

# COMMENTS ON ZAMAN “ISLAMIC ECONOMICS: PROBLEMS AND PROSPECTS:”

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Prof. Dr. Asad Zaman's note on Islamic economics is a very useful effort at self criticism. I am generally in agreement with his plea to adopt a more problem oriented approach and give priority to operationalisation of Islamic concepts and goals, particularly establishment of social justice, elimination of poverty and tangible reduction in economic disparities. He is however, not the first person who has highlighted these aspects and almost every major writer on Islamic economics, particularly, the first generation writers have emphasized these points again and again <sup>1</sup>. I welcome his forthright approach and plea for bringing this issue into the centre of the debate on research, teaching and policy making.

I am also in general agreement with his observation that the developments in Islamic economics during the last three decades have been somewhat lopsided. Interest and Islamic banking and finance have overshadowed everything else. There is no denying the critical importance of these areas, yet other equally important issues deserve more concerted effort. Although a number of important contributions have been made exploring new approaches to address the problems of poverty-elimination, income distribution, consumer behavior, fiscal policy and socio-economic development in the context of a just monetary and economic system, by and large these areas have remained less-developed. Moreover, the major part of the writings in these fields have been more concerned about conceptual aspects alongwith some elaboration with respect to policy guidelines but operationalisation of these concepts is yet to be achieved. Empirical work is definitely lacking and research on the historical dimensions too remains rather sketchy. Dr. Asad Zaman has rightly emphasized these gaps and work on these issues must be given priority in future research, teaching and discussion.

I think Dr. Zaman's critique of efforts made towards the introduction of Islamic banking although generally correct is less than generous. I fully understand his concerns and have in my own way expressed the view that the current movement of Islamic banking, despite making a much needed start, is still engrossed with problems of early transition; it is so bogged down with them that the movement towards operationalisation of a truly Islamic banking model remains a dream and a far cry <sup>2</sup>. Fiqh had provided some guidelines for exceptional situations and transitional periods. These provisions are important, but not the real objective (sic). They should be a means to the development of

a genuinely equity-based economy. It would be a folly of the highest order to be content with this near-fixed return arrangements. They can be accepted as stepping stones and as instruments to deal with situations not directly amenable to the basic Islamic modes. If they become a substitute for them and the major stock-in-trade of Islamic banking that would defeat the very purpose of Riba-elimination. We all are concerned that systematic and sustained movement in that direction is yet to be made. It would be a tragedy if the Islamic Banking movement does not move in that directing. But it would be less than generous to condemn the whole effort and regard it as an exercise in legitimization of the interest-based banking model. The subject deserves a more sensitive, sympathetic, balanced and yet firm response.

As to the agenda for the future the four areas for research and application identified by Dr. Zaman deserve to be pursued. Here too Dr. Asad Zaman is re-emphasizing with greater rigor what has already been said by Islamic economists particularly Umar Chapra, Nejatullah Siddiqui, Fahim Khan, Munawwar Iqbal, Anas Zarqa and many more. Amongst the founding fathers Mawlana Mawdudi, Mawlana Hifzurrehman Sweharwi, Mawlana Manazir Ahsan Gilani, Muhammad Yusufuddin, Syed Qutb, Mustafa Sebai, Baqar al-Sadr and others have also emphasized this important dimension. All of them agree as to the need to address these issues. They have made significant contributions towards identifying Islamic priorities as well as the need for methodical innovations and operation mechanisms to translate these concepts, in the contemporary idiom and suggest steps for their implementation. However, I agree with Dr. Asad Zaman that many of these ideas have not been fully operationlized and definitely new and sustained empirical work is very much needed to enable the Muslim Ummah in particular and humanity in general to benefit from the Islamic economic approach.

Dr. Asad Zaman's plea for development of a theory of Islamic economics is valid but if history is a guide theories develop in the light of experience and experimentation along with commitment to root values. Of course, vision, values and principles are the starting point. Then there is interaction between theoretical formulations and practical experimentations. Our own Fiqh has developed in this manner. So have been the developments of different approaches to economics, classical, neo-classical, Keynesian, institutionalist, socialist, radical and others.

Theory and practice interact. Theory helps in fashioning policy guidelines and behavior patterns and empirical studies of behavioral changes resulting from interaction of the values and policies help in further refining, reviewing and developing theoretical formulations. The need of the hour is to move in the right directing. The exercise has to be a result-dimensional (sic). Debate and discussion are the very breath of this effort. That is why Dr. Asad's timely critique is a valuable effort in this direction. But permit me to humbly submit that whether there is near-consensus on basic values, principles and socio-economic objectives of Islam, collective effort, team work and Shura-based endeavors are needed to achieve better theoretical formulations, policy guidelines and empirical research. Consensus on all issues is not a pre-requisite. Consensus and near-

consensus would emerge as we move in this direction. This is what has happened in the past. Future patterns may not be much different. In other civilization contexts also consensus on all theoretical and practical issues has neither been a pre-requisite, nor the decisive factor. It is only the core value on which there should be consensus. What is important is the process of thinking, discussion, debate, consultation and inter-action. Differences of opinion within that framework of core consensus are a blessing and a ladder to future progress.

In conclusion I would suggest that Dr. Asad Zaman has done a very useful service by identifying some of the serious gaps and suggesting a broad outline to enable us to make basic Quranic Economic concepts operational, with a view to implement those values and learn from the experiences. He has also rightly emphasized the need for a truly holistic approach which, in my view, is the defining character of the Islamic approach to life and its problems.

To be self-critical is the first requirement for progress. But we should also acknowledge what has been done with sympathy and understanding. It is an academic virtue and an Islamic value to acknowledge the contribution of the predecessors. There is no merit in trying to rediscover the wheel or belittle what has been done. Let us build on what has been achieved without, in any way, condoning the lapses, flaws or weaknesses in the work done. We should never lose sight of the real objects of life, the value framework and the criteria of success given by the Quran and Sunnah. That is the goal of all our efforts and they must remain supreme.

## NOTES

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<sup>1</sup> For quick reference see: Islam, poverty and Income Distribution by Ziauddin Ahmad, The Islamic Foundation, Leicester, 1991; Fiscal Policy and Resource Allocation in Islam, edited by Ziauddin Ahmad, Munawwar Iqbal and M. Fahim Khan, Institute of Policy Studies and King Abdul Aziz University, Jeddah, 1983; Distributive Justice and Need Fulfillment in an Islamic Economy, edited by Munawwar Iqbal, The Islamic Foundation, Leicester, 1988; Islamic Economic Institutions and Elimination of Poverty, edited by Munawwar Iqbal, The Islamic Foundation, Leicester, 2002; Islamic Approach to Development, Khurshid Ahmad, IPS, Islamabad, 1994, Poverty Alleviation in Pakistan: Present Scenario and Future Strategy, ed. By Mohibul Haq Sahibzada, IPS, 1997, Islam and the Economic Challenge, Muhammad Umar Chapra, the Islamic Foundation, Leicester, 1992; The Future of Economies: An Islamic

Perspective, Muhammad Umar Chapra, The Islamic Foundation, Leicester, 2000; Perspectives on Morality and Human Well-Being: A Contribution to Islamic Economies by Nawab Haider Naqvi, The Islamic Foundation, Leicester, 2003. The list is illustrative and not exhaustive.

Please also see, Akram Khan's three volumes of Bibliography on Islamic Economies.

<sup>2</sup> Permit me to share with your readers, just one quotation from what I wrote in an article presented in an international conference held in Houston, USA and published in the Review of Islamic Economics, Leicester No 9 2000:

- Now if we reflect on these challenges, we find that Islamic banks and Islamic Economics are destined to play a very important role in the making of the future. This calls for a move from a debt-based economy – an unjust, exploitative and inequitable economy – towards a risk-sharing, stake-holding, participatory, community-oriented and people-friendly economy. Therein lies the key role that Islamic economics, Islamic financial institutions and the Muslim states can play in order to make the next century closer to our vision of a just and balanced society.
- This also means that the centrality of the productive criteria will have to be rediscovered. The financier should become a real investor, prepared to play a participatory role as investor along with the entrepreneur. In the Western banking system, because of the obsession with collateral, the banker moves in only when he smells of prospects of bankruptcy. In an Islamic system, the bank is also an investor. It remains an active participant throughout. As such, the bank is concerned with and responds to early warning signals if things start going wrong. In this way mistakes can be set right before the rot goes too far. Furthermore, the system is more stable and transparent. In such a system there is an automatic adjustment of real assets and their financial counterparts. In the conventional banking system there is no such mechanism for adjustment. It is, therefore, hoped that banking that operates on Islamic principles will ensure growth with financial stability, equity and distributive justice. It can be sustainable both horizontally, that is at a particular time, and vertically, deep into the future. The ecological dimensions and the needs of future generations would equally be taken care of.
- The challenge is grave and multi-dimensional. The danger and threats are too serious and alarming to be ignored. But the task is also gigantic. Islamic banking has offered a new approach. But the experience and contributions made so far are far short of what is required. As such it is important that a realistic assessment of what is to be done be made, man lives by hope. But man cannot live merely by hope! Effort, planning, training, management and creativity are all required to face the challenges ahead.
- However, it deserves to be noted that the abolition of interest is only one aspect of Islamic Economics, Islam aims at establishing a just economic order, based on

clearly spelled out economic rights and concepts of property, contracts, work and the distribution of income and wealth. It stipulates a framework of values and disvalues (sic) desirables and undesirables and hedges the market mechanism with a set of moral filters so as to ensure efficiency and equity in the processes of the allocation of resources.

- In such an economy, banks are not mere financial intermediaries but also play an active role in developing and maintaining a certain character of the economy, serving certain socio-moral objectives as well. Of course banks are not expected to act as charities, philanthropic organizations or mere 'welfare institutions', but the welfare, equity and stability dimensions are as relevant to the banking ethos in an Islamic scheme as are considerations of security, efficiency, optimality and profitability. Definitely there would be trade-offs. As such the objective is to achieve a balance between efficiency and equity, between profitability and welfare, and between expansion and stability, traditional banking is also trying to discover the moral dimension in a limited sense. The whole movement towards ethical banking is an instance in point. But that is something on the periphery – and not even the whole periphery. Ethics and social objectives are central to Islamic banking – and that is why Islamic banking is not mere interest-free banking. It is much more than that. It represents a new and vastly different vision of the whole economy.
- The basic idea of Islamic banking is to devise an efficient and equitable system of profit-sharing (PLS). Efficiency properly derives from its insistence on the linkage between the financial and the real sectors of the economy, while equity properly is based on maximizing the rate of return on deposits, depending on the length of the period for which they are held, without being exploitative.