Contemporary Islamic Economics: The Missing Dimension of Genuine Islamization

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Introduction

The First International Conference on Islamic Economics held in Makkah, Saudi Arabia in February 1976 is now seen by many as the birthplace of contemporary Islamic economics and its related disciplines. Since that historic conference, many developments have taken place, furthering the development of the discipline in theory and practice. Six other international conferences were organized in Islamabad (1983), Kuala Lumpur (1993), Loughborough (2000), Bahrain (2004), Jakarta (2005) and Jeddah (2008). In addition, hundreds of other international and national level conferences, seminars, workshops and symposia have been organized all over the world discussing various issues at both the theoretical and policy levels from Islamic perspectives. Thousands of books, articles and conference papers have been written, numerous Islamic economic research and teaching institutions have been set up, while even more institutions of higher learning have introduced programs or courses in Islamic economics and its related disciplines, management and accounting.

Early writings on Islamic economics in the 1970s and early 1980s rightly stated the importance of understanding Islamic concepts and worldview in any effort to develop an Islamic economics discipline. However, it seems that ‘practical’ considerations and even political expediency had a greater influence in the direction taken by contemporary Islamic economics.¹ At the government level, a few Muslim countries attempted to introduce Islamic economic reforms, especially in the banking and finance area to provide an alternative to the interest-based financial system. At the international level, there have been attempts to establish greater economic cooperation among Muslim countries as well as even calls to introduce an Islamic dinar, an alternative currency in Islamic economics, banking and finance to facilitate trade among Muslim countries. Islamic concepts usually couched in Arabic terminology were discussed and promoted in numerous conferences and their ‘institutionalization’ took place throughout the 1980s. All these efforts, while

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¹ See for example Nasr, Seyyed Vali (1992), Islamization of Knowledge: A Critical Overview, IIIT (Pakistan), Islamabad.
important and not without their benefits, gave the impression that Islamic economics had ‘arrived’ (1988, p. 198). However, as also stated by Sardar (p. 201),

Islamic concepts are almost always stated but never really used as analytical tools to develop policies that are original and different.

While there is no reason to always seek different or unique positions just for the sake of being different, the criticism that we are not able to utilize concepts found in our sources when actually trying to develop models and theories is central to this paper.²

As mentioned above, seminars have been and are constantly being organized, usually involving a huge amount of financial and human resources. However, as yet, no thorough evaluation of the proceedings/recommendations of these seminars has, to our knowledge, been effectively done. Besides Siddiqi’s *Muslim Economic Thinking* (1981), one can also find a few ‘area’ or ‘author’ surveys. In addition, Akram Khan’s bibliographies on Islamic Economics (1983, 1991, and 1998) are probably the only consistently available work on Islamic economics literature that annotates articles/books.³

This article attempts to discuss attempts by selected pioneer Islamic economists, who in the early 1980s discussed Islamization of Economics. Despite being an important area of discussion, not much has been written on it. If we look at the output that is passed off as Islamic economics, it is output that has gone through an attempt at ‘Islamization’. Most, if not all authors writing contemporary Islamic economic articles and books, would have attempted some kind of ‘creative synthesis’ that is proposed in the Islamization of Knowledge (IOK) project. If we want to have a more meaningful future for contemporary Islamic economics, banking and finance, what this means for economics needs to be analysed. In particular, the paper puts forward the view that Islamization of modern/contemporary economics (IOE), if properly understood as an epistemological and methodological

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² There also seems to be a general lack of coordination as to what has been achieved and maybe a ‘lack of direction’ as to what is to be achieved, what the successes have been, what weaknesses there are, the challenges that are faced and what needs to be done to take the discipline forward. Much work is still being done but the present author is of the opinion that Islamic economics as was developed in the 1970s and early 1980s has ‘lost steam’. To a certain extent, this has also contributed to the fact that no thorough evaluation of the discipline and of all the resources spent in efforts to promote the discipline has been carried out.

³ While these efforts are lauded, there seems to be a need for a major ‘State of the Art’ Review project to be carried out, one that will be able to produce a collection of volumes on different areas of Islamic economics over the last 30 years consisting of the best articles written on those areas together with the review article.
concern, can serve as an approach to help develop contemporary Islamic economics.

**Developing Contemporary Islamic Economics: Critical Review of Islamization of Modern Economics**

Based on the extensive discussion on IOK presented in the previous sections, we now look at writings that have tried to apply the IOK approach to economics. Not many works explicitly mention ‘Islamization of economics’ in their titles. Two scholars stand out as pioneers in discussing Islamization of Economics, namely, M.N. Siddiqi and M.A. Zarqa. As for the former, two early papers are chosen for purposes of this section. ‘An Islamic Approach to Economics’ was presented at the Second Conference on Islamization of Knowledge held in Islamabad in 1982⁴ while ‘Islamizing Economics’ was presented at the Third Conference on Islamization of Knowledge held in Kuala Lumpur in 1984.⁵ This and the previous paper now also appear in a compilation of Siddiqi’s writings covering the nature, scope and methodology of Islamic economics, entitled *Economics- An Islamic Approach* (2001), jointly published by the Institute of Policy Studies (Islamabad) and Islamic Foundation (UK). It is this book that is referred to. As for the latter, his article ‘Tahqiq Islamiyat ‘Ilm al Iqtisad: al Mafhum wa al Manhaj’, presented at the 1984 Conference is his main contribution. This article was translated into English and appeared in Journal of Islamic Economics under the title ‘Islamization of Economics: Concept and Methodology’ in 2003. It is this version that will be referred to.

**M.N. Siddiqi on IOE**

One of the aims of the paper ‘Islamic Approach to Economics’ according to Siddiqi (p.47) is to

‘note the contemporary content of economics and the various methodological approaches before we pass to the next part which deals with our major theme: relevance of Islam to our discipline’.

By this statement, Siddiqi seems to be following the general flow of the IOK workplan.. He further argues that

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⁴ Faruqi’s IOK Workplan was also presented at this conference. The paper appears as a Chapter in *Islam: Source and Purpose of Knowledge*, International Institute of Islamic Thought (IIIT), Herndon, 1988.

⁵ This paper appears as a chapter in *Toward Islamization of Disciplines*, IIIT, Herndon, 1989.
‘the Islamic tradition in economics has always been free of formalism, focusing on meaning and purpose with a flexible methodology…. contemporary Islamic economic thought is an extension of this well-established tradition...economics must be open to contributions from other disciplines and both science and art must join hands to realize, in economic affairs, the Islamic vision of good life’.

These quotations above have serious implications on how and what Islamization of economics is all about. Firstly, as all credible contemporary Islamic economists have reiterated, it is very clear that interaction with modern economics is acceptable and needed. If this is the case, then it is important for us to also state that by definition, IOK and in this case IOE, interacts with modern economics in an organic way. Here, Zubair Hasan (1998) is wrong to talk of approaches to IOK as being of two types: the ‘all or nothing approach’ and the ‘step by step approach’. As far as the present writer is concerned, and in the IOK agenda, be it Faruqi’s or Al-Attas’, there is no such division in the IOK/IOE enterprise. All are by definition interactive and hence, ‘step by step’. Differences lie in what these steps are and how or what is involved in the interaction with modern science.

Secondly, Siddiqi is aware of the need for attention to be paid to methodological questions. Although he does not elaborate on these methodological issues, the mention of this at a very early stage of contemporary Islamic economics, indicates awareness that in order to talk of Islamic economics, we have to critically evaluate the foundations of modern economics, something that is a methodological concern. Unfortunately, this area of study was not given sufficient attention by contemporary Islamic economists, who instead, thought it necessary to move (prematurely?) into downstream areas like banking and finance. In this, IOE suffered from the same disease as the IOK itself i.e. focus on the end-products (especially financial products) at the expense of a thorough discussion and application of a proper methodology/ies to economics, banking and finance.

Thirdly, and may be more controversially, Siddiqi’s views imply that economics is the reference point while Islam is ‘made relevant to it’ (Faruqi’s Step 5). What exactly this means is not very clear in this paper. However, he

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6 Those who think that it is possible and necessary to develop contemporary Islamic economics without reference to modern economics usually criticise what they see to be ‘patchwork’ that does not represent ‘genuine’ Islamic frameworks/benchmarks. They argue for the need to truly develop Islamic economics and not try to ‘economize Islam’.

elaborates that there are three components of Islamic economics (pp. 62-64). The first component relates to the normative framework of economics or what we call the Islamic worldview and vision relating to economics (may be equated with the normative framework). The second component deals with the analysis of actual human behaviour in the different areas that make up economics (positive economics). This discussion of positive economics deals with the ‘what is’ of economic behaviour compared to the ‘what should be’ of the normative framework. The third component involves ‘an enquiry into how to transform the what is into the what should be. This third component involving policy prescriptions is a very important feature and dimension of Islamic economics where the epistemological base of Islamic economics, founded on revelation, has a different implication with regards the relationship between theory and practice/behaviour of human beings.

In conventional economics, should there be a clash between the what should be and the what is, it is the latter that dominates. This will be done through modification of assumptions and even of changing theoretical constructs. Theory follows ‘reality’ as the standard rule in modern economics. In Islamic economics however, should the what should prove to be ‘correct’ after standard modifications etc., it is the what is that would be changed, since the theoretical construct is derived from revelation while human behaviour may not be in-line with behavioural assumptions (provided they are correctly) derived from revelation.

Another major agreement with Faruqi’s workplan is the agreement that Islamization of economics is to be undertaken primarily by economists rather than shari’ah scholars since the contribution from the latter may ‘lack relevance’ as these scholars may not be fully aware of the specific issues relating to various aspects of the modern economy. This statement merely supports our previous comment that Siddiqi implies economics, although being infused with the ‘vision of Islam’ relating to economics, is to be the reference point rather than trying to create a new discipline (in scope) directly from the sources of knowledge in Islam. We also come back to this point when we discuss the role of shari’ah scholars/boards in financial instrument development.

Some critics of contemporary Islamic economists like Sardar (1988, Chapter 9) may criticize Siddiqi and others for accepting the contemporary frameworks of disciplines and the values that come with them (since they were moulded with reference to another epistemological and historical context). However, Siddiqi in his ‘Islamizing Economics’ paper argues that accepting the discipline does not necessarily mean accepting the whole framework. He
argues (p.71) that the starting point in the process of Islamization is ‘the mind of the economist who is aware of Islam or of the concerned Muslim who is also an economist’. In short, the person who is undertaking the IOE process is an economist who is aware of the Islamic economic vision and is able to develop normative frameworks and utilize them in studying human economic behaviour, always keeping in mind the third component of steering individual and social economic behaviour towards the vision.

Therefore, criticism of Islamic economics would seem to be focused on what is being done. We will argue later that if this criticism is true, this inability to correctly understand the vision and to develop unique theoretical constructs that reflect this vision, stems primarily from a lack of serious attention in the areas of philosophy of economics (including its ontological, epistemological and axiological dimensions). Hence, unlike many who call for ‘practical solutions’, we view developing foundations as a pre-requisite for finding solutions. How is it possible to provide solutions without a correct approach, methodology and theoretical construct? The problem could be that the minds of many ‘concerned Muslims who are economists’ do not seem to think it necessary to ask these questions. This is so because as trained economists, they were probably never formally exposed to philosophical issues in economics as part of their undergraduate or graduate training.

Siddiqi seems to acknowledge this possible ‘lack of qualifications’ among contemporary Islamic economists when he mentions (p. 73) that the source of knowledge in Islamic economics is ‘ideational not empirical’. Unfortunately most economics programs today are focussed on how to handle the empirical side of the discipline and not necessarily the ideational aspects. Understanding and utilizing the ‘Islamic legacy’ is part of the IOK agenda and is acknowledged by Siddiqi (pp.75-77) as an important input in developing contemporary Islamic economics. Unfortunately, many narrow discussions of the legacy focus too much on fiqh. In addition they restrict fiqh to Islamic law.

Siddiqi seems to be aware of this problem when he argues that Islamic economists have to go beyond ‘juridicial texts’ and focus on the implications these ‘fiqh’ positions have on the economic system as a whole. It is quite important at this juncture that we reaffirm an important point that does not

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8 The overemphasis on law and ‘punishment’ is one feature that the author noted in the minds of undergraduates at the Kulliyyah of Economics and Management Sciences taking a course on Foundations of Islamic Economics. When asked what they understood by shari’ah and fiqh, reference was always made to law and punishment. The author believes that this narrowing of the heritage to law is one of the symptoms of internal disease within the Muslim mind. See also Abu Sulayman (1994), ‘The Crisis of The Muslim Mind, International Institute of Islamic Thought, Herndon.
seem to have received sufficient attention. The Islamic legacy relevant to economics has to be seen as more than the narrowly defined fiqh. It must include areas of ethics or akhlaq, epistemology and methodology that would have to tackle usul al-fiqh as well as even areas in usul al-din. This may seem very odd to many economists. But this realization would have significant implications on our curriculum development requirements at universities as well as in the training programmes given to those involved in the development of Islamic economics, banking and finance.

Siddiqi is also aware of the problems faced in developing Islamic economics programs in universities. If he complained in 1984 that the teaching of economics at modern universities in the Muslim world has not gone beyond a course on the economic system of Islam, things have changed. In Malaysia for example, the Kulliyyah of Economics and Management Sciences of the International Islamic University is one case where students have the opportunity to study for undergraduate, graduate and post-graduate degrees in economics, where ‘integration and Islamization’ form an important part of the mission of the University. However, attempts at integration and Islamization have seen many challenges, many of them relating to the ‘qualifications’ of the teachers who are entrusted to carry out the noble mission of the International Islamic University Malaysia (IIUM).

Siddiqi’s call for inter-disciplinary studies and the need for interaction between shari’ah scholars and economists (pp. 77-78) has been realized over the years, not only at the IIUM, but also in many other Muslim countries. While progress has certainly been made, one finds that these programs still reflect standard economics programs found in western universities. This may be a necessity for job requirements, but in order to be promoting Islamic economics, something more is needed. While his call for providing a wider social science base for economics (since Islamic economics has to be inter-disciplinary in building models and in understanding reality) as well as the need for greater attention to empirical studies (to analyse reality) and greater interaction between shari’ah scholars, economists and professionals are welcome, this has not proved to be easy.

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9 Even in the case of Siddiqi, Zarqa’ and Kahf, their discussion of the knowledge of the heritage is overly focused on legal reasoning.
Critical Review of Contemporary Islamic Economics in Practice vis-a vis Islamization of Knowledge/Economics: The Case of Islamic Banking and Finance

There is no doubt that Islamic banking and finance (IBF) has become, rightly or wrongly, the torch-bearer of Islamic economics and of the Islamization of economics project. This paper acknowledges the development of Islamic banking and finance as an important feature of contemporary Islamic economics. There is no denying that Islamic banking has managed, among others, to establish itself globally as a viable, shari’ah compliant way of financing. However, there have also been criticisms of the general approach to Islamic banking as well as in some of the more micro-level decision-making processes involved in instrument development.

The main criticism of Islamic banking has been that it is modeled after the interest-based (especially commercial) banking system. Hence, the role and function of banks has primarily been retained while focus has been on creating ‘shari’ah compliant instruments (seen by the critics as duplicates) to replace the interest-based instruments of conventional banks. Critics like Sardar blame what they see as ‘patchwork’ economics as stemming from the IOK agenda. They argue that since the IOK takes the modern discipline as the reference point and wants to ‘seek the relevance of Islam to it’, this can only result in patchwork and ‘bad imitations’. This criticism could have some truth to it if one was to take the ‘simplistic and shallow’ understanding of IOK/IOE that seems to have prevailed among some writers, and consequently practitioners of Islamic banking and finance.

What we mean by this simplistic and shallow understanding of IOK/IOE is emphasis on the ‘substantive areas of economics’, in this case banking and finance, without giving due emphasis on the foundational issues including worldview and methodology. Failure to give attention to these foundational issues could easily lead writers to accepting the banking institution as it is or even accept interest as part of the cost of capital rather than seeing it as riba’, which is still the majority views among shari’ah scholars. Some critics of

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10 The fact that this International conference series has undergone a ‘nomenclature’ change from International Conference of Islamic Economics to include Finance in its title over the years and the fact that almost all areas of this conference have to do with finance, is a strong indication that Islamic economists are going further downstream in efforts to develop the discipline.
patchwork Islamization such as Sardar (1988, p. 203) even think it necessary for Islamic economists to ask even more fundamental questions like whether banks are really needed in an Islamic society or could some other form of institution perform the necessary functions. Hence, what has been attempted is to mould conventional banks into Islamic shape by ‘purging them of interest and basing their actions on the principle of mudaraba or profit-sharing’. From the experience of Islamic banking over the last 20 years or so, we now see that this has actually not happened. Instead of equity instruments like mudarabah and musharakah, Islamic (commercial) banks have actually focused almost exclusively on debt instruments such as murabahah and bay’ mu’ajjal or bay’ bithaman ‘ajil that seem to be very similar in operation to conventional practices and hence familiar to practitioners.

While generally accepted by shari’ah scholars as being shari’ah compliant, Islamic economists initially argued against debt instruments being given too much prominence by Islamic banks, preferring instead to focus on equity instruments. While Sardar criticized Islamic economists for not asking the ‘right’ questions i.e. ‘do we need banks as they have developed in the west and then put forward institutions that would be able to practice equity instruments’, practitioners sidelined Islamic economists for criticizing them. All the while, the problem lay in approach: accepting the banks and trying to mould them into Islamic shape by ‘Islamizing’ the instruments. Only now, rather than equity instruments, some Islamic bankers have succeeded in focusing almost exclusively on debt instruments with the backing of shari’ah advisory boards made up almost exclusively of shari’ah trained scholars.

Whether we agree with Sardar or not, the point made by critics is that Islamization efforts, if not inclusive of methodological and epistemological concerns relevant to economics, will end up making Islamic economics a branch of western economics.\(^{11}\) Hence, just as the IOK workplan itself, focus is on the end-product as ‘that is where the money is’.

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\(^{11}\) While this is seen as counter-productive by critics like Sardar, some scholars like Kahf (2003) are of the view that Islamic economics becomes a part of the science of economics just as Marxist or capitalist economics. It is to be studied within the area of economic systems but based on the assumptions of Islamic axioms, values and ethics, just as Marxist and capitalist economics are studied within their own paradigms. While this is not the place to evaluate this position, the present writer may not fully agree with this view as it may be wrong to equate the nature and scope of Islamic economics with its contemporary western secular counterpart. See his ‘Islamic Economics: Notes on definition and Methodology’, *Review of Islamic Economics*, Volume 13, pp. 23-48.
Contemporary Islamic Economics in the 21st Century: The Way Forward

Without doubt, whether one is a proponent or an opponent or even a neutral bystander, it cannot be denied that the IOK project has played a prominent role in contemporary scholarship and literature, both in theory and in practice. The skeptical view of IOK that has festered over the last two decades or so is due to the inability of producing ‘original’ contributions to knowledge. At the practical level, Islamic banking and finance has been singled out by critics as being mere ‘duplication’ of conventional instruments resulting in ‘patchwork’, with limited discussion of Islamic worldview, epistemology and methodological concerns as propounded by the main proponents of the IOK.

The fault lies in the neglect and inability to develop coherent epistemological and methodological bases upon which the Islamization of ‘disciplines’ or knowledge can take place. In many ways, we are still in the ‘pre-methodological’ stage of IOK as mentioned by Safi ten years ago. This neglect has contributed to the inability to create people who could confidently and authoritatively convey Islamic perspectives on the various bodies of knowledge/disciplines offered as well as the ability to create new disciplines. Realization of this ‘mistake’ may be now setting in.

This means something very different from mere blind acceptance of concepts (and their foundations) in modern sciences or the emotive rejection of concepts, theories and views just because it comes from the west. Rather, it implies a thorough ‘evaluation’ of the foundations of western science, its methodologies and its resulting bodies of knowledge from Islamic perspectives.

There is also resistance to ‘true or holistic IOK’ from within the circle of Muslim scholars. As has already been shown above, the sometimes superficial and mechanical representation of IOK/IOE has led to many people questioning the qualifications of those involved in Islamic Banking and Finance. On the one hand, many of the banking products are designed by bankers who may have ‘mastered’ conventional banking and finance, but are not well versed in the Islamic heritage. On the other hand, many of the Islamic scholars who are

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12 In an earlier paper looking at the Economics program at the IIUM, it was pointed out that this was partly due to the political and national demands to expand the student intake in all Malaysian Universities, especially in the early 1990s. This meant having to take in more academic staff, many of whom may not have shared the understanding of what the IIUM and the IOK agenda was all about. See Mohamed Aslam Haneef & Ruzita Mohd. Amin, ‘Some Conceptual and Practical Dimensions of Islamization of Knowledge: A Case Study of the Economics Program at the IIUM’, American Journal of Islamic Social Science, Vol. 14 No. 2, pp. 188-207.
involved in the IBF industry as ‘shari’ah’ consultants and advisors, are trained in fiqh and to a lesser extent in usul-al-fiqh/jurisprudence. These scholars with due respect to them, are still in ‘legal’ mode, i.e. focused exclusively on legal reasoning. They are greatly in demand to make ijtiham on contemporary economics/finance issues and to produce alternative shari’ah compliant instruments. While sincerity is not questioned, the ‘originality’ of the products and their implications for society sometimes are. Besides the ‘duplication’ criticism, there is a much deeper soul searching that needs to be done by all involved. Is it possible for us to truly develop genuine Islamic alternatives if we are not trained in economics/finance as well as the heritage? Is it possible and right to look at instruments from the purely legal reasoning angle dealing with contracts, without also bringing in ethical preferences in the choice of instruments?

While the first group make no claims to being Islamic experts (although in most cases they determine the direction of the product and product development), the second category are seen to be the experts. However, limiting the ‘heritage’ to mere fiqh discussions and reasoning, will not do justice to Islamic economics, banking and finance. As pointed out in the IOK/IOE section, this process is by definition, a methodological concern. If methodology is the issue, the Islamization process must be facilitated by scholars who are not necessarily only legal/fiqh and usul al-fiqh scholars. In the case of economics, banking and finance, we are talking about a social science that tries to understand, analyse and describe human interaction and choices made in areas of allocation of resources, distribution, exchange and finance (among others). In the last category, it will also involve the creation of instruments.

As far as the heritage is concerned, fiqh knowledge may not be sufficient since these areas have been narrowed to the legal sphere. As far as methodology is concerned, usul al-fiqh (understood as more legal reasoning) has to be distinguished from usul al-Iqtisad, the latter being a much broader area of ‘foundations of Islamic economics’, including the Islamic worldview, usul al-‘ilm (sources or foundations of knowledge), fiqh and usul al-fiqh, usul al-din, history, analytical techniques and at least the ‘equivalent’ of what Schumpeter

13 See Mohd. Daud Bakar, a leading shari‘ah consultant for Islamic banking not only in Malaysia but internationally recognized. In an interview in the STAR newspaper (February, 2005), he voiced his concern that Islamic banking products seem to be losing the confidence of customers because they seem to be ‘duplicates’ of conventional banking products. He calls for greater effort in developing more original instruments.
called the ‘sociology of economics’ in our heritage. Hence the knowledge of the heritage required to develop contemporary Islamic economics banking and finance must be more than just the narrowly ‘mis-defined’ shari’ah (legal) sciences.

As far as modern economics is concerned, meaningful Islamization cannot occur without some level of ‘critical’ understanding of the functioning of the modern economy, its system and constituent elements. We state ‘critical’ because the modern system has to be evaluated from an Islamic framework or perspective. Knowledge in this category would include what Schumpeter (1954, Chapter 2) outlined such as economic history (both of thought and practice), statistics (including today’s econometrics), theory (both macroeconomics and microeconomics) and economic sociology (which may include other social sciences). He also (Chapter 3) tried to explain the importance of sociology, logic, psychology and philosophy in its connection to economics. In the context of developing Islamic economics, it would be necessary for us to ‘master’ these areas of western knowledge, but always with reference to our perspective. In terms of economics, banking and finance, this would mean understanding contemporary advances in these areas critically.

Meaningful Islamization implies that the Islamic economist or the Islamizer of contemporary economics, banking and finance must know what is acceptable, what needs modification (what to be done and how to do it), what is to be rejected (what and why) and to be able to relate these to contemporary realities as well. It is certainly a tall order and one that does not seem possible if we continue to move in the present way contemporary Islamic banking products are being developed. While the products are developed and presented by mainly western trained economists/bankers, shari’ah scholars are asked to evaluate them. The latter are not necessarily familiar with the running of the economics and finance sectors and their knowledge in areas of philosophy/methodology (with reference to usul al-Iqtisad) leaves a lot to be desired. If people are questioning present day products, it is not necessarily only for their legal validity but also for their ethical implications. It is a valid question to ask whether the present two parties involved in the creation of Islamic financial instruments (conventional bankers and shari’ah/legal scholars) should be left alone or some other type of boards need to be set up to act as checks to the shari’ah boards!

14 Kahf refers to Ibn Khaldun’s *ilum al-umran* as a possible body of knowledge found in our heritage.
If one interprets this as a call for the inclusion of Islamic economists, a point of caution is called for. Even among the Islamic economists, we have to be honest about our ability to truly Islamize economics. While many economics/Islamic economics programmes do offer courses in the heritage, these are usually in fiqh and to a lesser extent in usul al-fiqh. In addition, these courses are taught in ways that are ‘unconnected’ to economics/finance. The level of discourse in methodology and philosophy of science leaves a lot to be desired in these programmes. Islamic economists themselves keep referring to the heritage in terms of fiqh and law.

It must be borne in mind that no Islamizing of disciplines or even of minds can take place without a basis or worldview that forms the criteria of evaluation and methodology that will be used in Islamization. In this respect, al-Attas’ emphasis and often-repeated lesson that scholars (and Muslims in general) must first understand their worldview and the components within, is now almost an accepted fact among all. If we refer again to the quotation given earlier on page 6 concerning what needs to be done in IOK and apply it to economics, either it is non-existent or being done in a haphazard way. The present writer is not convinced that the implications of this statement on the curricula has been fully understood by academics, let alone the ‘market’. It is not easy to change curricula to include more philosophy and methodology when what is being sought after, especially by the ‘market’, are solutions to ‘practical problems’. Also, sometimes it may be a hit to the ego of Professors to be told that they do not really know Islam, its worldview and/or how to apply it in economics.

The main lesson gained from 30 years of the IOK project is that we have not really discussed and understood the philosophical and methodological issues of the modern disciplines we have been trying to Islamize. Also we have not sufficiently dealt with our own legacy. More resources, financial and human, must be channeled here. Another lesson that must be learnt from this 30-year experience is that there is also an urgent need to be able to connect this philosophy and methodology to the disciplines and maybe more importantly, to the scholars who are involved in those disciplines. As Ragab (1999, p. 35) rightly points out:

There is no shortage of materials written about different aspects of Islam as a religion or way of life. However, most of the reference material on Islam and the Islamic worldview, encyclopedic or monographic, do not lend themselves readily for use by Muslim social scientists embarking on the Islamization of their disciplines.
No creative synthesis or Islamized knowledge in the form of textbooks can be produced unless this gap is bridged. Unfortunately, modern western trained Muslim social scientists are not able to appreciate these philosophical and methodological issues underlying their own disciplines, let alone having any meaningful exposure to the Islamic legacy. Their training has created, in many cases, ‘second class’ western scientists, who some times even fail to grasp the essence of their disciplines, not to mention any ambition of ‘mastering’ their disciplines.

In other cases, their training may have created ‘masters’ of modern disciplines, who have also, maybe unconsciously, become entrapped in the existing frameworks of those disciplines, i.e. they may not see things from an Islamic perspective. It may be pertinent to keep in mind that although many Muslim academics may also have advanced degrees in specific areas of knowledge, their knowledge of Islam, its worldview, of Islamic philosophy and methodology relevant to their disciplines and of IOK may greatly differ from one academic to another. In some cases, the latter may even be non-existent.

For example, most economics programs in western universities today hardly discuss philosophical and methodological issues in economics. The underlying assumptions of mainstream neoclassical-keynesian economics is accepted as ‘truth’, while most if not all attention is placed on mastering the latest quantitative techniques (now available in software packages) and applying these to ‘analyse data’. In addition, western methodology and its ‘scientific methods’ are accepted as objective and correct, with an overwhelming attention paid to technical procedures and application of quantitative techniques to solve mathematical equations, without ever questioning the foundations of these methods and techniques and the theories they are used to promote. Certainly, critically evaluating these foundations is what the IOK agenda is all about and it would seem the logical area to allocate resources, both financial and human. If nothing more, we should at least learn from the developments in the west where an increasing number of economists and philosophers of science are questioning the entire framework on which conventional neoclassical economics rests.

For example, it is very interesting to note that there has been a credible reaction to this in France, the UK and the US with the establishment of a ‘post-autistic economics’ (PAE) movement. Beginning as a graduate student

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15 See www.paecon.net
protest towards the ‘narrow’ scope and approach to the teaching of economics, this movement has gained momentum and now has a credible following worldwide calling for a pluralist approach to teaching and learning economics. The movement has a quarterly on-line journal (now in its 29th issue) from economists and other scholars who have taken the very challenging task of critically analysing the philosophical and methodological issues of the discipline. The reason that the scholarship in this journal is worthy of reading is its common critique of ‘modern disciplines’ (in this case neoclassical economics). Scholars keen on Islamization of Economics would certainly benefit from reading the material coming out from scholars and graduate students in western universities, who in many respects are much more advanced and profound in their critique of mainstream neoclassical economics.

Contemporary Islamic economists should also be willing to learn from history, both of Muslims and of western Europe. Our early scholars who came across writings of the Greeks for example were very selective on what they ‘reviewed’, worked from ‘Islamic perspectives’ i.e. with understanding of the Islamic worldview and hence, were very careful and successful in ‘Islamizing’ knowledge. Also, many scholars chose to write works on classification of knowledge, so as to place new bodies of knowledge within an overall schema. If we look at the history of western economic thought, it is very clear that methodological and philosophical concerns were discussed, debated and developed beginning from the time economics was a part of theology and moral philosophy in the Thomistic economics of the 13th-14th centuries. This was also very clear in the writings of the mercantilists and physiocrats of the 15th-16th centuries. Debates on methodology clearly affected the writings of the political economists of the time. All major writers in western economic tradition also wrote on methodological issues.

Until there is a similar realization of foundational, including methodological issues among contemporary Islamic economists as there has been in our own tradition in the past and in western scholarship during the developmental stages of western economics and again over the last 30 years, we may continue organizing international level conferences for another 30 years, thinking that we have meaningfully contributed to Islamization of economics, banking and finance when the reality would be something very different.

16 While numerous books on the history of western economic thought can be found, one monumental work that should be read by all Islamic economists eager to study the interface between economic reasoning and western thinking in general, is Karl Pribram’s A History of Economic Reasoning, Johns Hopkins University Press, 1983.
Note on Methodology

It has been mentioned repeatedly that there is a dire need to seriously discuss methodology as one of the main components in the foundations of economics. Lest we are accused of not doing this at all, it is important to outline, albeit briefly, what is meant by methodology and to refer to some of the writings of contemporary scholars writing on methodology of economics/Islamic economics to support our argument that we should create more interest in this area.

Let us first briefly put the discussion in context. Methodology of economics is still a relatively underwritten area even in western economics, despite the renewed interest since the 1970s. Due to various reasons, including the ‘crisis’ of mainstream economics in the 1970s\(^{17}\), a change in the nature of issues discussed (from verification and falsification to discussion on the historical dynamics of scientific knowledge)\(^{18}\) as well as the rise of heterodox schools of thought that were increasingly questioning the foundations of mainstream economics.\(^{19}\) In short there was critical self-evaluation and a move to introduce ‘methodological pluralism’ into economics,\(^{20}\) i.e. calls for acknowledging different schools of thought based on methodology.

By methodology we mean not merely the technical procedures (modeling techniques) used, the choice of categories and preferred testing procedures but the underlying conceptualization of reality (the worldview) in relation to the preferred mode of reasoning as well as the standards used to appraise theories.\(^{21}\) As a working definition I refer to the views of Machlup (1977, p. 54, 55)

Methodology provides arguments, perhaps rationalizations, which support various preferences entertained by the scientific community for certain rules of intellectual procedure, including those for forming concepts, building models, formulating hypothesis and testing theories.

Methodology is neither a study of good methods nor a study of methods used \textit{per se} (emphasis added) but rather a study of the reasons behind the principles on the basis of which various types of

\(^{17}\) For example Pheby (1986) and Fox (1997)
\(^{18}\) For example Backhouse (1994)
\(^{19}\) See for instance Albelda/Gunn/Waller (eds. 1987).
\(^{20}\) See Caldwell (1982) and Boland (1997)
\(^{21}\) See Dow (1996) and especially Machlup (1977).
propositions are accepted or rejected as part of the body of ordered knowledge in general or of any special discipline.\textsuperscript{22}

Fox (1997, p.33), in one of the more ‘user friendly’ books on methodology of economics defines methodology of economics as follows:

Methodology is often misused to mean method, procedure or technique or an approach to modeling….methodology denotes the study of the process of appraisal of theories that are purported to be scientific. Methodology is the theory of theories. It analyses the process through which knowledge about economic phenomena is authenticated….methodologists are also concerned with semantics and more recently, rhetoric. Methodological distinctions often hinge on the meanings that economists attach to key words.

From the above definition, it must be clear to the reader that methodology of economics would then be an ‘infrequently traveled middle ground’ between economics and philosophy. Delving into this area would be an interdisciplinary inquiry. While being interdisciplinary may not be a new suggestion to Islamic economists, it is the combination of disciplines/knowledge involved that would be ‘new territory’ to the economist. While Islamic economists always talk about fiqh and its methodology i.e. usul al-fiqh, this overly ‘legal’ emphasis is not sufficient to address economics and finance. Hence our proposal to develop a new area called usul al-iqtisad.

The scope of methodology suggested by Fox (p. 16) cover four questions: what is the purpose of economic inquiry, what are the legitimate sources of economic inquiry, what is the scope of application of economic knowledge and what is the appropriate structure of an economic theory? Of the four, Islamic scholarship seems to have focused on the second question. While a very important issue due to the position of revelation as the primary source of knowledge in Islam, it must be borne in mind that according to the IOK/IOE approach, we have to be able to deal with both the heritage and modern knowledge/ economics. What seems to be the problem in works on IOE is that the substantive areas (in our case banking and finance) are over-focused without proper ‘tools’, i.e methodology. Even when methodology is discussed, it is partial.

\textsuperscript{22}Machlup (p.61) then distinguishes between methodology (as defined above) and description of methods used in academic papers/research (what he terms as methodography or simply notes on methods). He takes to task many ignorant writers today who have ‘debased’ the term to the latter (pp. 7-8) and cautions that in the name of steering away from ‘abstract’ discussions, we should not be infected with ‘methodophobia’, a disease that creates a negative over reaction to the mention of the term.
As we have mentioned earlier, some early writers like Siddiqi, Zarqa’ and Kahf, have presented papers in the 1980s, specifically mentioning methodology. While awareness was there in the 1980s, one finds that the coverage was rather limited, sometimes not discussing methodology as defined and discussed in conventional economics literature. For example, Zarqa’ (2003, p. 5)\textsuperscript{23} rightly points out that advancing Islamic economics is not possible without providing answers to ‘big methodological questions’ relating to the discipline. He admits that dealing with methodology is difficult since there are differences in the ‘terminology and modes of expression’ of economists and shari’ah scholars (p. 6). As far as economics science is concerned, he states that there are three constituent elements: assumptions, normative values and descriptive facts. He proceeds on to try and show the relationship between these elements and the problems in the process of model building, which is a highly value-laden process (pp. 11-20). He is acutely aware of the differences between Islamic economics and fiqh and while he does a credible job elaborating on this, he also is aware that the heritage covers much more than fiqh and includes usul al-fiqh, history of Muslim economic thought and the economic history of Muslims.

However, despite this early effort at discussing the importance and some issues that are methodological in nature, he does not try to address methodology of conventional economics and to ‘evaluate’ this component in IOE.\textsuperscript{24}

**Conclusion**

Contemporary Islamic Economics, banking and finance has certainly made a contribution to economics as a discipline and to the lives of Muslims for the last 30 years or so. Islamization of modern economics can certainly be an approach to develop contemporary Islamic economics further as we move into the 21\textsuperscript{st} century. Within the IOE framework, while work on substantive areas of economics, including banking and finance must continue. In addition however, this paper has called on those who support the development of contemporary Islamic economics to also give equal attention to more foundational areas such as methodology. Reasons for this were given by pointing out to the methodological nature of the Islamization process itself.

\textsuperscript{23} This paper was originally written in 1984.

\textsuperscript{24} Monzer Kahf has also tried to discuss some methodological issues in a paper published in 2004 (originally prepared in 1987), but does not go as in-depth as Zarqa’. Analysis of this paper is part of a bigger review on methodology of Islamic economics currently being undertaken.
The paper also argued that while work on downstream areas such as banking and finance must continue, the process of developing these areas, especially the interaction between practitioners and scholars would require some modification, both in terms of the knowledge of the parties involved and may be even in the way the parties interact. As a discipline, focus should move to discussing usul al-iqtisad that would involve a much wider scope of subjects covering worldview, philosophy especially epistemology, methodology of Islamic economics and other social/human sciences. If we are determined to develop a sustainable alternative to western economics, the present writer does not see how it would be rational for us to continue to neglect this area. We must be willing to take bold measures and introduce curriculum reform in our Islamic economics programmes. We must also be willing to ask the right questions when it comes to the practice of economics, especially in the areas of banking and finance and not necessarily allow financial considerations to determine the direction of the discipline.

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