METHODOLOGY OF ISLAMIC ECONOMICS

In its pursuit to equip the reader with a basic knowledge of Islamic economics, this book divulges the micro-foundations of the discipline, and highlights the predominant schools of thought that exist in the field. It explains, in simple terms, what Islamic economics entails and how it can be studied as a science in relation to the Holy Quran, the Sunnah and the Islamic intellectual tradition based on these two sources.

The book familiarizes the reader with knowledge of the basic maxims of the discipline. It then establishes the arguments that are presented by the proponents of religion-based economics, specifically Islam, and apprises readers about the aforementioned schools as they exist. A number of chapters consider the dimension of the dilemmas the discipline is facing, and the chronological progress of the field is reviewed, hence providing a comprehensive overview of the topic. The book deals with the issues about the origins of Islamic economics, the basic methodological questions, the use of the opportunities offered by *fiqh* in the methodological discussions and the main problems arising from the encounter with other cultures and civilizations. It offers practical solutions, despite the differing schools of thought, not unlike the development of conventional Economics where radical differences between Keynesian, Classical and Monetarist approaches existed. It concludes by incorporating some of the finest works that explain to the reader how Islamic economics may progress as a discipline.

This guide will provide both students and researchers in Comparative Economic Studies, Islamic Economics and Islamic Finance with an essential overview of the field.

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METHODOLOGY OF ISLAMIC ECONOMICS
Problems and Solutions

Edited by
Necmettin Kizilkaya
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Islam has established regulations about both individual and community life. The regulations about private life and the social sphere are equally significant and developed in a way that complements each other. While a model in which man is aware of his duties imposed by the Creator is praised, the social structure composed of such human beings is also encouraged. This becomes obvious when we look at the basic practices of Islam. For example, although prayer is a personal practice that develops and reinforces the individual’s consciousness of servitude, as a result of the balance between individual and community life it is more virtuous to do the prayer in congregation. Religious rules regarding individual and community life are not limited to worship, rather they cover every aspect of life. As a matter of fact, halal business which is done by being just and honest to others and respecting the rights of the employees is seen as part of worship. This perspective, which is the result of a holistic approach to life, led to a broad understanding of the concept of worship. A similar relationship has emerged between the concept of science and social institutions that have emerged within the framework of this unified understanding of religion over time.

Social institutions founded on the sense of knowledge produced by Muslim societies have established the private and social life of people on the basis of the continuity of life in this world and hereafter. This can be considered as a broad interpretation of the concept of worship. Every human behaviour, whether private or public, is defined categorically and has a value. Needless to say, this understanding necessitates a vision that reminds people of their individual responsibilities as well as their social duties and takes both their worldly activities and the hereafter into consideration. The efforts to earn a living are also seen in this context. Hence, the subjects under the science of economics have originated from this perspective and some institutions have been formed accordingly in the course of time.

The economic activities of Muslim societies, formed and developed under the holistic approach of Islam, have been subject to scientific studies since very early periods of Islamic history. These activities, which are based on the Islamic revelation in terms of their basic assumptions and vital principles, have determined the subjects of economics on the one hand and expanded on the
opportunities offered by the theoretical foundations of economics on the other. As a consequence, Muslims have been involved in economic activities with various regions and cultures since the early periods of Islam with great self-confidence. The main factor that enabled these activities to be held in a healthy way was, of course, that there was a science that studied and guided them. It is observed that economic activities and their leading principles have been studied in several disciplines within Islamic thought.

A section in every book has been devoted to economics in almost every field from philosophy to law, from politics to history. The philosophers discussing the ideal society, the jurists studying a social structure based on justice, political thinkers discussing power relations and historians addressing the falls and rises of past societies have focused on economic issues. However, it seems that it is the jurists who examine economic issues in a holistic approach and within a certain theoretical framework. It is noteworthy that economic issues, which are in some cases dealt with independently but mostly in *fiqh* books, have been consistent and met societal needs for many centuries. The question of what ensured the consistency of the studies from the 7th to 19th centuries needs to be reconsidered in terms of today’s methodological discussions. It will be obvious once again how vital this is in terms of Islamic economics, especially in modern times.

Methodological issues are an essential part of the discussions on modern Islamic economics studies. It would not be an exaggeration to say that the discussions of the methodology are as old as the history of modern Islamic economics. In these discussions, many questions are elaborated, such as whether there is a methodology or not, if any, how compatible it is with the Islamic worldview and its relationship with other disciplines. Two critical issues need to be highlighted. One is the fact that such methodological debates were not found in the pre-modern era and the other one is that although modern Islamic economic studies are almost a century old they still have major methodological problems. Curiously enough, a discipline that successfully directed the economic activities of great empires and dynasties and was a model for other cultures in the past centuries still has methodological issues in modern era.

The fact that modern Islamic economics emerged as a hybrid field has an important role in the methodological issues and discussions. Modern Islamic economics, which takes into account the basic assumptions of conventional economics on the one hand and the Islamic worldview on the other, faces significant tensions. There are various intellectual efforts to get rid of these tensions of Islamic economics studies that involve two different ontologies. Nevertheless, the fact that these efforts are highly influenced by the economic practices and especially the Islamic financing makes it difficult to ask even the basic questions and to find answers to them.

This book puts together chapters which discuss the issue of methodology in Islamic economics in detail, identify basic questions and problems and seek different solutions for them. The papers presented at the 6th Islamic Economics Workshop organized by the Research Center for Islamic Economics (IKAM)
on 6–8 April 2018, hosted by Istanbul University, have been revised and extended. Each paper covers a different aspect of the issue of methodology. The book can be divided into four sections: The issues about the origins of Islamic economics, the basic methodological questions, the use of the opportunities offered by fiqh in the methodological discussions and the main problems arising from the encounter with other cultures and civilizations. Different aspects of the methodology are discussed in these four sections.

The chapter asking the question of “The methodology of Islamic economics: Is it a worthy discussion?” and giving a negative answer to it analyses the concept of methodology and emphasizes that there can be no methodology in Islamic economics that has the same patterns as conventional economics. It argues that this stems from the fact that an economy that functions in accordance with the rules set by Islam is not found in real life. The chapter under the title “The methodology of third-generation Islamic economics” divides modern Islamic economics into three periods and argues that the first two generations failed for various reasons. It says that the third generation of Islamic economics, which is the only way to success, would be based on the Islamic principles. The chapter titled “The purpose of Islamic economics: Sunnatullah” discusses the question of objective, one of the issues ignored in the methodological discussions. It deals with two approaches about the objective in Islamic economics and identifies the shortcomings and strengths of these two approaches. Then it proposes an alternative third approach and makes the conclusion that the objective of Islamic economics is to find the Sunnatullah. “Dilemmas of Islamic economics” outlines under eleven sections the uncertainties, difficulties, confusions and dilemmas that Islamic economists encounter and make some suggestions for them.

The chapter entitled “Usul Al-Iqtisad approach in developing the foundations of Islamic economics discipline” proposes a philosophical perspective on methodological discussions. This perspective, which is called as usul al-iqtisad, is based on the fundamentals of Islamic economics. The chapter also discusses how to build a solid basis for a discipline that is not under the influence of the Western world and provides alternatives for it. Islamic economics is examined as a holistic social science in the chapter, “Islamic economics as an integrated social science: Novel ideas on its foundations”. A holistic understanding of Islamic economics as an alternative to secularized, positivist, reductionist and solipsist Western-based understanding is emphasized, with its indispensable elements such as integrated, godly, ethical, multidisciplinary and societal.

The chapter entitled “Islamic economics’ methodology and Fiqh”, which focuses on the extent to which fiqh and its concepts can be used in methodological discussions about Islamic economics, examines the different and similar aspects of these two disciplines. “The Maqasid-based methodology of Islamic economics” primarily deals with the current Islamic economics methodologies and points out their deficiencies. It then proposes an encompassing and up to date maqasid-based methodology. The chapter titled “Economic Salafism: Scientific amnesia in modern Islamic economic studies” addresses the problem of
ignoring the historical experiences in modern Islamic economic studies and emphasizes the importance of reconsidering the knowledge and practices of past Muslim societies for an alternative model.

“Comparative understanding of socio-scientific process: Islam and Occidentalism” examines the epistemological basis of the practices based on the Qur’an, describing sociological phenomena and presents the methodology of the Qur’an’s monotheistic and knowledge-centred worldview as an alternative method.

“A review of methodological issues in conventional and Islamic economics: A methodology for Islamic economics” examines some basic methodological issues in these two economics and attempts to identify and define the methods within this framework. It then proposes an Islamic economics methodology based on the shortcomings and opportunities of neoclassical economics. “Sources of dualism in modern rationalist thought: Implications for Islamic economics”, focuses on the problems that rationalist thought has caused and its effects on the scientific understanding today. Then, the dangers awaiting Islamic economics, which tries to develop a method based on the prevailing scientific understanding, are pointed out. “Hamlet’s ghost, Orientalism and the tragedy of Islamic economics”, focuses on the relationship between Islamic economics and ethics. In this context, it argues that Islamic economics should free itself from the duality of capitalism and moral economics, and asserts that in this way Islamic economics can dispose of conventional economy and orientalist legacies of the cultural dominance of the West. “Methodological trends in studies on Islamic economics in Turkey: A critical evaluation” enumerates and reviews the studies about philosophy and theory of Islamic economics written in Turkish or translated into Turkish in the last fifty years in Turkey.

Each of these chapters, written by prominent scholars, will on the one hand create significant discussions and on the other hand provide concrete solutions to the ongoing debate. Many people have contributed to the preparation of this book which will fill a gap in the literature. Firstly, I am grateful to all of the authors who contributed to the formation of this book with their valuable articles. I am indebted to Ahsan Shaﬁq, who has successfully followed the publication process and invested great effort in order to complete the work. I would also like to thank the translators and the proofreaders of the book. Furthermore, the greatest thanks are due to IKAM, who organized the workshop that prepared the basis for the formation of these texts and made every contribution to the publishing process. I would like to extend my thanks to Prof. Ishaq Bhatti, the editor of Islamic Business and Finance Series of Routledge, whose support enabled the publication of this book. I also thank Kristina Abbotts for her initial encouragement and generous support that brought this important work to the reader.

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Part I

Foundational issues and questions
1 Methodology of Islamic economics
Is the subject worth discussing?

Zubair Hasan

1. Introduction

In common law, law is made first, interpretations follow. Parliament enacts laws through debate and majority vote. Courts interpret what is so enacted. Interestingly, in Islam interpretation comes first, the law follows. What is interpreted are the sources of law – the holy Qur’an, prophetic traditions, *ijma*, *qiyas*, custom, public interest and *fiqhi* opinion. And, who interpret these sources: the jurists. Thus, Islamic laws are not divine, as is commonly believed, in the strict sense of the term; they are *jurist-given*. The jurists stand between Allah (swt) and the community for guidance. It is the juristic origin of Islamic laws that there are four major schools of Sunni jurisprudence, each with interpretive differences *within* as well. The Shiite schools are additional. A Muslim is free to choose any from the corpus. As the juristic scholars are the law givers in Islam, they occupy a place of utmost reverence and responsibility in Muslim societies. Islamic economists, like the present author, cannot replace or dare counter them. Society grants the jurists, as it must, the final say in religious matters.

However, social phenomena are dynamic and dynamism is on a sharp ascent. Juristic interpretations of sources too cannot remain static or sticky. Indeed, Islamic jurisprudence has never been entirely devoid of temporal changes. Juristic dynamism has of necessity been slower as pace can be risky; filled with pitfalls. Still, the jurists have to keep pace with expanding frontiers of knowledge with a socially adjustable perspective. For example, jurists cannot get away merely by looking at the legal permissibility of contractual structuring; they remain answerable for anything discovered against the tenets of Islam later during the operation of a contract. Errors could, for example, creep in because of technical jargon used or mathematical formulations forming part of the document they certify. Most contemporary jurists, especially at the top, do not have the time or age to learn newer things in a fast-changing world. Advisably, they may better have adequately qualified professionals to work with them to check technicalities.

Finally, all modern states, Muslim included, operate within a *constitutional framework* overseeing their *legal systems* in content and operation. In developing
countries constitutional laws are inspired by, rather than patterned on, those of their erstwhile colonial rulers. Constitutions embody socially agreed value systems. Modern societies are multi-religious and have to meet global commitments on human rights. National constitutions tend to remain neutral between different faiths their residents follow. They are books of civic rights, not the faith scriptures. In view of the rising religiosity in the Eastern countries, including Muslim ones, Islamic economists must see that their theoretical stance and constructs are general enough to remain workable despite constitutional differences across countries. This applies in particular to a puritan stance some Islamic scholars take on various economic issues.

Thus, one speaking on methodology of Islamic economics must first make explicit which of the juristic schools underpins his narrative. He must further clarify whether his proposals match the constitutional provisions of his country or there is political will to make the needed changes. For Islam does not believe in philosophical hair-splitting, or idle theorizing. It is a way of life; its road to salvation does not loop around the worldly pursuits; it passes through their turmoil. Islamic economics that one may visualize building must deliver on the ground. The superiority for Islamic economics over the conventional, in finance especially, is claimed because of its linkage with ground realities. One cannot, as one should not, propose something hanging in the air violative of this claim. Thus, a discussion on worldview does not seem as important as the actualization of a basic needs fulfilment programme. Debate on substance versus form looks less significant than sharing of profit with labour. Diminishing balance partnership may be declared Shari‘ah-compliant but equally vital is whether the contract remains just too both the parties throughout the course of its fruition.

1.1 Structure of the chapter

Methodology as a term mainly has two uses. First, it may refer to the subject that oversees the performance of economics from outside. In this sense, methodology is a branch of epistemology – the theory of knowledge – and stands on philosophical bearings. It seeks to evaluate if and to what extent economic theory has been developing in the direction to realizing in the real world the goals methodology sets for it. To lay down the criteria and rules for such evaluation is also the task of methodology (Hausman, 1984, chap. 1). In the following section 2, we shall limit the discussion on methodology contextual to mainstream economics in this sense. In the process, we shall also examine the comparative position in Islamic economics on some of the issues. The two economic disciplines are doubtless very different; nevertheless, it is the mainstream discussions on methodology that have provided the motivation and the basic inputs for debates on the subject in Islamic economics.

Second, methodology is conceived of as operating within economics. In this sense, the rudiments of methodology help economists design research projects and fix their goals. This view of methodology is particularly important for Islamic economics. We shall discuss its theoretical elements in section 3. In
section 4 we examine research methods popularized in academic institutions and the impact of Western norms and methods on research done in the area. The last section (five) will summarize the discussion and conclude with an answer to the poser in the title of the chapter.

2. Nature of mainstream methodology

Methodology attracted much attention in economics during the interwar period as the era witnessed extremes of cyclical devastations – the 1923 galloping inflation in Germany followed by the Great Depression of 1930s. However, interest in the subject faded away by the close of the century. Confusion and controversy ultimately reduced methodology to a puritan sort of philosophy for ivory tower thinkers. In many universities, the subject was shunted out from departments of economics to find refuge in departments of philosophy. Any survey of the voluminous mainstream literature on the subject would here be out of place. Important is that the time was opportune for the subject for reception in the nascent Islamic economics that took off as an academic discipline during the mid-1970s.

Discussions on methodology in Islamic economics usually derive their inspiration and content from what is termed as the worldview of a society, a popular subject in Islamic studies in the Muslim social sciences. Differences in the defining features of economic systems – mainstream and Islamic – are attributed to their worldview differences. Worldview refers to the collective perception of a community about the purpose of creation, the place of humans therein, their relations with the Creator and with fellow human-beings including the principles shaping and regulating them. The concept of worldview is architectonic and evolutive with reference to time and space.

The Islamic worldview is seen as God ordained; it is shaped and conditioned by moral and ethical codes of conduct for the individuals and groups in various spheres of life including economics. It has juristic foundations allowing interpretive flexibility but cannot be diluted or replaced by human will. In contrast, the West has developed what it calls a ‘scientific worldview’ based on rational empiricism and changeable by social agreement.

2.1 Impact of worldview differences

The basic distinctions the worldview differences create between Islamic and mainstream versions of economics broadly include the “is–ought” controversy, reason–revelation relationship, and the doctrine–reality relationship. We discuss them below.

a) The “is–ought” controversy

The secular worldview expelled all transcendental ideas from the purview of economics on the plea that science is concerned only with “what is”. “What ought to be” was admissible only if supported by empirical logic. Mainstream
economics continues to hold this view as an article of faith. Thus, Marshall (1924) could conceive of economics only as catering to “material requisites of well-being”, while Robbins (1932) declared it “neutral towards the ends”. On the contrary, the Islamic view is that the absence of hereafter and accountability to any superior being makes one feel only existing because he exists. He sees no difference in an act of suicide and a sacrifice, for he faces no system of reward and punishment in the hereafter. Value neutral material progress has been phenomenal but at an incalculable cost to humanity in terms of environmental damage and other sufferings, especially in the form of abject poverty and vulgar inequalities in the distribution of wealth and opportunity. Islam makes one see matter-spirit interlocks in self urging him/her to follow the prescribed ethical path.

b) Reason–revelation relationship

One may look at this relationship in two ways. First, reasoning operates as a tool of analysis within discussions on revelation. Second, reason confronts and questions revelation from outside the confines of religion. Contextual to methodology, the first way of looking at the relationship is Islamic, the second mainstream. The meanings and argument is not the same in the two cases.

The monistic view of Islam includes both reason and sapience – intuitive wisdom – in the ambit of rationality; mainstream methodology leaves sapience out (Al-Attas, 1995, pp. 18, 35; Hasan 1995a, p. 59). For distinction, we shall treat reason with its Islamic import as intellect meaning “reason plus sapience”, leaving the term reason for usage as it is in the mainstream.

Now, “intellect” is the faculty that transcends the realm of understanding and provides preclusive principles for human guidance in worldly affairs. It makes comprehensible to human mind the metaphysics of the visible and invisible and of their mutual linkage, thus enabling one to imbibe a holistic and integrated vision of life. Unlike secular rationalism, Islam does not see nature as a material physical object meant for human exploitation and use; it accords nature an additional and deeper significance. The Qur’an upholds nature as an open book which intellect alone can help read, understand and interpret. Intellect makes one feel and grasp the cosmic purpose and relevance of nature. It must be revered as it contains symbols and signs bearing testimony to the existence of Allah (swt) and His lordship over the universe.

c) Doctrine–reality circuitry

An economy invariably has an underlying doctrine that shapes its institutions and prescribes goals to achieve; it helps design policies and gives content and direction to ground realities. Thus, economies have an operable doctrine–reality circuitry. For example, in mainstream economic systems – capitalism or socialism – the doctrines resulted from the formalization of realities on the ground. For instance, Adam Smith observed the accumulation of capital,
technological breakthroughs, division of labour and monetary institutions maturing in Britain – he could foresee the industrial revolution coming to make his country the leading colonial power of the world. In his Wealth of Nations Smith crafted the foundation stones for capitalism from observed realities. He was the system builder. Likewise, Karl Marx saw the dark side of capitalism – exploitation and alienation of the working class, capitalism eventually spreading mass poverty, deprivation and denial. Based on what he observed, Marx succeeded in providing the initial design for socialism. The commonality between capitalism and socialism that resulted is that in both cases the glide has been from reality to doctrine. What about Islam?

Islam has had neither a Smith nor a Marx. Colonization of Muslim lands did not allow them to grow out of the late mercantilist era in economic thought. Thus, Ibn Khaldün’s Introduction (The Muqaddima, 1406) could hardly go beyond discussing the causes that accounted for the rise and fall of nations along an inverted parabolic path; he could not draw the contours of an Islamic economic system because he did not observe it operating candidly on the ground. By the dawn of independence around the mid-1950s, Muslim economies had already gone far on the road of capitalism their colonizers had charted for them. Some Islamic economists see methodology as the tool for the reversal. They assume that methodology can make ground realities change to match the doctrinal structures of the religion. To convince people, they highlight the maladies of the mainstream systems now in practice and show how Islam, if followed, would convert the existing hell into paradise ahead. One does not come across a greater naivety that has caused so much avoidable controversy and confusion in Islamic economics. Methodological enthusiasts violate a basic principle of valid comparisons: likes cannot be compared with unlikes – the apples with oranges, or parrots with crows. Since no economic system on ground following the Islamic prescriptions operates anywhere even on a miniature scale, Islamic economists exhibit a proclivity for comparing a system painted on Islamic ideals with the one as capitalism operating on ground divergent to its doctrinal norms. No value judgement can be valid one way or the other based on such comparisons.

Given the nature of Islamic economics, methodology as an evaluator to supervise the performance of Islamic economics parallel to mainstream is not possible. Methodology to Islamic economics is what principles of jurisprudence are to jurisprudence. Islamic methodology can only be the application of juristic norms to economic practice (Addas, 2008). Let us now turn to the second usage of the term methodology which is significant from a practical viewpoint.

3. Methodology for research

3.1 Historical sway

Higher education facilities in terms of infrastructural provisions and quality of teaching had been limited in developing countries during the centuries of
colonial rule. Universities and colleges, when established, followed the curricular patterns, course contents and reading materials prescribed in the ruling countries. Sometimes, even teachers were imported. Those from the richer classes of the country went out to obtain degrees abroad that carried high premium in the local employment markets. In course of time, the process put a psyche discounting of what was local. Thus, even when lands had become free, intellect remained occupied.

That psyche continues dominating the education policies in the developing world unabated. It has created some additional problems in Muslim countries as education expanded in social sciences, especially economics. The freedom movements in most of these countries were led by the clerics who fed mass aspirations on hopes of erecting a social paradise of Islamic vintage once the foreigners left. However, the colonial rulers transferred political power at the dawn of independence to the secular elite, not to the movement leaders. For instance, in Pakistan, it was Jinnah & Co. who succeeded the British, not the Maulana Maududi’s legion of Jamaat-e Islami. This had unsavoury consequences. The community got divided horizontally between the so-called modernist and the orthodox groupings, engaged in acrimony. In the ensuing chaos and instability, orthodoxy lost the race; it could extract only some marginal concessions from the ruling elite; especially in the field of education. The sequence of events was not much different elsewhere in the Muslim world.

The clerics leading the freedom movements across countries had already launched a comprehensive global programme for looking at knowledge from an Islamic prism. For brevity of expression, they called it the Islamization of knowledge programme, albeit a misnomer. Arabs in the Middle East, Jammat-e-Islami in the Indian subcontinent and Malays in the southeast Asia, for example, led the programme that received massive support for public funding.

After the mid-1970s, Islamic economics emerged as the centrepiece of this programme, when, following a well-known 1976 conference at Jeddah; the subject was launched as a formal academic discipline across the world. Educational institutions, scholarly journals, research work and funding arrangements emerged fast on the scene in various countries. The control and regulation of the developments understandably remained with the movement people who had already done substantive pioneering work in the area. However, this control had to unwind with the expansion of economic studies and research over time. Doors had to be opened for academics and support staff from the mainstream secular discipline. Not all of the newcomers had knowledge of Islamic jurisprudence. Most of the teachers were educated in the Western tradition at universities, local or abroad and had a rationalistic, value neutral view of economics. Their toolkit was full of mathematical and econometric techniques. This group gained added ascendancy with finance fast eclipsing other areas in Islamic economics. This was a divisive development.

Reasons noted above apart, the control of the movements over the education system started weakening with the expansion of the financial segment in Muslim economies. The increasing technical complexities of business and the
pace of change added to the difficulties. Of course, there were jurists who were well equipped for adapting to the change. In fact, they found the expansion quite lucrative as the demand for Shari’ah advisement in financial institutions ran far ahead of supply. However, most Islamic economists working in higher education institutions across countries could not extract much advantage from the change.

3.2 The bifurcation

The ascendancy of Islamic finance left vast areas like public economics, distributive justice, economic development monetary issues and social welfare problems almost unexplored. This has led to some sharp divisions among Islamic economists, the broad bifurcation being between the old guards and their followers imbued with the classical puritan tradition and the later day entrants from the modern economics stream, who mainly handled finance. The traditionalists chose to attack the modernists for infesting Islamic economics with mainstream pollutants.\(^9\) Theirs is an effort to pull the subject back into its historical tracts.\(^10\)

For restoring the old edifice, they pleaded for opening the discussion from the methodology end as, in their view; it is the use of inappropriate methodology that has brought Islamic economics to its present impasse. The contention is a frivolous escapade. Methodology is a receding subject in mainstream economics itself.\(^11\) A digression here on methodology in its philosophical attire is not warranted. Relevant to the present context is the methodology that has almost exclusively occupied the dissertation writing at the graduate level as a mark of quality in prestigious institutions of higher education in Muslim class oppress the subordinate class to advantage and strengthen itself.

4. Research methods

Predatory publishing in Islamic economics owes its emergence and proliferation to the increasing entrance in the Islamic higher education institutions of teachers who had studied and worked in foreign universities. Their conditioning in the mainstream thought processes has convinced them that the way to raising academic standards to global levels in Islamic economics was to imitate the Western structures and methods in teaching and research.\(^12\) The conviction has proved misleading; especially the penchant for mathematical/empirical formalization is misplaced.

Arguably, mathematics helps fix ideas precisely, especially to spell out the optimization conditions for economic agents and entities under a variety of complex situations. The advantages led in the 18th century to the proliferation of formal economic modelling based on differential calculus that made optimization feasible. In the process, economics became increasingly mathematical during interwar period and the later coming in of new techniques, like the games theory, allowed wider generalizations. The use of newer tools became
fashionable, a symbol of knowledge and scholarship. The developments promoted caustic divisions in the profession and accentuated the formalization of the subject.

However, the unwanted formalization of discipline could not go unchallenged. No one denied the utility of mathematics for economics but it did not take long for its overuse in the subject to awaken criticism. Some noted economists like J. M. Keynes, Robert Heilbroner, Friedrich Hayek and others expressed concern over the increasing spread of mathematical models for exploring human behaviour. They were candid that some economic choices, especially involving moral and ethical norms, were irreducible to mathematical symbolism. Abstract models for explaining human behaviour do not meaningfully submit to mathematical manipulations, they argued. Furthermore, most political problems such as budgetary allocations, fighting over the tax structures, welfare reforms, international trade, or concern for the environment have economic aspects. Both the voters and the leaders they elect can fulfil their role more effectively if they have a fair understanding of the basic economics; mathematics would only confuse them. Still, there are well-known Islamic economists who enjoy unleashing that confusion.

Also, one cannot ignore the fact that there is today a worldwide fear of mathematics among students. Attention diverters are increasing fast; youngsters have neither the patience nor the time to struggle with the learning of mathematics. They are running away from economics especially because of its increasing orientation to mathematics.

4.1 Econometric syndrome

An advanced form of mathematical propagation in Islamic economics is the craving for the use of econometric modelling. Illustrative of the emphasis is the compulsive use of such modelling at the prestigious global institutions of Islamic finance. The following narrative is based on the personal experience of the author as a faculty member at an institution for years. Typical was the case of a student whom the author supervised for her master’s project paper worth three credit hours with the title: Sukuk: definition, structures and Malaysian experience. A high-power Graduate Studies Committee with the supervisor as an invitee had to evaluate the work. The Committee appreciated the flawless language of the paper and its structuring. However, they expressed reservation to clear it as it did not use empirical modelling. The supervisor had to plead for quite some time in defence of the student asking what model, if any, could the student have used in the definition or the structure sections of the work, while in support of her position on Malaysian experience she did produce appropriate and adequate supportive data in tabular form? On insistence of the supervisor that the work was good enough for a pass as the rules required no grading, the Committee eventually relented to clear the work.

The obsession of the faculty with econometric modelling as an imperative for acceptable research, save in case of topics dealing with Islamic jurisprudence, was understandable as the teachers were largely foreign educated and what got sunk in most of them was the
econometric culture of the Western institutions where they had studied. For such teachers using econometrics in doing and supervising research had advantages. Models of all sorts are readily available in the mainstream literature to choose from; even foreign collaboration could be garnered. Thus, research becomes relatively easy. Feed the relevant information into a computer program and torture the data until they yield what is required. Bulk of the manuscript, save the interpretations, the machine generates. Numerous impulse impact graphs in the work towards the close of manuscript the authors do not explain, nor do the readers care to look at, let alone understand. One rarely comes across a genuinely original model formulation in Islamic economics and finance.

4.2 The devastation

The above observations are not to deny the significance of empirical methods in research work. Econometric modelling has analytical grandeur and utility; it can undo age long convictions.

No doubt, there are many reasons for believing that demand curves are negatively inclined but there is little doubt that if the statistical evidence repeatedly ran the other way, none of these reasons would suffice to make economists believe in the law of demand. (Blaugh, 1992, preface, p. xx)

This is true in principle and reinforces the significance of falsification in improving theoretical generalizations. However, empirical research has not mostly been refutative and has rarely thrown up conclusions independent of time and space. Econometric work in Islamic economics has been confirmative without exceptions; not adding an iota to its theoretical corpus. On the contrary, it has fuelled a dangerous proclivity in Islamic economics, encouraging what can be termed as academic predation. The term refers to the publishing of articles with little merit in dubious open access journals against prior payment.

A group of writers in a paper published in the prestigious science journal Nature voiced grave concern at the explosive proliferation of predatory publishing; the number of journals promoting it shot up to over 10,000 in few years (Kolata, 2017). Predatory journals tend to mushroom in natural sciences but social disciplines like economics are not free of increasing incursions. Fake journals make imitative writings look original.

The Western educated elite in developing countries imposed the perish or publish culture in higher education for academic appointment and promotion. Local journals for publishing research were few and seldom won recognition as meritorious on undefined standards. The norm for quality soon became publishing abroad in some refereed reputable journal. With the spread of education in Islamic economics more and more publication was sought abroad where empiricism has won the day in academic research. Thus, research methodology in Islamic economics got geared to econometrics. As the research was mostly imitative and less acceptable for publication in the reputable journals, the Say’s law of market reversed – demand created its own supply. Predatory publishing
became a flourishing business. Fake journals are mushrooming fast; the author receives at least one call daily for submitting a paper for fast publication with payment on an acceptance (POA) basis.

Econometric oriented research for payment publishing has become a flourishing business. It is inflicting incalculable harm on Islamic economics and finance. Students come to reputed institutions from numerous academic disciplines having divergent academic backgrounds ranging from philosophy to medicine. They do not all have the same taste or ability to absorb even the minimal of econometric shock they receive after admission. Admittedly, it cannot be a case of the same size fitting all feet.

The majority of academics are not at home with empirical methods. Data quality is often suspect and availability scanty. Variables chosen mostly lack the needed Islamic import. Bulk of students and staff remains tense and pressurized. Models employed are invariably picked up from the published mainstream sources. These limitations apart, improvement in the quality of research is sought by rejecting repeatedly what a student does, positive helpful guidance is rare. Supervisory contribution is minimal, appropriation of credit for sound work maximum. Data mining for the supervisors is commonly a duty of the students. Completion time knows no limit. Cases where students leave without completion or shift to other institutions are not rare. However, those who go abroad often discover that the ordeal is no different from what students faced at home. A case reported recently is an eye opener. It tells more than meets the eye. And, this is not a solitary case of Islamic economics students suffering abroad in frustration; there are several others in author’s knowledge as they occasionally call for help.

Econometric models have explanatory power but they are found weak, even misleading, on the prediction front. Their policy conclusions are rarely found guiding economic activity in the Muslim world. Most researchers fail to explain how their findings add to usable wisdom and can help improve economic performance; they just make sterile claims of filling knowledge gaps.

Interestingly, stochastic empiricism is on the decline even in the mainstream economics research: the use of non-parametric methods allowing multi-variate analyses is on the rise. Unlike parametric models, non-parametric constructs do not require the researcher to make any assumptions about the distribution of the population, and are for that reason sometimes referred to as a distribution-free method.

Econometric models for research keep students occupied with data exploration, the values of parametric variables and the levels of their significance. This lets self-control go, leaving little time for creative out-of-the-box thinking. It kills initiative. *Imitators cannot be innovators, followers, the leaders.* Let intellect not remain shackled in free lands.

What useful purpose is parametric research serving? Professor Asad Zaman (2012b) teaching econometrics at Islamabad makes a pertinent observation as follows.
Econometric methodology is based on logical positivist principles. Since logical positivism has collapsed, it is necessary to re-think these foundations … positivist methodology has led econometricians to a meaningless search for patterns in the data. An alternative methodology which relates observed patterns to real causal structures is proposed.

There is time for a cost-benefit accounting. The reward apparent is the international recognition of merit even sought via predatory publications. The merit test for research articles must be the extent they promote the Islamic viewpoint and the number of people in the academic world reading and benefiting from them.

5. Concluding remarks

The main points we have made in the above discussion are:

1. The term methodology has two usages in economics. First, as a philosophical subject where it belongs to epistemology, a branch of the theory of knowledge. In this garb it evaluates the performance of economic theory to help achieve given objectives on the ground. Here we compared mainstream elements with Islamic norms on the basis of worldview – secular versus Islamic.

2. In the second usage methodology is intrinsic to economics, it is a part of the discipline dealing with and guiding designing, and methods for conducting research to expand the frontiers of knowledge in economics.

We have argued that there cannot be a methodology for Islamic economics on the same pattern as for mainstream economics, especially because there is no economy on ground operating according to the Islamic norms and requirements: It is hard to go beyond building castles in the air. Here is just one illustration of advocacy for such norms having no impact on ground realities despite tall claims of Islamic economists having an egalitarian and altruistic approach helpful to reducing poverty and distributive injustice. The following Figure 1.1(A) is revealing. Note that in the Islamic Middle East income inequalities are the highest while in secular Europe the lowest.

Figure 1.1(B) testifies that it is not merely a point of time position but a long-run trend (1990–2016) also, though with a difference. Overall, inequalities show a rising trend across the globe, sharpest in India and slowest in Sub-Saharan Africa. Pondering on such issues is urgent than spending time on methodology hair-splitting which is not needed. Here, let us endorse the saying “anything goes, or let a thousand flowers bloom”. The nature of Islamic economics being what it is, methodology is just a continuous interpretation of sources of knowledge in view of social dynamism and seeing that activities on ground conform to revision of norms if any. Harmony between Shari‘ah and constitutional provision has to be ensured and maintained.
Figure 1.1 Top 10% share of national income across the world
Methodology in the second sense – as a guide to research – must eschew the injudicious use of mathematics and econometric modelling for a variety of reasons we have alluded to, especially to shun temptation for predatory publishing. Testable propositions in economics from Islamic viewpoint would be limited because of their intention orientation and data lacking the incorporation of this vital element in modelling. Thus, to us the answer to the question the title of this chapter contains is negative: methodology of Islamic economics is not a subject worth discussing.

Notes
1 An interesting illustration of the sticky nature of juristic pronouncements is that of the five edicts issued against Sir Syed Ahmad Khan for his efforts to establish the MOA College in 1875 (converted into Aligarh Muslim University in 1920) the severest was from the Imam of Makka which said: “This man is erring and causes people to err. He is rather an agent of the devil and wants to mislead Muslims. It is a sin to support the College. May God damn the founder! And if this college has been founded, it must be demolished and its founder and his supporters thrown out of the fold of Islam.” The Fatwa has not been withdrawn even to this day. (Source: Prof. M. Faizan in Indian Express, 17 October 2017.
2 Readers interested in such a survey would find Daniel Hausman 1984 and Mark Blaugh 1992 useful references on the subject.
3 See, for instance, the seminal work of Professor Naqib Al-Attas 1993 on the subject.
4 For a detailed discussion on the two worldview differences and their impact on Islamic versus mainstream economics, see Hasan 2017.
5 See for instance these two definitions: “Science is science and ethics is ethics; it takes both to make a whole man; but only confusion, misunderstanding and discord can come from not keeping them separate and distinct, from trying to impose the absolutes of ethics on the relatives of science” (Friedman, 1955, p. 409). “Morality, it could be argued, represents the way that people would like the world to work – whereas economics represents how it actually does work” (Levitt and Dubner, 2005, p. 13).
6 These two verses from Surah Fîtîr sum up all possible branches of knowledge or that could ever be taught or learnt in any school; covering solids, liquids, plants, animals as well as the varieties of the human race:

Do you not see that Allah sends down rain from the sky, and We produce thereby fruits of varying colors? And in the mountains are tracts, white and red of varying shades and [some] extremely black. (27) And among people and moving creatures and grazing livestock are various colors similarly. Only those fear Allah, from among His servants, who have knowledge.

7 It is this desire to prove the superiority of Islamic economics over the mainstream that has led to a third view on methodology the followers of Jeddah School (Hasan, 2005b, p. 13) have all along been projecting: how to develop Islamic economics. We have ignored this interpretation of methodology, for it leads to unrealistic, misleading comparisons. It keeps argument circular, confusing and repetitive. Much water has turned in seas away from Jeddah. Classic is the illustrations of Akram Khan 2013, chap. 4; 2018).
8 To illustrate, in the 2017 syllabi for the prestigious BA (Honors) in Economics Course (University of Delhi), one finds that almost all the required readings are from foreign writers; the courses on Indian economy being an exception. It is an
irony that none but few among the over 6,000 faculties in the colleges of the university plus that of the reputed Delhi Schools of Economics could not write textbooks for their students.

9 See the writings of Masudul Alam Choudhury, Asad Zaman (2012a), and Syed Nasr as illustrations of insistence on the adoption of this approach to rehabilitate Islamic economics. However, the problem with the puritan insistence of the group is that the resultant economic order they paint has not yet been shown operating even on a miniature scale anywhere in the Muslim world while Islamic finance ironically claims an edge over the mainstream for being firmly linked to the economy on the ground!

10 For insistence on reverting to puritan classical methodology for developing Islamic economics see Nasr (1992), Choudhury (2009) and Zaman (2012a) as illustrations. They prefer to reside in ivory towers while Islamic economics claims its firm linkage to ground realities, especially in finance.

11 The rising tendency of formalization in modern economics has paled empiricism adding to methodological confusion in the discipline (Blaugh, 1992).

12 An inept consequence of such reviewing is notable. Even the leading journals of Islamic economics prefer to get submissions received evaluated by mainstream scholars often working abroad. This practice has two limitations. First, all such reviewers are not adequately aware of the Islamic position they are approached to comment on. More than that, they find contributions obsolete due to mainstream advances. The rejection deprives Islamic economics of knowledge on the subject where it may have never been touched upon. The point is what may be obsolete for the mainstream could useful for Islamic economics.

13 A newspaper report titled “France wants to conquer the fear of maths” informs that a commissioned survey describes the grades students obtained in the subject as “catastrophic” and suggested raising them to improve the pass percentage (Times of India, 14.1.18, p. 18).

14 See Hasan (2018) for a detailed discussion on academic predation and its impact on research in Islamic economics, especially finance.

15 Most of the data used comes from the UN sources. Even the Islamic Development Bank (IDB) at Jeddah mostly reproduces data separated from the same Tables for the Organization of Islamic Cooperation (OIC) member countries. Data generation in size and quality expressive of Islamic essence is conspicuous by its very absence.

16 A classic illustration of the potpourri of disjointed ideas and errors from the title to conclusion is the Yosuf et al. (2017) article published in a refereed and listed journal.

17 For example, many tests in parametric statics, such as the sample t-test, are derived under the assumption that the data come from normal population with unknown mean. In a non-parametric study the normality assumption is removed.

18 This issue was discussed threadbare in an earlier paper: see Hasan (2005b) and also the illuminating discussant Asad Zaman’s comments on the paper in the conference proceedings.

19 The figures are from the just published World Inequality Report 2018. They have been edited and juxtaposed here to facilitate comparisons.

References


The methodology of third-generation Islamic economics

Asad Zaman

Background and introduction

The three generations

The first of these is “Reviving the Promise of Islamic Economics” which was presented in October 2106 at the 11th ICIEF (Int. Conf. on Islamic Econ and Fin) and later published in *International Journal of Economics, Management and Accounting* [S.l.], v. 25, n. 2, pp. 205–225, Aug. 2017. This paper has also been translated into Turkish by Ali Can Yenice and Abdullah Talha Genc, Sakarya University as “İslam Ekonomisi Umudunun Yeniden Doğuşu” *International Journal of Islamic Economics and Finance Studies* Uluslararası İslam Ekonomisi ve Finans Araştırmaları Dergisi, November 2017, Vol. 3, Issue 3 Kasım 2017, Cilt:3, Sayı: 3.

This chapter discusses three generations of Islamic economics. The first generation (1950–75) of revolutionaries addressed the needs of newly liberated colonies from European rule. It created the vision of an Islamic economy, which would be radically different from capitalism and communism. It would provide equity and justice, and take care of needs of all members of society, based on outlines provided in the quran and Sunnah, and implemented during the era of the Islamic empires. However, after a lapse of a quarter century, it became clear that the liberated colonies continued the social, political and economic systems that had developed during the period of colonization, without making any moves towards a genuine Islamic economic system. This was because the ruling elites and armies were closely aligned with Western secular interests, and did not share the Islamic vision common among the public. As a result of this failure to capture power and bring about an Islamic revolution, the second generation (1970–75) of pragmatic Islamic economists redefined the nature of the project. Instead of creating a revolutionary alternative to capitalism, the second generation sought to modify existing capitalist models in order to “Islamize” them. The deep and dramatic opposition between capitalism and Islam made it impossible to carry out this project, since it was like mixing fire and water. One of the signs of this failure has been the inability to even define the subject, or to develop textbooks, which represent any widespread consensus on the meaning and approach to Islamic Economics.
The Global Financial Crisis (GFC) of 2007 showed the weakness of both the capitalist economic system, and the corresponding economic theories. These theories had been accepted as objective facts by the second generation, and used as the foundation for construction of an Islamic economics. The proven failure of these theories in the GFC led to a crisis of thought, and a corresponding crisis in Islamic economics as well. My paper on “The Crisis in Islamic Economics”, which provides quotes from leaders of the field showing widespread awareness of the failure of the second generation, also explains that the cause of the failure is the attempt to combine two conflicting and contradictory paradigms. Instead of accepting Western economic theory as fundamental, and making Islamic patches, we need to do the opposite – start with Islamic foundations, and make patches where necessary to accommodate modern needs. This is the starting point for third-generation thinking, as described in the next paper to be discussed.

What is Islamic economics?

My paper on “Re-Defining Islamic Economics” was presented at Workshop in Basic Concepts and Thoughts in Islamic Economics, held on 1–3 March 2013 İstanbul–Turkey. It was later published as chapter 3 in Basic Concepts, New Thinking and Future Directions in Islamic Economics, eds. Taha Eğri and Necmettin Kizilkaya, Cambridge Scholars Publishing, UK, pp. 58–76. It has also been translated into Turkish as “İslam Ekonomisini Yeniden Tanımlamak”, chapter 3 in İslam İktisadını Yeniden Düşünmek, eds. Taha Eğri, Necmettin Kizilkaya, Oğuz Karasu, March 2017.

As discussed in the previous paper, the second generation sought to construct Islamic economics as a combination of Western capitalism and Islamic concepts. Furthermore, the second generation was deceived by the knowledge claims of modern economics, and accepted their projected image that economics is scientific, factual, objective, and does not have normative and ideological foundations. As a result, where the first generation saw a conflict between “scarcity” and Fazlullah, the second generation accepted scarcity as a fact, and sought to re-interpret the Qur’an and Hadeeth to remove conflicts with conventional modern economic theory. This attempt at harmonizing strongly opposing points of view (see, for example, Zaman 2015 for a list of ten conflicts) led only to massive confusion, as more than 20 different definitions of “Islamic Economics” emerged, and consensus could not be achieved on any one of them. Numerous attempts at creating a textbook for the subject failed because of sharp disagreements on exactly what was meant by term. Mixtures of capitalism and Islam naturally lead to conflict because they attempt to smuggle concepts directly opposed to Islamic values into the framework of Islamic economics.

To resolve this problem, we argue that something can be called “Islamic” only if it is based on the Qur’an and Sunnah. Because it is based solely on Islamic source materials, such a definition will command widespread consensus. Accordingly, in this chapter, we define “Islamic economics” as the effort to implement
the orders of Allah regarding economic affairs in our personal, social (family and community), and collective (Ummah and humanity as whole) lives. We show that this definition differs radically from any available in the West, as well as those proposed by Islamic economists. It creates entirely new ways of looking at and organizing the subject matter of economics. This definition leads directly to an entirely different methodology for doing Islamic economics, which will be the subject of our current paper on “Third-Generation” Islamic economics.

Foundations for an Islamic methodology

Almost by definition, foundations for an Islamic methodology must be sought in the Qur’ān and Sunnah, and not in the writings of Western philosophers. The right place to start is Qur’ān (5:3): “Today I have perfected your religion for you, completed my favor upon you and chosen Islam as your way of life.”

As the Qur’ān states, our religion is complete and perfect. This is the major point of difference between the second and third generation thought in Islamic economics. The second generation believes that the Qur’ān is not sufficient for our guidance in economic matters, and must be supplemented by the thoughts of the Western philosophers and economists. Furthermore, the message is not perfect. In matters where the teachings of the Qur’ān clash with teachings of Western economists, the Qur’ānic message must be modified to remove the conflicts. For example, the Qur’ān (3:92) teaches us that “You can never attain righteousness unless you spend in the cause of Allah that which you dearly cherish; and whatever you spend, surely it is known to Allah.”

Spending of that which we dearly love is exactly the opposite of utility maximization; nonetheless, the second generation affirmed utility maximization and sought to harmonize this Western concept with Islamic teachings. In contrast, the third generation seeks to build a discipline directly guided and inspired purely by the teachings of Islam. Such a definition of the subject has already been given in the previous section. We turn to an exploration of its implications, especially from the point of view of methodology for Islamic economics. How can we implement the orders of Allah in our personal, social and collective lives?

Personal lives: Islamic microeconomics

When we talk about consumer theory in Islam, we must look to the Qur’ān, instead of Samuelson, for guidance. The Qur’ān teaches us that our earnings must be halal. Also, we must spend it on halal items, and for purposes which are approved. In particular, we must avoid Israf and Tabzeer, concepts without counterparts in conventional economic theory. Furthermore, the Qur’ān emphasizes spending what is above our need in the cause of Allah. Finally, what is left of our worldly possessions after we leave this world must be distributed according to the Divine Laws. This gives us a detailed, concrete and specific structure of consumer theory, which has no match at all with Western