of funding is government allocation to universities and research institutions. The FRGS is meant to provide funding to all disciplines, especially in those areas of social sciences and humanities, more allocation has gone to the sciences. Out of the RM5.7 million obtained by the IIUM for these two years, a little less than RM200,000 (or about 3.5%) was granted to projects from the Kulliyah of Economics and Management Sciences (KENMS). Out of this, less than half the amount (RM60,000 or about 1%), dealt with Islamic economics directly. At the national level, besides the IIUM, another 5 or six institutions have staff actively involved in teaching and research in Islamic economics. If we multiply this figure that was allocated to research in Islamic economics at the IIUM for the last two years to represent all research in Islamic economics in these institutions, we get a total of RM300,000. It is as if governments, in their race to develop S & T expertise has forgotten the equally important task of dealing with the soft side of development.

While private funding is available for research in Islamic banking and Finance, the same cannot be said of Islamic economics. This depicts the sad state of Islamic economics and a possible reason why the number of active researchers in Islamic economics has dwindled. Not many are interested to do theoretical research in Islamic economics and funding agencies also seem to be less interested to fund such research areas. **One possible lesson learnt from this example is that ‘open, public funding’ sources may not be the best way to fund research in Islamic economics.** While this Conference could resolve to make a concerted effort via the IDB or OIC to convince the governments of member countries to allocate special, dedicated funds for the development of research in Islamic economics, it may be necessary for us to look towards the creation of dedicated endowments to do this job. **I propose the following:** that a research team from this conference be formed to look into the

- a. research funding agencies and schemes in at least Canada, Britain and the European Union to enable us to come up with more concrete proposals relating to public funding.
- b. In addition, the same team should be entrusted to look into the various endowment funds available in the USA, Europe and in Muslim countries (in the past and present) to give us lessons on that option.

I further propose that this team be given a period of 6-8 months to complete this research project and the findings be presented at a smaller workshop by the end of this year.

Priority Areas of Research

While all areas of Islamic economics need to be developed, I strongly believe that we Islamic economists have not learnt the right lessons from the experience of western economics. If we look at the intellectual history of western economics, it will clearly indicate that throughout the 18th – 19th centuries, much research and intellectual effort was spent discussing and developing the ‘foundations’ of modern economics. History of

(4) For example, the IIUM has limited funds of RM2,500 (Contingency Funds), RM10,000 (Short Term Funds) and RM 20,000 (Medium Term) for research in all areas of knowledge.

ideas, philosophy, methodology and debates on fundamental concepts occupied the best minds of the day. All great ‘builders’ of modern economics in that period, had spent time and wrote in these areas. Present day Professors, researchers and economists work in areas and advance the discipline that had been laid down and somewhat ‘agreed-upon’ by scholars of the past. Today in the West, it may be necessary in research assessment to also give attention to ‘user-friendly’ research, rather than just ‘academic quality’.

Unfortunately, in our effort to build Islamic economics, we Islamic economists, have not learnt from this example. In less than 2 decades, we ceased to be interested in these ‘foundations’ and moved to more downstream, applied areas, ostensibly to provide solutions to current problems. Some even look-down on research and publications that deal with ‘mere conceptual work’ and see only applied work or user-friendly research as being worthy since ‘practical solutions’ are needed. While the huge demand for ‘practical solutions’ was, and is, a very important determinant of research activities, I believe we need to be more wary of ‘quick fix’ solutions.

Unless we spend sufficient resources- human, financial and time- on the **foundations of our discipline**, we will not go very far. In the west, they have already built very strong foundations and hence they can confidently move to more applied and user-friendly research. In our case, not enough resources and research has been done on our foundations. For example, how would we know that our solutions were ‘Islamic economics’ solutions if we have not done work to create Islamic benchmarks? Worse still, we may be guilty of deceiving ourselves and others in the name of Islamic economics.

Other than saying that foundation research must be given priority, it may not be feasible to try and determine a final list of areas or topics. All institutions having research activities need to give attention to this in a more organized and systematic way. By this, I am in no way suggesting some kind of centrally planned research agenda. What I think can be done is all academic institutions that have teachers/researchers should come up with their own list of priorities based on their expertise. Using the principle of comparative advantage, we could ‘trade’. If this theory is right, there will be gains for all. For areas deemed important but are not undertaken, we would need to decide ways and means to address this deficiency. Already, the KENMS and IERC in KAAU have listed out potential areas of joint-research based on our own interests and expertise. This can be replicated by other institutions and a list of potential joint research projects can be identified. Funding will have to be available and this is the second stage of our efforts. In Appendix 1, a preliminary proposal of a specific fund is put forward for debate.

Procedures to Ensure Efficiency and Quality:

In a recent paper by the European University Association, (2007)⁵ several key points were highlighted as important to ensure sustainability of research funding and management. We apply these very relevant points to make our case for Islamic economics

(5) ‘European Commission Green Paper on the European Research Area: New Perspectives- Viewpoint from European University Association, September 2007.

1. Universities as Key Stakeholders

In the case of research in Islamic economics, I agree that Universities and/or dedicated research Centers in Universities, especially public universities, should also be the leading stakeholders. If needed, part of the funding may need to be used to strengthen these institutions. Initial training and funding for reference materials may also be necessary.

2. Autonomy and Accountability

Do not over-regulate and control but allow individual universities/research centers to determine research agenda (based on expertise); preference for 'lump-sum' funding rather than piecemeal funding to allow individual institutions and individual project leaders to be given trust and held accountable. Research culture cannot be imposed 'top-down' but must be naturally nurtured via proper incentives and a system that promotes this culture. In this well-established institutions have a natural advantage in creating this research culture. Similarly, people who have never done research or published academic articles cannot be expected to produce miracles, despite all the money in the world.

3. Historical 'Under-Funding' Must be Overcome

This means committing sufficient funds to sustain a proper research agenda for individual institutions. It would be a great mistake to under-fund research in Islamic economics or to be too eager for immediate results or practical solutions. Much theoretical (and even conceptual) work is yet to be done and disseminated to create a sufficient critical mass of Islamic economists. Adequate funding has to be made available to create sufficient world-class infrastructures and repositories of materials in Islamic economics. Taking stock of what we have and then 'resource-sharing' would be a first step. Do not spread our already limited resources (especially human resources) too thinly. Having said that, there must be sufficient number of credible world-renowned Islamic economics institutions in the Muslim world that would represent research in Islamic economics. At the moment, the 'big four' of IRTI, IERC, IIIE and KENMS have to take stock and work even harder to build a more productive and meaningful relationship for the future.

4. Competitive Funding Grants at Full Cost

Sufficient priority must be placed on what is termed 'fundamental research', i.e. research that will create future potential for research. By this we include areas of research, creation of new researchers, collaborative research etc. and the amounts of these grants that are competitive with other research funds and areas. In addition, the grants should cover all expenses and have adequate

remuneration for a graduate student to dedicate 4-5 years of his life to getting involved in research in Islamic economics.

5. Research-Teaching-Policy Linkage

No research agenda can succeed without connecting it to graduate programmes. In this, research funding must be channeled to institutions that have the capacity to sustain research especially at the doctoral level. However, doctoral research will only happen where there is also excellent teaching facilities/programmes and if programmes in these universities can also demonstrate some policy relevance to policy makers. One important feature of this doctoral research agenda should be to allow 'joint supervision' between institutions (say KENMS and IERC) and the possibility of allowing Ph.D candidates to spend time in another institution to gain exposure to some feature or scholar there. This would also assist in creating a 'single market for researchers'.

In line with our proposal for the formation of the IERC, we foresee this committee being responsible for assessing the successful development and achievement of the research strategy at the general level. The IERC should not necessarily evaluate individual projects, but rather leave this part to individual institutions. However, overall individual institutional research programmes should be subject to some kind of evaluation from the IERC. The backbone of evaluation is peer review and almost all of the evaluation work will involve selecting, briefing, supporting and in other ways, dealing with peer reviewers.

One important element in evaluating projects would be the communications strategy/plan of individual institutions. Final approval of research funding would depend on agreement of a professional, properly resourced communications strategy, i.e. disseminating the findings. The strategy should account for up to five per cent of the individual programme/ centre budget. A communication strategy is simply a vehicle to get you from where you are now to where you want to be and how the project will benefit the ummah. This would be a very important requirement to ensure that individual institutions are themselves clear about what they want to do, how they plan to do it and how they plan to evaluate their progress. The IERC needs to be convinced of this before funding is approved. Once this is achieved, clear target deadlines must be agreed upon and individual institutions must be given the freedom to run their programmes with no interference, subject to periodical reports, say bi-annually.

Conclusion

This brief paper has tried to impress upon participants of this conference the very important need to enhance dedicated research funding for Islamic economics. This funding should be sufficient if not substantial, give priority to 'fundamental' research, especially research that will have the potential to generate further research, help create a new generation of Islamic economists and international collaborative projects. The key stakeholders, i.e. universities and dedicated research institutions in Islamic economics, have to be vested with autonomy from the sources of funds, and in turn, individual institutions should be given sufficient autonomy to carry out their respective agenda

effectively. Action must be taken now before the interest in Islamic economics totally vanishes. If this happens, our future students will read about our deliberations and remember us and this conference as having failed in the short history of Islamic economics. This is why we cannot fail and must do everything in our power to renew the spirit and commitment of the 1st Conference more than 30 years ago.

Wallahu A'lam.

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Appendix

Proposal for the Establishment of the International Fund for Research in Islamic Economics (IFRIE)

A Proposed Fund Amount:

At least EURO 100 Million

B. Source:

1. National Governments
2. Central Banks,
3. Awqaf/Zakat Funds,
4. Private Sector

C. Administrators:

Board of Trustees made up of Representatives of Donor Sources

D. Management:

Propose setting up of Islamic Economics Research Council (IERC) consisting of representatives of Major Academic Institutions involved in Research in Islamic Economics

E. Type of Funds:

1. Fundamental Research Grants- grants that will work on conceptual frameworks and those that will stimulate further research work
2. Policy Research Grants- grants to enable the study of economic policy studies from Islamic perspective
3. Islamic Economics Academic Fellowships (IEAF)- grants to enable visiting fellowships between Islamic economists and academics from institutions having expertise in Islamic economics
4. Graduate Studies Scholarships/Grants- grants to Masters and Ph.D candidates in areas above
5. Institutional Grants- grants to help poorer institutions build their capacity in Islamic economics
6. Conference/Symposiums/Workshop Funds- grants to organize conferences, but more specifically smaller workshops to facilitate more detailed and rigorous deliberations

F. Priorities:

1. Projects that Enhance Future Research Capacity (focusing on increasing researchers in Islamic economics and new researchers)
2. Research Involving Strategic International Collaboration from at least 2 countries
3. Research that is interdisciplinary
4. Research that can produce one or two Ph.Ds.

تمويل البحث في الاقتصاد الإسلامي

الأستاذ الدكتور محمد أسلم حنيف

المستخلص: تقدم هذه الورقة بعض الأفكار الأولية حول مسألة تمويل الأبحاث في الاقتصاد الإسلامي بشكل رئيس، وقد بنت الورقة مقترحاتها هذه على ضوء تجربة الثلاثين سنة الأخيرة التي عاشها الاقتصاد الإسلامي. فعلى الرغم من مضي أزيد من ثلاثين عاماً على هذه التجربة من حيث البحث والنشر نجد أن حقل التمويل والصيرفة نال النصيب الأوفر في هذه العملية من حيث أعداد الأبحاث التي نشرت، ومن حيث مصادر وتخصيص التمويل كذلك. وهذا ما انعكس سلباً على بقية الجوانب بقلة الأبحاث المنجزة فيها وتخصيص الموارد اللازمة لها. إن الورقة تبرز الحاجة الماسة لتحقيق توازن في هذا المجال، وذلك بتخصيص موارد بشرية ومالية لإنجاز أبحاث تتعلق بجوانب البحث الأساسية في الاقتصاد الإسلامي، وذلك لأن هذا الحقل لم ينل العناية المطلوبة لحد الآن، ولهذا فإن الورقة تؤكد على أن الحاجة قائمة للقيام بأبحاث من هذا القبيل مستشهدة في هذا المقام بتجربة الاقتصاد الغربي، لأن عدم وجود أبحاث من هذا القبيل ستكون له انعكاساته على الجوانب التطبيقية بما فيها التمويل والصيرفة على المدى الطويل. لقد تمت الاستعانة بالمعطيات المتوفرة عن تجربة ماليزيا بهذا الخصوص لزيادة التأكيد على هذه المسألة وضرورة ذلك البالغة لدعم البحوث في الاقتصاد الإسلامي، ومن جهة أخرى تقترح الورقة إنشاء صندوق عالمي لتمويل البحث في الاقتصاد الإسلامي وتناقش خصائص ومصادر وأولويات البحث وأنواع التمويل ومقترحات بكيفية إدارة الصندوق لضمان الكفاءة في التسيير. وفي النهاية تدعو الورقة إلى ضرورة الإسراع لإنشاء مجلس عالمي مشترك لأبحاث الاقتصاد الإسلامي لرعاية وتطوير الجوانب الإدارية المتعلقة بالصندوق المقترح.

Journey of Islamic Economics in the Modern World

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Abstract. After passing through the decades with a great effort, Islamic economics has currently taken place as a newly-developed body knowledge, which provides new insight of economic analyses in the modern world. This is indicated by the fast growth of the literatures available in many languages, apart from mushrooming the Islamic banking and financial institutions. This paper provides discussion on the process of the latest development of Islamic economics by analyzing abstracts and/or outlines of about 5 thousand literatures available—in English, Arabic and Malay/Indonesian—in the Islamic economic database of the International Islamic University Malaysia (IIUM) Library. The result shows that studies of banking and finance remain to lead the growth of the literatures, followed by the invigorating theories and methodology, fiscal policy, trade, and development. It is thought that faster expansion of financial markets and institutions in the world will attract more studies on those subjects, which will further dominate the bulk of the literatures in Islamic economics.

Introduction

Recent development of Islamic economics indicates wide recognition and acceptance to its presence, especially after global evidence in rapid growth of banking and financial sector, supporting theoretical underpinning which is anchored in the Islamic teaching. Scientific procedure on which Islamic economics must rely necessitates not only “consistency” and “commitment” of this subject for acceptance, but also empirical proofs which, on the other hand, creates self-confidence among Muslims. Obviously, further researches and other intellectual exercises are in need.

Therefore, it is among the Muslim economists’ obligation to get involved in Islamic economics journey towards a more matured subject; and it is what this paper attempts to contribute. Discussion plan for this paper starts with the overview of the meanings and definitions given by the pioneering Muslim scholars, and literature review for investigations, which are briefly mentioned in this outline, will be spread over the overall discussion, along with the works under review. The trace of historical sketch encompassing both Islamic economics in form of *usul fiqh* and *fiqh of muamalat*, as had been developed in the past and the newly growing Islamic economics in its contemporary form is of significance in this study. The next is how far the imprints of conventional economics govern the direction of Islamic one so as to lead the latter facing the dichotomous position between the Islamic and conventional heritages. The paper further develops its discussion of developing “self-reliance” of the subject in face of future challenges, both in theoretical plane as well as in empirical facts of the modern economic life.

The journey of Islamic economics in the modern world is arriving at the decisive point the Muslims with commitment have to maximize their ideas through nurturing interaction among ideas, and between ideas and empirical facts, in line with the demand for acceptable scientific procedure. Then, the “Journey of Islamic Economics in the Modern World” provides review of recent Islamic economics researches and other intellectual discourses made available by those committed with the subject.

Overview of the Meanings and Definitions

It is to note that the “truth” of a definition is interpretative depending upon the spectrum and horizon of the person or people behind in understanding the subject matter defined. For this reason too, some economists such as Siddiqi (Haneef, 1995) avoid using clear cut definition in their works. Another group as exemplified by Arif (1985)—who quotes Robbins definition—tends narrowing the meaning and definition down into restrictive scope, so as to bring Islamic economics down to be subordinated (under conventional) economics, or rather extremely under neo-classical (see Ansari, 1985), instead of placing the subject as subcategory of Islamic disciplines.

The above definition carries, at least, two difficulties. *First* is the difficulty in relating the subject to the Islamic heritage from the past. Once Islamic economics is declared as a new discipline, any attempt to seek historical justification that its origin and methodology simultaneously rely on the values and on the works of the *usul al-fiqh* erected since the beginning of Islamic dissemination, seems to be counterfactual. This is because, according to such a definition, the discipline was born in response (or as a reaction) to development of conventional economics, and partly to attract a wider recognition from the Western and Westernised-Muslim economists; it thus follows methodologically its counterpart.

Second, as a consequent, the building self-image that development of Islamic economics is independent from conventional stance requires extra ordinary efforts. For being “scientific”, Islamic economics should obey the conventional empirical procedures either of verification or of falsification, among other things (Naqvi, 1994). This may neither be entirely wrong nor otherwise. The problem is that the strong insistence on such procedures may result dubious theoretical statements, of which the ability for the Divine confirmation is questioned, and thus Islamically value-less. The economic behaviour of the present Muslim society is little reflective of the Islamic teaching, it is reasonable to say so, since the gap between the facts of the Muslim society and the Islamic ideals remains significant. Also, in this context Choudhury (1992) argues, many assumptions made under Islamic approach can neither be verifiable nor falsifiable.

On the other hand, a broader definition with its insistence on Islamic ethics is of the paper’s concern, as also maintained, among others by Kahf (1990), Naqvi (1994), and Haneef (1995). Though this definition may be widely acceptable, inclusion of other less relevant aspects of social behaviour by tracing the heritages to accommodate, for instance, Ibn Khaldun’s assertion concerning the “science of mankind civilisation and human socialisation” (*ilm al-‘Imran al-Bushra wal- Ijtima al-Insani*), as suggested by Kahf may blur the meaning. Once the definition is widened, the scope of discussion

accordingly also enlarges. For Islamic economics to be a science, its general definition, as Robbins (1984) suggests restricting merely on relationship between ends and scarce means with the alternative uses, should exclude other social behaviours. Despite that the discussion of the *rizq* may be expanded to include other human behaviours, the primary concern is *to be wise*, in the sense that it is to *economise* the ways of both earning and using the *rizq*. Therefore the Arabic term *iqtisad* is used, adopted from the Qur'anic verse:

“if only they had stood fast by the Torah, and the Gospel, and all the revelation that was sent to them from their Lord, they would have eaten both from above them and below their feet. There is from among them a party of the right course (to spend economically¹); but many of them follow a course that is evil.”²

While the scope of Islamic economic theory remains in the boundary of the *economic* behaviour of the Muslim society, it should also be *exclusive*, or *restrictive*, for the Islamic society. Any type of empirical confirmation is limited to the Muslims to whom the *Shari'ah* is applicable, though revealed to all human being. This does not necessarily mean to deviate from the nature of Islam as *rahmatan lil 'alamin* (the mercy for the whole universe) but to ensure the consistency of scientific requirement itself.

Islamic economics can be broadly defined to stretch from the beginning of the history of Islam, which has been enriched with the conventional legacy, to shape the subject in a modern form. Under this definition, it is possible to incorporate the Islamic legacies of the *usul al-fiqh* and the *fiqh* itself, from which the legal maxims (*qai'dah*, or pl: *qawa'id*) have been developed to provide useful principles or postulates for further developing the Islamic economic theories. This definition also allows for Islamization of conventional economics to take into effect, as expedient exercises to make Islamic economics theoretically acceptable to the West. Islamic economics is thus a study of *economic* behaviour of human being based on values, norms, laws and institutions derived from the Islamic *Shari'ah*.³

An acceptable meaning or definition of the subject will by itself provide in the scientific procedure a mechanism to develop, dependence upon the stream of interaction of evidence-supported thought, which govern its direction. If the influence of conventional economics is enormously dominant, then criticism as propounded by Timur Kuran (1995), for instance, that the subject is adequately placed under subheading of (conventional) economics or even under neoclassical economics does make sense. Conversely, if the Islamic teaching and heritage can administer the stream of ideas, Islamic economics will provide new insights of *fiqh* of *muamalat* in the modern forms that accommodates economic thought together with its detailed methodological contents, which can be assimilated into Islamic precepts. It is a dilemma

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- (1) This additional phrase is translated from Bahasa Indonesia, *ummat yang berhemat (melakukan ekonomi)*, translation of the term *ummatan muqtasidah*, by Fachruddin (1982: p 9).
 - (2) Al-Ma'idah (5): 66. English translation by Abdullah Yusuf Ali, *The Holy Qur'an: English Translation of the meanings and Commentary*, 1410 H, p. 307, the phrase in bracket is addition.
 - (3) This partly accommodates the definition given by Mohamed Aslam Haneef, "Islam, the Islamic Worldview and Islamic Economics," *IJUM Journal of Economics and Management*, vol. 5, No. 1, 1997, p. 50.

that places Islamic economics at the crossroad, where interests in combination with intellectual power that at least can be vested into two general characteristics may give directions, under subcategory of conventional (neoclassical) economics or of Islamic knowledge. Although recent literatures do not put any clear-cut definition, the dilemma apparently remains to exist, and demands for further attention.

Literature in Islamic Economics

Since the late 1970s, there have been works on Islamic economics in its modern form. In the end of his “Survey”, Siddiqi (1980) enumerated about 700 books and articles published on the subject in the second half of this century, covering three languages – Arabic, English, and Urdu, in addition to the work by Zaim for the Turkish literature. It is, however, unfortunate that there has been no considerable survey of the Malay works (both in Bahasa Indonesia and in Bahasa Malaysia), another principal language in Islam, which in fact also supplies numerous references in Islamic economics.

Limitations compel this study to focus only on the literature written in English, Malay and Arabic, which represent the languages widely used by the Muslim majority in the world. It comes across the recent 4,580 abstracts and/or outlines of works, selected from 1994 to 2005, which are available in the Islamic economics database of the International Islamic University (IIUM) Library. These include 1830 Arabic, 2593 English, 189 Malay literatures, and 16 publications in other languages such as French, Urdu and Turkey. It obvious that this number is understate, since collection of the IIUM Library cannot cover all literatures in Islamic economics.

More than 92% of the literatures (4200) available are in form of books and articles—either as part of book or those of journals—while the rest is various, such as conference papers, internet articles, unpublished papers, book reviews and other reports. Theses—both of the IIUM and from outside—are documented separately and not included in the library database, since they are treated as special collections, to which access is limited. Unfortunately, time and other technical constraints lead the exclusion of those theses from this study. Another limitation in database collection is the exclusion of the more recent works after 2005. However, it is also recommended, these constraints provide the room for further researches in the same area.

For simplicity, the literatures are categorized under two general classifications:

- a) Classification of science and its subcategories such as economics, business, banking and finance, accounting and other related subjects; and
- b) Classification of economic sectors such as sales, *waqf (awqaf)*, agriculture, properties, industries, and corporation.

Eighteen (18) subjects are defined, with the results as exhibited in Table 1. Literatures that are not classified under those subjects are accommodated in the miscellaneous class. The major categories of those literatures are discussed in the rest of the following passages.

Table 1: Recent Publication in Islamic Economics (1994 – 2005)

No	Subject	Language			Total	%
		Arbic	English	Malay		
1	Banking	219	713	15	947	20.75
2	Finance	297	557	26	880	19.28
3	Theory & Methodology	317	498	48	863	18.91
4	Fiscal Policy	199	130	23	352	7.71
5	Trade & Commerce	165	102	16	283	6.20
6	Economic Development	102	157	7	266	5.83
7	Economic History	29	99	5	133	2.91
8	Properties	79	28	1	108	2.37
9	Insurance	45	53	2	100	2.19
10	Monetary Policy	30	66	3	99	2.17
11	<i>Waqf</i>	49	21	7	77	1.69
12	Inheritance	45	3	0	48	1.05
13	Capital Market	10	34	4	48	0.33
14	Labor	23	15	1	39	0.85
15	Marketing	10	18	0	28	0.61
16	Agriculture	14	10	1	25	0.55
17	Industries	14	14	14	14	0.31
18	Corporation	10	10	10	10	0.22
	Miscellaneous	173	65	6	244	5.35
	Total	1830	2593	189	4564	100

Source: Database of the International Islamic University Malaysia (IIUM) Library

Difficulties may exist in categorization, since many of the works, especially in form of books, contend overlapping subjects. To avoid the difficulties, this study considers only the main subject. Other issues that supposedly deserve mentioning are, for technical reasons, placed under one of those subjects. Ethics, for instance, is an issue that nearly all subjects— such as economic behaviour, development, banking and finance and economic theory—discuss, and thus ethics is placed under those relevant subjects. In addition, the *zakah* (*zakat*) issue is put under fiscal policy, together with other fiscal components including taxes. Other issues or subjects such as methodology, poverty and so on fall within the above general classification. This is also among the task of further researches, to provide a better categorization.

Another difficulty relates to the availability of the abstracts, with only about 780 works, while information given in the subjects provided by the database is not as complete as in the abstracts. Consequently, some of the subjects may be misplaced under different category.

Imbalance between Interest in Monetary and Real Sectors

As found in Table 1 above, a significant contribution of banking and finance to Islamic economics covers 40% of the overall literature available or more than 1,800

studies during 1994 to 2005. Out of this, about 1,200 works or about two-third is articles published in journals. This is consistent with the fact that banking and financial subsector has been growing rapidly, and further accelerated by the establishment of the Islamic Development Bank (IDB) in 1974. Banking and financial subsector becomes “the best” choice for any study or research to find empirical evidence in satisfying its methodological requirements. On the other hand, explosion of this (banking and finance) subsector seems to follow the growth of monetary market, which has been very fast in the last decades, in contrast to its counterpart of the real market.

Subjects that can be thought of having discussions on the real sector—such as fiscal policy, trade & commerce, properties, sales, agricultures, and corporation—cover about 750 works or about 16.5% of the overall studies. This also indicates that monetary sector remains to be more attractive than the real sector. It is thought that this unhealthy tendency may not be well admitted in Islamic economic environment, since the existence of the monetary sector should be in complementary to, and rather dependent on, the existence of the real sector, without which the monetary sector is meaningless.

Hence, modern Islamic economics, which “almost completely” follow the conventional path, especially in banking and finance issues, is under challenge. Can Islamic economics find its own way to attain its ultimate end towards establishing Islamic economic system independent from conventional stance? The answer may be NOT, at least in the short run. The bulk of the literature provides the evidence that the subject is still under the shadow of conventional position. The danger of this trend is that it proofs the statement that Islamic economics is just conventional economics added by the *Shari’ah* touch. In banking system, the bulk of *murabahah* schemes—over those of *mudharabah* and *musharakah*—committed by Islamic banks in the world, speaks of an unclear demarcation between Islamic and conventional bank operations. Banks always avoid taking risks and thus have no interest to get involved in the *mudharabah* and *musharakah* schemes due to higher risks, as compared with the *murabahah* one; while sharing the risks in line with profit among parties is among the principles of introducing Islamic banking system.

Currently, the presence of future, option and derivative markets becomes impetus for the faster growth of the monetary sector, which can obviously make the real market farther left behind.

However, there are differences between Islamic and conventional economics, and the substantial of which in contributing to minimizing monetary and real sector imbalance, and thus its implication to the general equilibrium in an economy, is the presence of *value addition* in Islamic banking and financial transactions. This is because the basic idea of Islamic transaction is based on sale, even under the *murabahah* scheme, instead of borrowing as found in conventional banking and financial system. Value addition in monetary and financial transactions by sale will always create dual implication in the two sectors, monetary and real, equally. Islamic economics, by virtue of its equilibrium principle based on the notions of *mizan*, *qist*, *’adl* and *ihsan* (see also Naqvi, 1981; 1994) does not entertain imbalances in an economy.

There is something left behind, the discussion of the Islamicity of Islamic banking and finance, as Anwar⁴ also criticizes. Most of the Islamic bank schemes are based on *murabahah*, of which the banks attempt to avoid great risks of using *mudharabah* or *musharakah*. This creates difficulties in two aspects: (a) difficulties in explaining to the public the difference between Islamic banking system and that of conventional; and most importantly (b) the deviation from the drive towards *Maqasid Shari'ah*, by means of *hiyal (hilah)* in avoiding the rule of *riba* prohibition, but often doing injustice by charging high mark-up to the consumers. The use of *murabahah* seems to be calculated based on interest, so that Islamic banks may compete with their counterparts in conventional system.

Economic Theory, Methodology, and the Issue of Islamization

Discussion on methodology and philosophy of any branch of science apparently does not attract many people. This is proved by the presence of the scarce literature in the subject, including Islamic economics, even though methodology and philosophy is very important to scientifically develop the discipline.

Our examination finds about 863 studies (18.91%) on economic theories and methodology available in the Islamic economics database of the IIUM Library. 317 works are found in Arabic, 498 are in English and the rest (48 studies) is done in Malay. This includes 19 works specifically written on methodology.

In addition, the theories are made up of a number of issues such as Islamic law and its modes of *ijtihad*, law of transactions, income theory, market and price theories, theory of profit, theory of money, accounting theory, distribution, and some behavioural issues such as production and consumption, to mention some.

Some of the discussions on methodology trace the history of conventional methodology of economics, urge the need for integrating with the methodology of Islamic jurisprudence, and provides Islamic solutions based on *usul fiqh* methodology (Choudhury and Malik, 1992; Muqorobin, 2004, Zarqa, 1992). However, the discussion still leaves the questions if economics methodology should follow that of natural sciences as found in conventional economics, based on the Vienna Circle's *unity of science* doctrine.

In economics literature, it is well-known (as also advocated by Galbairth and Darity, 1994), Adam Smith applies the *Newtonian reductionism* into economics, while JM Keynes applies Einstein's *general theory of relativity* to curb the classical analysis in labour market during the 1930s economic depression. The analysis of those two great economists, whatever their differences are, remain anchored on the *unity-of-science* paradigm by applying methodology of natural sciences into economics, treating human being equal with other creatures.

(4) Muhammad Anwar in his Inaugural Speech for Professorial Lecture at the IIUM in 2000 gives a hint to criticize Islamic banks, which seems to deviate from the *Maqasid Shari'ah* in their business activities.

Blaug (1980) in his *methodology of economics* states that after sixty years from Newton's *Principia*, Adam Smith confessed to deliberately apply Newtonian method to economics by laying down certain principles, primary or proved, in the beginning, from whence we account for the several phenomena, connecting all together by the same chain

From an Islamic angle, the unchallenged agreement with the doctrine of the unity of science indicates an ambiguous position of human being. On the one hand, the degradation of human existence that accord the "best creature" of Allah (at-Teen: 1-4), diminishing into *asfala safilin* whose status is even lower than *animal* (al-A'raf: 176,169). On the other hand, man is also viewed as "superman" who has declared firstly in the history of science in the simple Descartes's words *cogito ergo sum* (I think, therefore I am), and so has crowned human reason as powerful having the absolute sovereign for himself in place of God's ordains and revelation, and moreover of faith and intuition.

Islam clearly demarcates between Qur'anic thought and thought that is based on radical doubt (*dzan*), of which the use is prohibited. A "gigantic invisible power" generated from the elements of worldview, epistemology and reality, operates through accidental variations in a self-designed and self-propelled evolution, creating inevitable mechanistic consequences in the laws of universe as well as of human nature. Eventually, the higher scientific and methodological breakthroughs in physics and natural sciences in general permeate economics and elsewhere in social sciences. This leads to mechanical explanation of human soul and its equal treatment as other creature or even lower, non-living qualities. Nowadays, the quality of an economic research is often measured by the use of mathematical exposition, without which the research is thought to be meaningless.

The Western unity of science doctrine is entirely rejected in Islam, not only of its equal treatment of man and other creature; but to a greater extent of philosophical bases underlying it. Consequently, secular objection to this doctrine that methodology of natural sciences is not applicable to economics is also rejected, because of their similar foundation. Positivism, in any form, being the "best method" in economics denies the existence of substances or forces, which are neither observable nor verifiable. Since the existence of God falls under this deniable category, therefore, there would be no accountability and responsibility before Him in the hereafter. This is spelled out by Robbins that *means-ends* relationship relating to the purpose of human life is a merely a question of worldly affairs. Hence, it is devoid of ethical values (al-Qasas: 28). Islam, in contrast, suggests the more important life in the hereafter as the ends of human life.⁵ It is worth underlining the above explanation that methodology (Hasan, 1998) came after economics had been relatively established, to justify its existence and empirical practices. Thus, daily economic life that always changes becomes the basis of economic methodology, which currently shows the more matured form of its development. Consequently, inevitable fundamental changes in global economy would lead the economists as well as methodologists to seek a new methodological justification in

(5) While Robbins and other methodologists refuse any role of ethics, Islam takes it as the absolute values central to any economic thought and activities. This is also explicitly pronounced elsewhere by Islamic economists. (Naqvi, 1994).

conformity with such changes, or otherwise if methodology fails to provide the answers, the economic consequences would be unpredictable.

Islam has different answer. A relatively complete form of methodology of social sciences in Islam is found in *usul al-fiqh*. It is firmly tied up in the depth of the Divine revelation. Kamali (1989) said, *usul al-fiqh* is the science of sources and methodology of law, in the sense that the Qur'an and the Sunnah constitute the sources as well as the subject matter to which the methodology of *usul al-fiqh* is applied. It “refers to methods of reasoning such as analogy (*qiyas*), juristic preference (*istihsan*), presumptions of continuity (*istishab*) and the rules of interpretation and deduction. ... all serve an aid to understanding of the sources and *ijtihad*.” It is aimed at helping the scholars to deduce an adequate knowledge of the two sources of the *Shari'ah*.

The issue on methodology covers a number of works not only in economics, but also in banking and finance. Apart from the 19 studies discussing general issues of methodology and philosophy of economics (under theory & Methodology), there are about 10 studies focused on methodology of Islamic finance and/or banking (under numerous monetary categories). Thus the total literatures available on methodology are 29 studies, which make up about 0.6% of the works in the Islamic economics collection of the IIUM Library.

Another interesting issue currently in debate is Islamization of knowledge, in particular, economics. The term *Islamization* as sparked off in the 1970s propounded by scholars such as al-Attas in 1969 (al-Attas, 1993) and al-Faruqi (1982) also deserves discussion in the literature, of which 15 works are available in the database. In many cases, this issue does not appear in separation with the issue on methodology of any branch of knowledge, including economics. Islamization as found in the literature has two integrated angles: institutional Islamization and Islamization of thought and knowledge. Institutional Islamization is a practical form of the Islamization, whereas the latter involves scientific and academic exercises for long period of time. The need for Islamization will be further discerned in the end of the paper.

Trade and Business Ethics

The concept of ethics is found in 79 works, of which the most is under category of trade and commerce with about 43 studies; and about 20 studies are under various subjects such as property, banking and finance. The bulk of the concept talks particularly about ethics in business, how Islam teaches the Muslims to conduct business—in micro-perspective—as part of fulfilling their *fardh al-kifayah* in social interaction among them and also among human being in general.

Islam is revealed to the mankind for their blessing (*rahmatan li al-'alamin*). This brings a consequence that every single Muslim is an agent for a social interaction and change towards establishing a prosperous society in the world as well as in the hereafter (al-qasas: 77). The notion of *falah* or *sa'adah* in Islamic economics derived from this version of the Qur'an as found in the bulk of economics literature makes the material purposes of economic and business activities integrated with attaining the spiritual heights in the hereafter, as an ultimate aim.

This notion may also be associated with the notion of *amanah*, as propounded by Hasan (1986), for instance. He accentuates the conversion through the *amanah* concept from ambitious attainment of a Muslim in socio-economic activities into a spiritual height by achieving eschatological welfare in the hereafter.

In relation to macro-perspective, the notion of ethics may be defined as equal to honourable moral precept, which illustrates the mission of the Prophet (pbuh) being sent to the world. He said:

إِنَّمَا بُعِثْتُ لِأَتَمِّمَ مَكَارِمَ الْأَخْلَاقِ

“Truly, I was sent only to perfect the honourable moral.”

Elaboration of this perspective of ethics is generally found in the works below category of economic theory and methodology. Under this category, economic behaviour is also discussed. There are teens of studies found in the database under consideration. Among those literature, ethics is well elaborated in Naqvi’s *Ethics and Economics* (1981) and *Islam, Economics and Society* (1994).

Zakat, Poverty Eradication and Economic Development

More than 20 works on poverty are found under economic development subject. This makes up about two-third of the whole poverty studies available in the database. There have been discussions of the acceptance of *absolute* and *relative* approaches to poverty among Islamic economists. However, they are likely to accept their conventional counterparts in defining these approaches, with the exception that the spiritual contents play an important role therein. Given the definitions and meanings, they present numerous opinions about such approaches. Their conclusions are same: all definitions, approaches, measures, or whatever the names, which are devoid of ethical spiritual values, are unacceptable. Most of them, including Mannan (1992) and Hassan (1997), advocated the use of relative measure.

Poverty, and also poor, in Islam is not merely a matter of material concerns. Islamic definition of poverty entails more spiritual aspect than that of material. The Prophet (pbuh), as narrated by Abu Huarairah (Mannan, 1988: 305) is reported to have said: “Indeed, the real richness is that of the heart (spiritual) itself.” The *mafhum mukhalafah* (or inverse meaning) of the above statement is that *the real poverty is the spiritual poverty*. Though spiritual aspect of poverty is more important in Islam than that of material, the existence of both is interrelated and thus undeniable. Therefore, deprivation of either one of these aspects may give rise to poverty. The Prophet also says that either poverty or hunger may lead to infidelity (Rahman, 1995).

Thus, redefinition of these terms is merely reconsideration of the Islamic spiritual values. This is a first step, as it has significant consequences, in changing human perceptions about all these things related to poverty, especially measurements. Redefinition also applies to those of earlier Muslim scholars. It may be worth noting in this case one definition given by al-Ghazali that poverty is a state of not being able to fulfill one's needs (*al-faqr 'ibarah 'an faqd ma huwa muhtaj ilaih*), as quoted by Sadeq (1992). This al-Ghazali's definition is quite general, and may fall under either absolute or relative modern definitions. Nevertheless, his *absolute poverty* in terms of spiritual aspect referring to the Qur'anic verse (al-Fatir/35: 15): "Allah is rich and you all are poor," that everyone is poor and thus needs the help and blessing from Allah SWT, requires redefinition to satisfy modern approaches.

Whatever the definition can be, poverty is among social illnesses that Islam suggests to minimize, if not to eliminate. Macro-perspective of this suggestion demand for the better progress of two interrelated policy issues: development and fiscal policy under which zakah administration is of importance.

The idea of "development" as a modern concept, which encompasses economic, military and technical aids to developing economies, was initiated in 1947 by the United States (Pramanik, 1997), in effort to defeat socialist forces, and spread over the Third World. The concept is primarily measured by technological progress and industrial advancement contributing to the improvement of total factor productivity (TFP), while its progress is measured by either gross national product (GNP) or gross domestic product (GDP). The concept imposes every developing economy to compete in attaining a certain level of economic growth. Following years of implementation of the concept, most developing economies have experienced substantial increase in the economic growth and income per capita, so as to catch up with their counterparts in developed countries.

As the concept was defined as "economic development",⁶ highly materialistic nature of such a definition, which is devoid of ethical values has resulted high material growth and development. Consequently, the decadence of human civilization is inevitable. Pramanik (1977), among others, shows this decadence as growing inequality, deprivations, disenchantment and also environmental destruction. Therefore, in order to eliminate (or at least to minimize) this decadence, rethinking development to accommodate greater considerations of human aspects in development is thought necessary.

Gradually, the concept has developed, of which redefinition gives new insight of *sustainable development*, which is more humane and gives more emphasis on environmental concerns, eradicating poverty and basic need fulfillment as its primary goals. Nevertheless, it remains to play around material dimension, and does not go beyond. This is the major defect of capitalism, which has unfortunately also been gradually transformed into the majority of the Muslim economies. Therefore, the solutions it presents have failed to cure major illnesses stemming from the lack of ethical values. Human tendency towards materials often leads to imbalances in pursuit

(6) This definition has been quoted by Abdul Rashid Moten in his "Preface" for Ataul Haq (Pramanik), *Human Development with Dignity*, 1997, Cahaya Pantai, Kuala Lumpur, p. xv.

of integrated mundane and spiritual dimensions. Consequently, the proposed sustainable development concept does not sufficiently solve the problems of inequality, poverty, environmental damages, social distrust, crime, and other kinds of socio-economic disorder.

Sustainable development still leaves some people behind, especially the poor. Among substantial role of *zakah* is to meet their basic needs. In a macro-perspective, *zakah* is often discussed in relation to fiscal policy; and it is found, most of the literatures on fiscal policy deals with *zaka*. In addition, studies of fiscal policies also cover several issues such as their instruments including *infaq*, *kharaj*, *jizyah*, and other forms of taxes. Literatures in those issues are found about 199 titles in English, 130 titles in Arabic and the rest is in Malay.

Waqf and inheritance are excluded from this category for two reasons, most of their discussions are more on micro-perspective; and there is no clear-cut indication of involvement of many Muslim countries in practical arrangement of those two components as exposed in the abstracts/outlines. *Zakah* in micro-perspective also covers a number of issues like *nisab* for each kind, issues of *mustahiq* and *muzakki*, and its collection and distribution management.

Labor, Human Resource Development and Gender Issues

There are 39 studies on labor available in the IIUM Library database of Islamic economics. 23 studies are written in English, 15 are in Arabic and only one is in Malay. Numerous issues are discussed in the labor studies such as wages, trade union, industrial (worker-employer) relation, rights of workers, women employment and some countries' case studies.

Women employment is among the current issues getting paid special attention, in particular, from women activists, who demand for more liberation in their life. Nevertheless in Islamic perspective, the issues raised are not very clear, since Islam has given a chance for women to express their rights proportionately. Indeed, Islam recognizes numerous differences between man and woman, stemming from their physical and biological differences.⁷ These differences necessarily lead to possible differences in their role and contributions to development and national building. Consequently, sexual division of work between man and woman is thus possible for application. This is not meant at discriminating women from men but rather differentiating their duties and responsibilities.

In relation to development, a wider concept views it as a process of social change in all dimensions (Pramanik, 1977), stage by stage,⁸ towards the relatively ultimate aim of human being, and can be defined strategically in terms of national requirements of a country, it should reflect the needs for simultaneous and continuous processes of such changes towards betterment of human life. While generating the progresses in a particular point of time or generation, it also necessitates intergenerational efforts for the preparation of future breakthroughs. Hence, the need for human investment through

(7) See al-Nisa (4): 34.

(8) The Qur'an also conceives human life as to develop, step by step. See Al-Inshiqaq (84): 19.

education is imperative, and Islam seems to emphasise that these particular efforts should properly be undertaken by women (*Muslimat*), especially young mothers of developing children, who emotionally close to them, and should take care for their growth.⁹ This leads to the division of responsibilities in general between men and women, in undertaking point-of-time progress of the development and intergenerational efforts for future progress respectively. Accordingly, a patriarchal economic order in an Islamic society (*ummah*), particularly applicable to newly formed families having small growing children, is considered necessary.

The Call for a Continuous Islamization Project: An Epilogue

Above all, Islamization project among the interested issue currently attracts Muslims' attention. Islamization as found in the literature has two integrated angles: institutional Islamization and Islamization of thought and knowledge. Institutional Islamization is a practical form of Islamization. It is included in the domain of structural approach of various existing forms of institutions such as economic and political system, the government, country, societies, as well as other social institutions. In this case, whenever imbalance or lameness exists in the society or in the government, Muslim scholars must carry out movement that is relevant in accordance with the form of warning, as well as through various possible media. However before they get involved in the Islamization project, they must also carry out self-correction, starting with themselves (*yabda-u binafsihim*).

For effectiveness of their works, there should be a network of co-operation between institutions. This network could be made in various levels or circles, primarily network between Islamic institutions. In Islamic institutions every *jama'ah* or organization unit respectively must strive to success in achieving the common goal. There are several factors to be paid attention to in this co-operation, including ensuring a healthy competition between units to vitalize the organisation, and building awareness as units under one family. The existence of *jam'iyat* (organisations) or *jama'ah* (groups/groupings) is hoped not to become *firqahs* that its existence is inexistence of others (mutually exclusive to each other), but as an immense working group that complement each other to produce a synergic effect for the improvement of the *ummah* and the nation.

Islamization of Thought and Science

The unequalled doctrine of unity of science that differentiates social sciences from those of natural has demeaned the existence of humankind as the best creation the Lord to that of a level of animal or merely inanimate object (*asfala safilin*). This happens when the existence of God with His supra-natural power is put in doubt through authentication procedure of scientific truths, which believes that the existence of the truth can only be verified with the empirical verification, the only truth that is accepted by secular thinking. Therefore, according to this paradigm, the existence of God, which is difficult to prove empirically, is in question. The consequences are, firstly,

(9) The quality of a nation is much determined by the quality of women, who mould the future generation, the Prophet Muhammad (SAW) is reported to have said: "women are the pillars of the country (nation), therefore, if they are virtuous then the nation would be virtuous too."

humankind is “able” to replace the position of God as “the Almighty”, and secondly, the lost of human life’s final destination. Islam has clearly introduced relativity of human and absoluteness of God in one side, and also the concept of the Hereafter.

Being observed from the history of development of scientific methodology, science (secular), was rather established beforehand, and just then followed by its methodology. This makes methodology as no more than a justification for social behaviour that always changes. Then each change needs a new methodological justification, and inability of methodology to do this increasingly causes the difficulties in predicting the coming social changes, perhaps this is what afterwards acknowledged as the sign of chaotic post-modernism. In contrast, the Islamic scientific methodology precedes science. *Fiqh* and the *Ushul Fiqh* explained all of them. However, this paper will not explain further about the historical development of both due to limitations.¹⁰

Islamization of thinking can be carried out through discourses as well as general or religious discussion forums. It is necessary to instil Islamic values in intellectual activities, especially in looking for alternative solution to various social problems. Continuously, this thinking is spread to the community in ways that it can be understood by them, and through various relevant Media, like the Friday sermon, daybreak or public and religious talks. This is also meant to ensure community's readiness to welcome a new era in their life as a nation in a country. Islamization of thinking should be at the same time accompanied by religious-moral embedding in an intensive manner, as a reflection of one of the main mission of Messenger of Allah (peace be upon him), that is the improvement of moral (*akhlaqul karimah*).

In addition, Islamization of knowledge is a process that takes up a relatively long period, because of the establishment of structure and methodology of secular science that almost “impervious”. While the system, policy and environment of education in most of the Muslim countries still inherit the colonial system, partially or even entirely, including dichotomy in institutional structure (example: Law Faculty and *Syari'ah* Faculty, or that of Education and Tarbiyah, stand separately), design of program and curriculum, reading materials *et cetera*. This gives a hint that the Islamization will process through a long and continuous chain, in a term of achievements (objective factors), as well as chain of generations being Islamization activists that are involved in the process (subjective factors).

Islamization of knowledge covers a sensibly wide theme. The agenda of Islamization of knowledge can not be independent from problems of scientific methodology in its very existence, and although both of them are two distinct problems, but in fact they are interrelated. In this case, Islamization needs comprehensive understanding on methodology, as a prerequisite; on the other hand, scientific methodology “requires” a scientific application, which for a Muslim this application must comply with Islamic values. Apart from methodology, worldview and epistemology also needed a further in depth scrutiny.

(10) For further understanding, see e.g. “Beberapa Persoalan metodologis dalam ilmu ekonomi, antara Sekular dan Islam,” 2001, *Jurnal Ilmu Ekonomi dan Studi Pembangunan*, Fakultas Ekonomi UMY, vol.2, No.2, pp. 261-277.

Islamization of Economics

The resurgence of new consciousness of the Muslim societies elsewhere in the Islamization project gives rise to a new Islamic paradigm. Al-Attas (1989, 1993) and al-Faruqi (1982) have pioneered the issue since the late 1970s, and critically evaluated among others by Safi (1996), Haneef (2005). Muslim economists invariably search for the new formulation of incorporating certain theories of secular economics, to be assimilated into the *Shari'ah* worldview, under the banner of Islamic economics.

This creates an unprecedented development of Islamic economic literature around the world, even attracts many of Non-Muslims to give their contributions. Notwithstanding that contemporary Islamic economics today shows its promising performance, its existence remains in the vestige of secular economics. Islamic economics stands at the crossroad. It is a tug-of-war between the dictate of further direction of conventional economics, which lends it some sorts of analytical device; and the historical burden of the past, from which its methodology has evolved. Only “self reliance” on its own precepts can save its future existence.

Islamization of the economic discipline have put a number of studies flowering the Islamic and economic literatures such as Ariff (1978), Hasan (1998), Muqorobin (2004) and more on methodological approach, Zarqa (1992), to name a few. To govern the Islamization project in economics, it is therefore necessary to present the scenario of developing future Islamic economics, in which the short-run and long-run strategies at achieving the objectives of the subject and its eventual outcome, Islamic economic system. The strategies are further divided into four agendas:

- Agenda 1: Priorities of the Field Discussed;
- Agenda 2: Strategic Planning for Socialisation;
- Agenda 3: Strategies for Education of Economics; and
- Agenda 4: Strategies for Implementation of the Subject.

Instead of detailed discussion which may not be relevant in this short paper, further researches and studies are recommended to cater such agendas. Apart from these, the paper ends the discussion by suggesting the challenges, internal and external, Islamic economics will be faced with in its journey. Internal constraints are likely to demand more attention. The journey of Islamic economics will not come to an end unless the dream of nurturing more matured-Islamic civilization comes true, where the adjective “Islamic” is no longer needed, and the new era of Islamized economics takes place under the shorter name of *economics*.

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رحلة الاقتصاد الإسلامي في العالم المعاصر

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المستخلص: استطاع الاقتصاد الإسلامي بعد قطعه لمرحلة ثلاثة عقود من الزمن وما صاحبها من جهود معتبرة أن يأخذ في الوقت الراهن شكل العلم المتطور الجديد، وهي المرحلة التي تمكن من أن يكون له فيها رؤاه وتحليلاته الخاصة فيما يتعلق بالقضايا الاقتصادية. هذا التطور الذي وصل إليه يمكن تلمسه من عدة جوانب مثل حجم الكتابات التي ظهرت بلغات عدة وفي مناطق مختلفة. هذه الورقة تقدم مناقشة حول التطورات الجديدة التي شهدتها حقل الاقتصاد الإسلامي وذلك بتحليل مستخلصات أو الخطوط العريضة لخمسة آلاف كتاب، بالإنجليزية، والعربية، والماليزية والإندونيسية والمتوفرة في قاعدة البيانات لدى مكتبة الجامعة العالية الإسلامية في ماليزيا. لقد أظهرت نتائج هذه المناقشة أن الدراسات المتعلقة بالبنوك والتمويل الإسلامي تحتل الصدارة، يليها بعد ذلك الدراسات النظرية والمنهجية، ثم السياسة الجبائية، فالتجارة ثم التنمية. ومن المتوقع أن نمو وتوسع قطاع الصيرفة والتمويل الإسلامي سيجلب مزيداً من الاهتمام بهذا الجانب، مما يعني بقاء هذا الحقل في طليعة الإنتاج العلمي والفكري المتعلق بالاقتصاد الإسلامي.

MALAYSIAN EXPERIENCES ON THE DEVELOPMENT OF ISLAMIC ECONOMICS, BANKING AND FINANCE

Wan Sulaiman Bin Wan Yusoff Alfattani¹

Abstract. Within 50 years experiences, with various policy plans, Malaysia managed to reach the world's top-tenth fastest growing economy in 1970-1990 with hard efforts to meet her target of becoming an Industrial country by the year 2020. Within the policies of New Economic Policy (NEP), Assimilation of Islamic Values (AIV), Islamic Consultative Body (ICB), National Development Plan (NDP), National Vision Plan (NVP), and Islamic Hadhari (IH) approach, Malaysia has implicitly included the Islamic Principles, particularly Islamic Economics, Banking and Finance. In terms of implementation of the policies, Malaysia has established 2 main institutions: One for the banking sector, *Bank Islam Malaysia Berhad*, and the other one for the educational sector, International Islamic University Malaysia. In addition, *Lembaga Urusan dan Tabong Haji* (LUTH), Center of Zakat Collection (CZC/PPZ) and Baitul Mal, *Yayasan Pembangunan Ekonomi Islam Malaysia* (YPEIM) are complementary institutions to support the Islamic economic development in the country. The last policy introduced by Malaysian government was *Islamic Hadhari* (IH) or Towards a Progressive Islamic Civilization. This approach aims at returning Muslims to the true teachings of Islam in every aspects of life. This paper sheds light on these developments to draw lessons for other OIC member countries to adopt the relevant policies suitable for their particular geographical and cultural needs.

Section I

Introduction

Once New Economic Policy (NEP) was introduced and at the earlier stage its implicit principles inculcated Islamic values for the society to implement only personal faith and morality. In 1969, the first Islamic Economic Institution was established to fulfil and support the Muslim faith and practice of Islam i.e. *Lembaga Urusan dan Tabong Haji* (LUTH) or Pilgrim's Fund in Malaysia. LUTH is a modest proposal to aid the Malayan rural economy and enable the Muslims to perform Hajj, one of the tenets of their faith. Today LUTH is one of the greatest cooperative success stories in Malaysia; the institution has developed beyond imagination, and perhaps one in the world. However, the overall structure of Islamic economic and its actual plan reforms stated in 1981, when Mahathir Mohammad became Prime Minister. The Mahathir administration decided to use Islam as a positive ingredient in the development of the nation and its people, especially the Malays. It started with the announcement of an Islamic Consultative Body (ICB) in March 1981, to make sure that the national development programme conformity with Islamic values. Late 1981, the government announced its policy of Assimilation of Islamic Value (AIV) (*Penerapan Nilai-Nilai Islam*) in Malaysia's administration. As a follow up to this policy, many courses were given by the Civic Consciousness Bureau to instil the Islamic value in government administration

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so that it would be effective, strong, just and progressive. This was to create a dynamic work ethic which would increase productivity. The important values concentrated in AIV were Responsibility, Sincerity, Dedication, Punctuality, Trustworthiness, Moderation, Diligence, Cleanliness, Discipline, Cooperation, Integrity and Thankfulness.

Along with the AIV policy, the government embarked upon a programme of establishing Islamic institutions in the country. Pioneer institutions in this regard were **Bank Islam Malaysia Berhad (BIMB) and International Islamic University Malaysia (IIUM)**, both institutions were established in 1983. These two institutions can be regarded as the two main pillars in developing Islamic Economics, Banking and finance, it worked hand in hand to achieve the syari'ah principle in daily life activities of Muslim Ummah, particularly in Malaysia. In addition to few other policy announcements relating to governance, one of Abdullah's earliest policy initiatives was the introduction of **Islamic Hadhari**, a new approach to returning Muslims to the true teachings of Islam that promotes, among other things peace, progress and prosperity for all.

The layout of the paper is as follows. Section II is highlighted the short overview of Lembaga Urusan dan Tabong Haji (LUTH) or Pilgrim's Fund and its achievement in Malaysia. Bank Islam Malaysia Berhad (BIMB) And Takaful Operators is presented and analyzed in section III. International Islamic University Malaysia (IIUM) and its functions to grow Islamic Economics, Banking and Finance through educational Institution discusses in section IV. In section V & VI, we give a brief overall pictures of zakat institution and the restructuring of the baitul mal; and Yayasan Pembangunan Ekonomi Islam Malaysia (YPEIM) or Foundation of Islamic Economic Development Malaysian (FIEDM) respectively. The Introduction of Islamic Hadhari (IH) by the present Government is given in section 7; and final section is concluding remarks

Section II) Lembaga Urusan dan Tabong Haji (LUTH) or Pilgrim's Fund in Malaysia

LUTH was established in November 1962, its basic principles structured by Royal Professor Ungku Aziz (Ex-Vice Chancellor University Malaya), and officially operation began 1963. Initial stage it envisaged as a simple saving scheme, to enable Muslim villagers to save their money without interest at the post office for the purpose of performing Hajj. After LUTH's act released by parliament in 1969, its functions were widened to include the administration and organization of Hajj activities. This act was amended in August 1997, LUTH took on a more corporate image as a company involved in three core businesses: savings, investment and Hajj. As a result, LUTH is one of the biggest savings and investment institutions in the country. It started with only 1,281 depositors and total deposit of RM 46,600. The number of depositors increased to 5.098 million and total cumulative deposits increased to RM 13,319 million² by 2005. Although LUTH has been categorized as a non-bank financial intermediary but it can play a role in mobilizing the savings of pilgrims and other depositors and investing

(2) Tabong Haji Annual Report various issues

according to the Shari'ah. In terms of achievement of the total amount, this has grown from RM 27 million in 1985 to RM 638 million in 2006.

Section III) Bank Islam Malaysia Berhad (BIMB) And Takaful Operators

Motto: "Islamic banking and finance will emerge as a force to be reckoned with in shaping the future development of global finance..."

There are four main reasons why Islamic Bank is important in Malaysia?

- 1) To response the need of Muslim Community
- 2) To provide Islamic Fund as an alternative for Muslim community
- 3) To support economic growth
- 4) To fulfill the demand for the whole Malaysia

Milestones for financial institutions in Malaysia

In 1969, financial institution started with Pilgrimage Fund Board (LUTH), and then it followed with full-fledged of Islamic Bank (BIMB), Takaful operator (Syarikat Takaful Malaysia Berhad), Takaful National, Maybank Takaful, and Takaful Ikhlas by 1983. During 1993 – 2003, financial institutions in Malaysia have grown up a full range to be competent with economic growth of the country. For example, establishment of Bank Muamalat Malaysian Bhd, introduced the new concept for Conventional Bank to open up an Islamic window, and created a branch of Islamic Money Market. After 2003, foreign Islamic Banks started their competitive operations and Islamic subsidiaries were introduced in Malaysian market.

Comprehensive Islamic Financial system

A) Institution Development

- 1) Domestic and Foreign Islamic Banks
- 2) Islamic Bank Window
- 3) Islamic Capital Market players
- 4) Offshore Players
- 5) Liberalized equity policy for Islamic Subsidiaries and Takaful

B) Products and Market

- 1) Comprehensive product range in banking, takaful and financial market
- 2) Global sukuk – sovereign and multilateral institution

C) Legal and Shari'ah

- 1) Comprehensive legislation
- 2) Dispute resolution
 - * Dedicated high court
 - * Arbitration Centre
 - * Financial Mediation Bureau
- 3) Tax neutrality policy
- 4) Syari'ah Advisory Council and its governance
- 5) International Best Practice – IFSB

D) Knowledge and Education

- 1) Consumer education and Awareness programme
- 2) Complete training infrastructure - INCEIF, IBFIM and ICLIF
- 3) International conferences
- 4) Fund for Syari'ah Scholars
 - * Promote Syari'ah dialogues
 - * Scholarship
 - * Research Grant

E) Vision to Become Islamic Finance Hub.

- 1) Sustaining Malaysia's competitive edge as leading IFC, the conditions as follows:
 - * Progressive development
 - * Achievement of domestic market
 - * Integration and Liberalization
- 2) Moving forward, hub envisioned in financial sector Master plan
- 3) Growing interest from Middle East investors now seen
- 4) Opportunity to improve trade and investment ties and linkages between Malaysia and other parts of the world.

F) Comprehensive Islamic Financial System

- 1) Islamic Bank – Asset 11.6% (RM 118 billion) of market share, Deposit 11.6% (RM 84.5 billion), Financing 15.7% (RM91.9 billion)
- 2) Islamic Capital Market – Private debt securities RM 125billion (46.0% of market share), Equities 80% counters syari'ah compliant
- 3) Takaful – Asset 5.6% of market share, Contribution 6.7% of market share
- 4) Islamic money market – Volume of market RM 21 billion per month

Section IV) International Islamic University Malaysia (IIUM)³

IIUM was first conceived in 1982 by Anwar Ibrahim during a special meeting between OIC leaders to establish an international institution for tertiary education based on "**ISLAMIC PRINCIPLES (THE ISLAMIZATION OF KNOWLEDGE)**" including Islamic Economics, Banking and Finance, and Islamic Accounting and Business in the Kulliyyah of Economics and Management Sciences (KENM). It was officially opened on 10 May 1983 at Petaling Jaya, with the Allahyarham Tun Hussein Onn elected as the first president. IIUM is a private University and operates under the direction of a Board of Governors with representatives of the Organization of Islamic Conference (OIC) as well as eight sponsoring governments. Nevertheless, the Constitutional Head, President of the University are Malaysians and 4 Rectors of IIUM until today – the first 2 from foreign countries and second 2 from Malaysia. The current Constitutional Head is Sultan of Pahang, Sultan Haji Ahmad Shah al-Musta'in Billah. The details of the University refer to Appendix I.

(3) IIUM based on http://en.wikipedia.org/wiki/International_Islamic_University_Malaysia
(Date: 24/02/2008).

IIUM has 13 faculties: Faculty of Laws, Economics, Islamic Revealed Knowledge and Human Sciences, Engineering, Architecture and Environment Design, Information and Communication Technology, Education, Medicine, Allied Health Sciences, Pharmacy, Nursing, and Science; and Centre of Languages and Pre-University Academic Development. Medium of instruction is English, Arabic and in addition, basic Malay language. As of 2005, there were approximately 20,000 students from over 40 Islamic countries studying in IIUM, as well as students from non-Islamic countries with a sizable Muslim minority.

To date, IIUM has produced 28,065 and 10,767 graduates at Bachelor's and Master's and Doctorate level respectively. Of these 38,832 graduates, 4,270 were international students from more than 100 countries. As such, IIUM is recognized by OIC countries as an institution that produces local graduates and many international graduates at least with the competent of Islamic principle or Islamization of knowledge.

Malaysia As A Centre of Excellent Education in South East Asia

The efforts to develop the nation and to provide prosperity to the people is a continuous process made possible by a government. Along the policy of OPP2 and OPP3, the government focused on education by increasing numbers of Public Universities in Malaysia, now 19, Private Universities 13, Foreign Universities 4 and College Universities 14 (see Appendix II). These Universities, of course, they have to offer the courses competitively based on the demand of local and world markets, otherwise they could not be able to survive in the long-run. Therefore, one of the demand driven in the Muslim World today is Islamic Economics, Banking and Finance. In other words, most of the Universities (if not all) in Malaysia they need to offer a course and teach on Islamic Economics, Banking and finance and Islamic Accounting and Business in order to let the students competent and well-worth of the Islamic knowledge in their daily life activities. This is might be one of the reason, that is why, Malaysian Islamic Banking and Finance are leading ahead compared to other Muslim countries in OIC member countries.

Section V) Zakat and the Restructuring of the Baitul Mal

The institution of Zakat in Malaysia involved with collection, disbursement, coordination and management of funds. It is necessary to have proper reorganization, then the ICB and Prime Minister's Department took initiative to study the zakat institution, reorganized and upgraded the relevant agencies. Since 1990, Zakat Collection Centres (ZCC/PPZ) have been operation and total collection reached at RM 121.9 million and rose up to RM 573 million in 2005. Since all matters relating to Islam in Malaysia come under the jurisdiction of State authorities. In some States like the Federal Territory of Kuala Lumpur (FDKL), in term of collecting Zakat, a corporation collects FDKL's Zakat, and the Baitulmal department of the Religious Council disburses the proceeds, and they have improved the services by utilizing modern management practices and deep knowledge of Islamic finance and investment so that they are run as highly professional organizations. In the State Selangor, a corporation manages both the collection and disbursement of Zakat. Where as in the State of Kelantan (where the ruling political party is the only Islamic Party in Malaysia), the implementation of Zakat

collections, disbursements and expenditures seem to be different with other States in Malaysia and it is based on its own Islamic political party's agenda and objectives.

Section VI) Yayasan Pembangunan Ekonomi Islam Malaysia (YPEIM) or Foundation of Islamic Economic Development Malaysian (FIEDM).

FIEDM was established in 1976 to collect voluntary funds from various halal sources and invest these into halal projects and other economic activities. But in 1984 the government took initiative to reactivated and let their functions and objectives fully active in the Muslim society to provide economic assistance (employment and monetary) and promote human welfare for the Muslims. FIEDM combines the practice of *Amal Jariah* (Charity) with that of investment and efficient management under the guideline of Shari'ah. Through welfare activity functions, it can promote brotherhood, altruism, integration and cooperation among Muslims while through investment activity's function it can generate income, saving and employment by collective economic activities to cater to the material needs of daily life of Muslim society. FIEDM activities in Malaysia more or less the same model but not identical (in term of rate of interest) with Bangladesh's Grammen Bank.

Section VII) The Introduction of Islamic Hadhari (IH) by the Present Government

This new approach of presenting the progressive nature of Islam is based on 10 core principles as follows:

- 1) Faith in Allah and Piety
- 2) A Just and Trustworthy Government
- 3) A free and Independent People
- 4) A Vigorous Pursuit and Mastery of Knowledge
- 5) Balance and Comprehensive Economic Development
- 6) A Good Quality of Life for the People
- 7) The protection of Rights of the Minority Groups & Women
- 8) Cultural and Moral Integrity
- 9) The safeguarding of Natural Resources and Environment
- 10) Strong Defence Capabilities

The 10 core principles seem to be more comprehensive than the values that were emphasised in the earlier AIV policy. Hence, they have the potential to be more sustainable if the developed, and implemented correctly. Sharing some heterogeneously with the AIV policy pursued during the Mahathir administration, the Islam Hadhari approach also requires a positive change not only in **Mindsets** but more importantly the **Simcards** of the Malays. By changing simcards of the Malays people, an understanding of Islamic worldview, realization of him or herself as a Servant and Khalifah Allah in this earth, then everyone could move in the right direction according to the principles of Islam which the last destination is the eternal happiness in **PARADISE** in hereafter..

Section VIII) Concluding Remarks

In this section, we may conclude that sustainable achievement and fast or slow of the progress of each plan including Islamic Economics, Banking and Finance, it depends on three main factors i.e. Supply, Demand, and Governance gaps. Supply gap is relying on suppliers, producers or researchers to supply their products to the society. Demand gap is depending on consumers and government who consume the products whether the demand is large or small power of the consumer sovereignty in the society, while the governance gap is a policy or government initiative to have that particular products in the country for that particular period of time. If the government supports the product it will go all out but if the government against that product, It will directly or indirectly be stopped by the sovereignty of the State. (It can be seen clearly from Malaysia's experiences, from 1983 – 2000 was a peak period of Assimilation of Islamic Values and Islamization of knowledge in Malaysia's society. Lately, this tide of development seem to be slowing down, might be due to internal or external governance gap). This concept can be applied to the world Supply, Demand and Governance gap for the Capitalist society as well.

Therefore, our progress of Islamic Economics, Banking and finance for the last 30 years is depend fully on those gaps, beside our own weakness of shortage supply of research, some time our own internal power controls us by imposing negative policy and reducing or stopping demand for the product. What more if we look at the world capitalist government and society, today, they become the sole rival competitors for Islamic Economics, Banking and Finance. **Wallahu a'lam.**

Appendix

Appendix I, International Islamic University (IIUM)

Presently, the university has moved to a sprawling 700 acre (2.8 km²) campus at Gombak, Kuala Lumpur. The original campus in Petaling Jaya has been converted to a matriculation centre and now known as Centre For Foundation Studies (CENFOS). IIUM also has newly opened a CENFOS new campus at Bandar Baru Nilai, Negeri Sembilan for Art students such as BEN, HS, IRK, BAR, LAWS and ECONOMICS. Apart from these two campuses, IIUM has another two campuses—the International Institute of Islamic Thought and Civilization (ISTAC), Kuala Lumpur and Kuantan, about 250 km to the east in the state of Pahang; ISTAC might more properly be referred to as a research institute rather than a campus. Nevertheless it comes within the administration of the University.

IIUM has 13 faculties, called 'kulliyah' in the University from the Arabic word meaning the same—the only institution in Malaysia to call them as such. Two faculties unique to IIUM are the Ahmad Ibrahim Kulliyah of Laws (AIKOL) and the Kulliyah of Islamic Revealed Knowledge and Human Sciences (KIRKHS). Other courses offered include various disciplines of Engineering, Dentistry, Nursing, Allied Health Sciences, Architecture, Information Technology, Biomedical Science, Biotechnology, Economics and Management

The Faculties (kulliyah) of IIUM are:

- *Ahmad Ibrahim Kulliyah of Laws
- *Kulliyah of Islamic Revealed Knowledge and Human Sciences
- *Kulliyah of Economics and Management Sciences
- *Kulliyah of Engineering
- *Kulliyah of Architecture and Environmental Design
- *Kulliyah of Information and Communication Technology
- *Institute of Education
- *Centre of Languages and Pre-University Academic Development

The Kuantan campus houses the :

- *Kulliyah of Medicine,
- *Kulliyah of Allied Health Sciences,
- *Kulliyah of Pharmacy
- *Kulliyah of Nursing
- *Kulliyah of Science
- *Kulliyah of Dentistry.

There are 12 'excellence centres'. Among the notable centres include the IIUM Breast Centre, located in the Kuantan campus and devoted to the research and diagnosis of breast cancer, the number one killer of women in Malaysia.

The Cultural Activity Centre (CAC) is the University's biggest centre, which is significant as a venue for the annual convocation ceremony. The centre also can be converted as an examination venue. Several cultural performances, talks and seminars were held at the centre; but the most notably was the 2003 Asia Pacific Indigenous

Plays Festival which featured international cultural performances from Malaysia, Thailand, the Philippines, Cambodia, Japan and the United States of America.

Facilities

Although this is an uncommon practice in Malaysian universities, every student is entitled to have their own rooms in hostels within the IIUM campus. Perhaps significantly for an Islamic institution, the ratio of female-to-male students is 3:1.

IIUM is particularly well-known, at least in Malaysia, for its extensive law library and research centre, as well as for producing top-class university debaters; the University was placed seventh in the world varsity rankings in 2003.

Medium of instruction and compulsory course

The medium of instruction is English, with Arabic used in courses related to the study of Islamic sciences like theology, jurisprudence and ethics. Basic Arabic is a compulsory course, even for non-Muslim students. In addition, basic Malay Language is also compulsory for international students.

Students

IIUM started with just 153 students in 1983, but today approximately 3,000 students enroll each year. As of 2005, there were approximately 20,000 students from over 40 Islamic countries studying in IIUM, as well as students from non-Islamic countries with a sizable Muslim minority (such as Germany, China, Japan, India, United States of America, Russia, Kyrgyzstan, Vietnam, Sri Lanka, the Philippines and Thailand). Perhaps significantly for an Islamic institution, the ratio of female-to-male students is 3:1.

To date, IIUM has produced 28,065 and 10,767 graduates at bachelor's, and master's and doctorate levels respectively. Of these 38,832 graduates, 4,270 were international students from more than 100 countries. As such, IIUM is recognised by OIC countries as an institution that produces many international graduates.

Having graduates all over the world, IIUM has officially established Alumni Chapters in Thailand, Bosnia and Herzegovina, Indonesia, Maldives, Australia, Saudi Arabia, Oman and Singapore. Branches of Alumni Chapters have also been opened in Turkey, China, Nigeria, the Philippines, Yemen, Brunei, Senegal, South Africa, Sri Lanka, Bangladesh, Gambia and the United Arab Emirates.

The main functions of these Alumni Chapters are to promote the concept of humanity and development of the world community, improve relations among members throughout the world, and set up communication networks to develop IIUM and Malaysia in general.

Awards and Recognition

IIUM has carved its name on the international stage in the field of debate, public speaking and mooted competitions. In debating, IIUM has been listed in the “Malaysia Book of Records” as the first among the Top 10 international universities in debating competitions.

IIUM has successfully produced a debate team that's respected at international level. Its debating team has made IIUM and Malaysia proud by winning the World's Best Debater Award in the competition held at the University of British Columbia in 2006.

In the field of research, IIUM has received recognition at regional and international level by winning gold, silver and bronze medals at various exhibitions and expos, including PENCIPTA, INPEX, ITEX and Geneva.

To ensure an effective delivery system, IIUM implemented the Quality Management Systems ISO 9001:2000 for all its major activities including Human Resources Management; Facilities, Food and Services (Student Affairs Division); Management of Pre-Sessional Programmes and Public Courses; Management of ICT Resources and Application Systems; Management of Student Development Activities; and Mosque Management

It is also noted that then Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad, Sultan Hassanal Bolkiah of Brunei and Abdullah bin Abdul Aziz, king of Saudi Arabia were conferred honorary doctorates in political sciences from IIUM.

Appendix II, Names of Higher Institutions In Malaysia

Universities In Malaysia

Public Universities	Universiti Pertahanan Nasional Malaysia • Universiti Darul Iman Malaysia • Universiti Islam Antarabangsa Malaysia • Universiti Kebangsaan Malaysia • Universiti Malaya • Universiti Malaysia Kelantan • Universiti Malaysia Terengganu • Universiti Malaysia Pahang • Universiti Malaysia Perlis • Universiti Malaysia Sabah • Universiti Malaysia Sarawak • Universiti Pendidikan Sultan Idris • Universiti Putra Malaysia • Universiti Sains Islam Malaysia • Universiti Sains Malaysia • Universiti Teknikal Malaysia Melaka • Universiti Teknologi Malaysia • Universiti Teknologi MARA • Universiti Tun Hussein Onn Malaysia • Universiti Utara Malaysia
Private Universities	AIMST University • International Medical University • Limkokwing University Of Creative Technology • Malaysia University of Science & Technology • Management & Science University • Multimedia University • Open University Malaysia • Universiti Tenaga Nasional • Universiti Teknologi Petronas • Universiti Industri Selangor • Universiti Kuala Lumpur • Universiti Tun Abdul Razak • Universiti Tunku Abdul Rahman • Wawasan Open University
Foreign Universities, Malaysia Campus	Curtin University of Technology Sarawak Campus • Monash University Malaysia • German-Malaysian Institute • Swinburne University of Technology Sarawak Campus • University of Nottingham Malaysia Campus
University Colleges	Asia Pacific University College of Technology & Innovation (UCTI) • Binary University College of Management & Entrepreneurship • Cosmopoint International University College • Cyberjaya University College of Medical Sciences • HELP University College • Kolej Universiti Insaniah • International University College Of Technology Twintech • INTI International University College • Kuala Lumpur Infrastructure University College • Nilai International University College • Kolej Universiti Islam Antarabangsa Selangor • Sunway University College • TATI University College • Taylor's University College • University College Sedaya International

Retrieved from

"http://en.wikipedia.org/wiki/International_Islamic_University_Malaysia"

Categories: Educational institutions established in 1983 | Islamic universities and colleges | Universities and colleges in Malaysia

Appendix III Tables of Malaysian Data

Table I, Malaysian Yearly Budget Location for R&D (2003 – 2007)

Years	Total Budget (RM Billion)	Total Population	Total Budget Spend on R&D (RM Million)	Individual Share on R&D (RM)
2003	109.8	22,366,000	100	4.41
2004	112.5	23,522,482	183	7.66
2005	117.4	26,130,000	185	7.01
2006	136.8	26,640,000	868	32.63
2007	159.4	27,170,000	210	7.75

Average of Individual share of R&D for 5 years in Malaysia is RM.11.98
Source: The Budget Speech of 2003, 04, 05, 06, and 2007.

Table II, The Rates of Population Growth, Birth and Death in 4 Main Countries in South East Asia

Countries	Malaysia	Thailand	Singapore	Indonesia
Population Growth	1.78%	0.68%	1.42%	1.41%
Birth Rates	23/1,000	13.87/1,000	9.34/1,000	20.34/1,000
Death Rates	5/1,000	NA	4.28/1,000	NA

Source: The Clearinghouse on International Developments in Child, Youth and Family Policies at Columbia University, (CIA, 2006)

Table III, Total Population of Malaysia and Its Composition of Bumiputera and Non-Bumiputera from 1957 – 2000.

Years	Total Pop.	Pop.E.G. (%)	W. M'sia	E. M'sia	Bumi.	Non-Bumi
1957	6,278,758	-----	4,648,885 (84.4%)	1,629,873 (15.7%)	3,125,474 (49.77%)	3,153,284 (50.33%)
1970	10,319,324	4.9%	8,809,557 (84.4%)	1,629,873 (15.7%)	5,738,250 (55.6%)	4,581,074 (44.4%)
1991	17,574,300	3.5%	14,475,400 (82.4%)	3,098,900 (17.7%)	10,656,500 (66.6%)	6,917,800 (39.4%)
2000	22,825,138	3.3%	18,523,632 (81.2%)	4,301,506 (18.9%)	14,621,468 (64.1%)	8,203,670 (35.9%)

Sources: Census Reports of Malaysia 1957, 1970, 1991, and 2000

Noted: the percentage of Bumi > Non-Bumi = 28.2% = (64.1% - 35.9%).

Table IV, Market share of Takaful in Malaysia's Insurance Industry

Years &Items	2000 (%)	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)
Assets	3.7	5	5.3	5.6	5.6	5.9
Contribution	3.8	4.1	5.3	5.4	5.1	4.5
Market Penetration	2.5	3.2	3.8	4.5	5.1	5.5

Sources: Bank Negara Malaysia Website at <http://bnm.gov.my/index>,

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تجارب ماليزيا في تطور الاقتصاد والصيرفة والتمويل الإسلامي

وان سليمان بن وان يوسف الفطاني

أستاذ مشارك وباحث

مركز أبحاث الاقتصاد الإسلامي

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المستخلص: لقد استطاعت ماليزيا خلال خمسين سنة الماضية من تجاربها ومن خلال خططها الاقتصادية المتعددة أن تحقق المرتبة العاشرة من بين الدول التي حققت معدلات نمو متسارعة خلال الفترة الممتدة بين ١٩٧٠ و ١٩٩٠، وهي تطمح بمزيد من الجهد أن تصل إلى مستوى الدولة المتقدمة صناعياً بحلول سنة ٢٠٢٠م. ضمن السياسات التي اعتمدها لتحقيق هذا المستوى نجد أن ماليزيا أولت عناية كبرى للجانب الإسلامي في الموضوع من خلال الأجهزة المختلفة التي أعدت لهذا الغرض، وقد انعكس ذلك في إدخال المبادئ والقيم الإسلامية في جميع الميادين ومن بينها الاقتصاد الإسلامي وخاصة جانبي التمويل والصيرفة المتفرعتين عنه.

في الجانب التطبيقي أنشأت ماليزيا مؤسستين وهما: بنك ماليزيا الإسلامي (BIMB) فيما يتعلق بالتمويل الإسلامي، والجامعة العالمية الإسلامية فيما يتعلق بقطاع التعليم. بالإضافة إلى مؤسسات أخرى إحداهما تتعلق بالحج والأخرى بالزكاة والثالثة أطلق عليها بيت المال. وقد كان الغرض من إنشاء هذه المؤسسات هو دعم التنمية الاقتصادية للبلد. ومن آخر ما طرحت الحكومة الماليزية مشروع الإسلام الحضاري. والهدف الرئيس من هذه المبادرات هو العودة بالشعب الماليزي إلى تعاليم الإسلام الحقيقية في جميع الميادين.

هذه الورقة تسلط الضوء على هذه التطورات لاستخلاص الدروس من التجربة عسى أن تفيد منها بقية دول منظمة المؤتمر الإسلامي بما يتلاءم مع بيئة وأعراف كل دولة.