
Is there such thing as Islamic Economics?

By:
Dr. Mohamed A. Elgari BinEid
Associate Professor of Economics,
King Abdulaziz University, Jeddah



30 years after the First International Islamic Economics Conference in Makkah, we still have those who say: the jury is still out.

The argument goes as follows:

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

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

Religion gives us conclusions and science gives us tools to reach conclusions. To be good Muslims, we think we should take the conclusions drawn from religion as given as true. To be good

economists we want to use the tools of science to reach conclusions to be open to any conclusion, and we want to consider part of Economics only those conclusions that pass the test of these tools.

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

- Do we need economics to be shown that Zakah is good to everybody good the rich good the poor good consumption, for investment for employment for rate of economic growth. If the answer is we don't, why is Islamic Economic literature "a wash" with research trying to do exactly that.
- Do we need economics to be shown that interest based banking is "bad" for everybody? We don't because we are believers. Islamic economists have gone to pain and used the most sophisticated tools of analysis just to show that "Riba" is bad for you.

The question would then be why waste time trying to reach conclusions we already know and believe to be true and correct?

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

Another may say that we are believers but we will even be stronger believers when we know that Shari'ah injunctions are not illogical. This would be fine but then we should go join the "Ejaz Elmi" movement.

A third may say that what ever you may say about Islamic Economics it remains that it is "our" science it gives us identity in the midst of the "clash of civilizations". This is fine but then Islamic Economics will never be taken seriously.

Let us construct a familiar theory. So many articles and books written on the subject of Islamic theory of the firm, Islamic theory of consumer behavior, Islamic welfare function. But there is a fundamental flaw in the basic approach.

The standard theory of the firm says that a firm maximizes profit if such firm is part of a general equilibrium model. As Muslims we feel this objectionable. A firm owned by Muslims is more concerned with

social good and zakah than maximum rate of profit. This is "what ought to be" but by building an Islamic theory of the firm we are claiming this is "what is" because what ought to be doesn't need a theory. Once we say "theory" then we are speaking about tools to predict a behavior. If our "Islamic theory of the firm" concluded an "Islamic" firm maximizes Zakah not profit then we should be able to test the theory and "reject" if it turned out that such theory is incompatible of "predicting" the behavior of that Islamic firm (if such thing does exist). But then a more logical approach would be to test the standard theory. "Testing the standard theory" is capable of predicting the behavior of Islamic firms. If it does then no need for a new theory. If it doesn't then we need a new one, then this will remain part of "Economics", an anomaly in the general theory. But what we did is that we designed a theory with the "correct" outcome regardless whether such thing is actually useful in predicting Islamic Firm or any firm.

In consumer behavior, we assumed that the standard theory actually predicting a consumer behavior in which he would sleep full while his neighbor is hungry. This is "gross" and unacceptable. The right approach is to test this theory on Muslim consumers if it turned that what the theory predicts is true then we need to "fix" our Muslim consumers. Decided we need a theory with different conclusion. Does this exercise invalidates the standard theory for prediction consumer

behavior of a Muslim? We don't know because we don't bother to test this behavior.

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

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

If I study the movement of interbank interest rate in Saudi Arabia (a Muslim society), this would not be considered Islamic Economics. But if at the end I reached a conclusion that such movement has been slow lately because most of banks transactions are now sale based and Mudarabah based. Then this suddenly becomes a candidate for the inclusion in the Islamic Economics “*hall of fame*”

What can we draw from all these examples: that we as Islamic economists already have our conclusions and we define our discipline on the basis of “Islamically correct” conclusions. If the premise appears to be open to any result that is contrary to our pre-set conclusions, we immediately refuse to accept it. Once we are assured of the *conclusion*, we then accept to engage in "scientific" research. But then the best we can do is to reach a conclusion we already know.

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

Both the science of psychiatry and the art of voodoo specialize in healing “ailments of the soul”. Both reach similar results with not too different degrees of success. Yet they are dissimilar because their methodology is obviously different.

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

We like to think that Islamic Economics “branched” from economics. If it did it clearly failed to carry over the methodology of the “mother discipline”.

I think it would be safe to say that we called it Islamic Economics (not Islamic accounting) because there is a common denominator between ours and the well-known body of knowledge, which is called economics. If such common denominator is not methodology then what is it? It must be so.