

Preface

REALIZATION OF THE NEED TO RETHINK THE AGREED PREMISES

During the last few decades, Muslim scholars and jurists have made significant efforts at reviewing and reinterpreting the generally accepted doctrines of Islamic law and culture. M.N. Siddiqi (2007-a) has catalogued some of these efforts to emphasize the point that socio-political developments in Muslim societies and large-scale movement of Muslims to non-Muslim lands have necessitated the rethinking of various agreed religious premises. He has illustrated the point by way of cases. For example, it has been held so far almost unanimously that if a woman married to a non-Muslim converts to Islam her marriage will be annulled immediately. She should, if she so likes, now find a Muslim husband. However, the revised opinion expressed by, among others, the European Council of Fatwa and Research, and Hasan Turabi, a Sudanese Islamic scholar, is that such a decree would discourage non-Muslim women from converting to Islam and also overshadow the possibility of non-Muslim husbands turning toward Islam. Similarly, it has been generally considered that Muslims residing in non-Muslim states should not join the military of those countries, as it might require them to fight against Muslim brethren. The recent decree is that Muslims should act as citizens of the countries where they normally live. It would not be against Islamic principles if they joined the military of those countries. It would only enhance the respect for the Muslim community in those countries and provide opportunities for interacting with non-Muslims at various levels. Raashid Ghanouchi, a Tunisian Islamic scholar, even considers that it is obligatory for Muslims residing in non-Muslim states to do so. Another example is the reaction of Muslim scholars toward the role of the Muslim woman in society. While there has been a general consensus on the restriction of women moving out, interacting with men and taking part in political and official institutions, recent thinking is that all this has no Islamic basis. It has only local cultural roots. In sum, argues Siddiqi, with the evolution of human society and owing to demographic and socio-economic changes, Muslim scholars are rethinking the given positions on various contemporary issues. In

some cases, the rethinking has been a complete somersault from the previous position. It shows that, if Islam is to be relevant for all times and for all societies, it should remain open to rethinking by people of all ages.

INTELLECTUAL CONTEXT OF ISLAMIC ECONOMICS

Efforts to Develop Islamic Economics as a Social Science Emanated from the Islamic Revivalist Movements

The contemporary evolution of Islamic economics during the last half a century or so was deeply motivated by the Muslim desire to assert itself as a living *ummah*,¹ capable of organizing all its affairs in light of Islam, which is not a religion in the traditional sense but is considered by Muslims as a way of life. The need for developing Islamic economics as a social science is an offshoot of the Islamic revivalist movements of the nineteenth and first half of the twentieth century. We can clearly see two distinct streams of thought in this period which persuaded Muslim scholars to develop Islamic economics as a branch of knowledge that is distinct from conventional economics. The first movement can be called the 'modernist movement'. It pleaded for revival of *ijtehad*² and reinterpretation of the Qur'an and Traditions (*Sunnah*) of the Prophet in light of socio-economic developments that had taken place since the early days of Islam. The modernists argued that the literal application of the Qur'an and the *Sunnah* would not fit well into changed circumstances, as it would create practical difficulties and defeat the broader socio-economic objectives of Islam. They pleaded for selective use of the *Sunnah* and maintained a distinction between the *Shari'ah* and Islamic jurisprudence (*fiqh*), the former being divine and God-given and the latter a product of human thinking. They argued for the revision and rewriting of Islamic jurisprudence in light of changed circumstances. Syed Ahmad Khan (1817–98), Jamaluddin Afghani (1839–97), Shibli Nu'mani (1857–1914), Muhammad Abduh (1849–1905), Rashid Rida (1865–1935), Muhammad Iqbal (1876–1938), Muhammad Asad (1900–92), Mahmoud Abu Saud (1911–93), Khalifa Abdul Hakim (1896–1959) and Fazalur Rahman (1919–88) could be treated as some of the prominent scholars who promoted a modernist interpretation of Islam. They forcefully argued that Islam believes in the unity of life. There is no duality between matter and spirit. Whatever we do in the mundane affairs of life, if carried out in light of the Qur'an and *Sunnah*, is also religious action and is entitled to reward in the hereafter. The pursuit of business and economic affairs is very much a religious duty.

Muslims should perform this duty according to the teachings of Islam and while doing so they would only be engaged in an act of worship.

The second revivalist movement can be termed as 'neo-revivalist'. Hasan al-Banna (d. 1949), Syed Qutb (d. 1966), Muhammad Rafiuddin (d. 1969), Abu al-'Ala Mawdudi (1903–79), Muhammad Baqir al-Sadr (1931–80), Isma'il Raji al-Faruqi (1921–86), Ahmed al-Najjar, Nejatullah Siddiqi, Khurshid Ahmad, Umer Chapra, Anas Zarqa and Monzer Kahf are leaders in this school of thought. The neo-revivalists argued that Muslims can progress and regain their bygone glory by literally reviving teachings of the Qur'an and the *Sunnah* as they are without any reinterpretation. The *Sunnah* of the Prophet is as good a source of Islamic teachings as the Qur'an and should be implemented in letter and spirit. Western civilization is an onslaught on Islamic civilization, and there is a need to resist it, including at intellectual forums. Islam is a complete way of life, and Muslims need not borrow anything from the West. However, they agreed on a limited *ijtihad* in areas where there were no explicit teachings of the Qur'an or *Sunnah*. The neo-revivalist school of thought argues that Islam has a distinct economic system. It treats all forms of interest as *riba*. Western economic thought is not compatible with Islamic teachings, as it is based on assumptions which are in conflict with Islam's explicit teachings (see e.g. Mannan 2008: 63). It is, therefore, necessary that Muslims develop their own science of economics. Islamic banking is also a logical corollary of this thinking. The debate between the two streams of scholars is still going on. However, the neo-revivalist scholars had greater success in attracting the attention of the Muslim intelligentsia and Muslim people in general. Islamic financial institutions in the world at present owe their existence to the interpretation of Islam presented and pleaded by the neo-revivalist scholars.

The enterprise of Islamic economics derives its inspiration from Muslim yearnings for reassertion during the late nineteenth and early twentieth century. Muslims had been subjugated by the West all over the globe for more than three centuries. In the nineteenth century they awoke from a deep slumber to reassert themselves with a distinct identity. Muslim leaders took up the task of establishing the Muslim *ummah* as an entity. To realize this objective they conceived the idea of creating Islamic sciences, distinct from mainstream sciences. They talked about 'Islamic science', 'Islamic education', 'Islamic psychology', 'Islamic anthropology', 'Islamic economics' and so on. They tried to argue that Muslims are a distinct people from other religious communities and should preserve the original and pristine version of their civilization, culture and knowledge.

The Approach for Developing Islamic Economics as a Distinct Social Science was Misplaced; It Deterred the Wider Community of Social Scientists from Participating in its Development

One of the main arguments of the present book is that the enterprise of developing Islamic versions of mainstream economics was misplaced. It tried to convey the impression that Muslims are different from other human beings. The fact remains that they are not. They are very much like other human beings. In their assertion of being 'different', they tried to coin assumptions that appeared to be different from those of mainstream economics. For example, they argued that Islamic economics is couched in altruism, cooperation, sacrifice, justice, fraternity and brotherhood (see e.g. Zaman and Asutay 2009: 76–77). They further argued that since mainstream economics does not accept these assumptions there was a need to develop Islamic economics as a distinct social science. While this was an imprecise understanding of mainstream economics, the set of assumptions pushed the Muslim economists into the blind alley of an ideal Islamic society which did not exist anywhere. The postulates of Islamic economics could not be tested for want of empirical data. The new social science was still-born.

Instead of making a contribution in the mainstream sciences and thus remaining within the ambit of ever-developing human knowledge, the neo-revivalists embarked upon the creation of Islamic versions of knowledge, but had very little success. Despite lofty claims for developing Islamic economics as a distinct social science they were unable to break any new ground. Most of what has emerged under the rubric of Islamic economics is a restatement of mainstream economics decorated with Islamic terminology or a collection of religious injunctions or a set of fond assertions which can be neither verified nor falsified. The objective of creating a distinct discipline of Islamic economics is still a dream. The enterprise failed to achieve its objective. There was negative fallout, however. The prefix 'Islamic' to economics deterred professional economists from participating in development of the subject. They were simply put off getting into a religious debate. Had the Muslim intellectuals attempted to make a contribution in economics on rational grounds, they might have succeeded in attracting the attention of the wider community of social scientists toward a new dimension of knowledge that is inspired by divine revelation besides human reason.

It might appear that the above assessment is too sweeping to be reliable in the face of rapidly developing Islamic finance and related institutions. We shall argue in this book that even this development is more in name than substance. Most of what goes under the name of 'Islamic finance'

is either camouflaged conventional finance or 're-marketing of capitalist debt-peddling model' (Zaman and Asutay 2009: 77) or a more inefficient and uneconomical alternative to it. Islamic finance started with the avowed objective of creating an alternative method of providing finance that is distinct from interest-based conventional finance. It has ended up in converging with conventional finance. All Islamic financial institutions are racing to prove that they can do everything that the conventional banks are doing. Their pride is in being similar rather than being different. They have arrived at a different destination from the one at which they planned to arrive. Perhaps the whole exercise of developing Islamic financial institutions is unnecessary or superfluous.

Despite all the sincerity and desire to develop a distinct branch of knowledge capable of enhancing our understanding of contemporary economic reality and guiding us to a welfare state as visualized by Islamic principles, the end product is not significantly different from mainstream economics. The present book is an attempt to persuade the reader that there is a need to rethink the given Islamic economic doctrine and to review its basis to align it with the broader socio-economic objectives of Islam. The book should not put off a contemporary reader as an attempt to introduce alien ideologies and thought-content into the pristine doctrine of Islam. Muslim intellectual history has always seen scholars and jurists who were bold enough to raise a voice for innovative thinking within the broader framework of Islamic teachings. It is with the same urge and with all humility that we are making the present effort.

The Book is a Departure from Mainstream Thinking on Islamic Economics and is an Attempt at Self-Rebuttal

The present book is an attempt at self-rebuttal. I have been actively involved in thinking about, writing about and advocating Islamic economics as a distinct branch of knowledge for over four decades. However, over the last decade, my thinking has gradually moved away from mainstream thinking on the subject. My thinking has led me to entirely different conclusions from what I had been writing and pleading for as an activist. I am now able to see the whole question of developing Islamic economics as a distinct discipline and its practical manifestation in the form of Islamic finance in a broader perspective. The evolutionary development in my thought has freed me from the grip of the establishment thinking on the subject. Most of the conclusions in this book would refute my own ideas. I am presenting these ideas with all the humility of a student who is willing to learn and modify his position in light of more rational, objective and persuasive arguments. My objective is not to argue that all that goes

under the name of Islamic economics is rubbish and should be discarded. Instead, I aim to present my criticism of these ideas with suggestions for moving forward so that the message of Islam relating to economics attracts the attention of the wider contemporary scholarship.

OVERVIEW OF THE MAIN CONCLUSIONS

- a. Most of what goes under the rubric of Islamic economics is a crude mimicry of conventional economics embellished with verses of the Qur'an and Traditions of the Prophet. Muslim scholars have failed to delineate Islamic economic teaching (which is part of theology) and Islamic economics (which should be a social and behavioural science). A proper discipline of Islamic economics should consist of hypotheses, theories and laws that are verifiable or falsifiable. However, most of the knowledge content in the body of Islamic economics does not meet the criteria. At best we can treat that material as restatement of Islamic economic teachings stated in modern economic jargon. It remains, by and large, theology and cannot be termed a social science, as it has not been formulated in a format that can be tested, nor is there any Islamic society where it can be verified.
- b. An oft-pleaded justification for the developing of Islamic economics as a distinct discipline is the need to study the Islamic economic system. However, Muslim scholars have not adequately documented the real differences between Islamic and other economic systems. The Islamic economic system is a type of capitalism with a spiritual dimension. Muslim scholars have not properly highlighted this aspect of the Islamic economic system.
- c. The main plank of Islamic economics is the theory of *riba* (interest on loans). There is no disagreement among Muslim scholars about the prohibition of *riba* in Islam. However, the debate about the exact meaning of *riba* and its application in the present age is still going on. The orthodox interpretation that treats the commercial interest of conventional financial institutions as *riba* is a human effort to expand the meaning of the term. The expansion of the meaning of *riba* has created insurmountable problems in enforcing its prohibition in the present age. There is a need to revert to the original and pristine definition of the term '*riba*' and keep it restricted to loan transactions. Interest on transactions of financing and investment should not be covered by the term '*riba*'.
- d. The contemporary movement of Islamic finance that has manifested itself in the form of Islamic financial institutions is based on the

assumption that all forms of interest are *riba* and hence prohibited. It professes to have put its business on a basis other than interest. However, in practice these institutions have devised a whole host of ruses and subterfuges to conceal interest. The entire effort in the name of Islamic finance requires rethinking on the criteria of economic efficiency and risk mitigation. In the name of Islamic finance, Muslims have devised a mechanism of banking which does exactly what conventional banks are doing but in more inefficient and riskier ways. The same is true for Islamic insurance (*takaful*).

- e. Another landmark of Islamic economics is the Islamic system of *zakah*, a tax on the wealth and income of the rich for transfer to the poor and the needy. Despite the fact that the system is unique in several respects the insistence of Muslim scholars in implementing it in the same form in which it was in vogue in the days of the Prophet and his first four caliphs (up to AD 662) has made it irrelevant to the needs of a contemporary society. There is a need for rethinking the entire system of *zakah* in light of present-day requirements.

A NOTE ON CITATIONS

I have made references to Qur'anic verses by placing 'Q.' before the verse number. The verse number consists of two parts separated by a colon. The number preceding the colon refers to the chapter of the Qur'an and the number succeeding refers to the verse number of the chapter. For example Q. 2:275 means chapter 2 and verse 275. I have used Muhammad Asad's *The Message of the Qur'an* (1980) for translation of the Qur'an except where indicated specifically.

In the text, 'the Prophet' refers to the Prophet Muhammad. 'Traditions' refer to the written record of the saying, actions and approvals of the Prophet.

Generally, I have used the Chicago style system of citation (*Chicago Manual of Style*, 15th edition). When quoting another author who has given a further reference, I have tried for the sake of consistency to convert that reference also on the pattern of the Chicago style system.

Most of the literature extracted from the Internet does not mention the date on which I extracted it as the period of this research spreads over several years and I could not keep track of the dates of all the downloads.

NOTES

1. A community based on the common faith of Islam irrespective of the place of origin and residence.
2. *Ijtehad* refers to fresh thinking in light of the Qur'an and Traditions of the Prophet to find Islamic solutions relevant to the present times. Also see Glossary.