

# THE FUTURE OF ISLAMIC ECONOMICS

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**In view of the economic problems of the present age and the inability of neoclassical economics to analyse them and suggest acceptable solutions, Islamic economics holds promise for the future. This article consists of four parts. The first introduces the Islamic worldview and economic objectives of Islam. The second part argues that only Islamic economics has the potential to respond to the economic problems of the future. Part three sheds light on major Islamic economic institutions as they exist today. It points out the problems and challenges of these institutions. The last part presents some concluding remarks.**

Islamic economics is a nascent discipline. It has not yet attracted the attention of the economics profession although the recent past has witnessed a sporadic intellectual activity in some Muslim countries which promises to make Islamic economics an independent branch of knowledge. This is evident from the fact that at present at least 30 universities in Muslim countries are offering undergraduate and postgraduate courses in Islamic economics. Quite a few PhD theses in western universities have been written on various issues relating to Islamic economics. There are three international research institutions exclusively devoted to the development and dissemination of knowledge relating to Islamic economics. Three scholarly research journals publish material on Islamic economics while a fourth began publication in January 1991. A number of journals on Islam, the Middle East and economics also publish articles on Islamic economics. During the past two decades a respectable body of serious literature on Islamic economics has also appeared.<sup>1</sup> There now exists an active International Association of Islamic Economics with its headquarters in Jeddah.

Islamic economics presents Islam's viewpoint on the human economic situation. Its roots are in the sacred Islamic texts which provide broad guidelines for the economic behaviour of man on this earth. But most of its literature has been the result of human endeavour to analyse and solve economic problems in the overall framework of Islam. Therefore, there is nothing sacrosanct about most of what Islamic economics says on human economic problems.

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The recent upsurge<sup>2</sup> of interest in Islamic economics owes its origin to a number of factors. First, there is a great dissatisfaction with the way that world economic problems have been analysed and solved by mainstream economics. The present era which boasts of material prosperity has not been able to do much about some nagging world problems. Unemployment with inflation, widespread poverty in developing countries, misery amidst affluence, regional disparities, environmental pollution, the technological onslaught on social and ethical values, the free-booting economic power of global corporations, waste through reckless consumerism, international exploitation through aid and an iniquitous trade structure—all are too familiar to be elaborated here. This has created an urge to search for a new approach to human problems.

Second, mainstream economics is based on narrow and unrealistic assumptions about human nature and behaviour. Its approach and conclusions have been widely questioned by economists and a need has been felt to revise its very premises.

Third, during the colonial era, as capitalism developed, it adopted a cruel approach to indigenous cultural values, social institutions and local technology. It systematically tried to destroy traditional societies in the colonies with the plea that the capitalist system was more efficient and productive.<sup>3</sup> History has given the lie to this assertion. The colonies were poorer when the colonial powers left them than when they had occupied them. This has alienated the elite of these countries from capitalist thinking.

Fourth, the international economic order that has emerged as a result of prevalent economic thinking has institutionalized exploitation of the poor countries by the rich. The distance between the two is on the increase despite all the lip service given to justice and fair play. The terms of trade have systematically turned against the primary producers. The global economic mechanism has been designed to keep the hegemony of the industrially advanced countries. But it is now being widely realized that such an economic arrangement carries its own seeds of destruction.<sup>4</sup> There is, thus, a felt need for a fresh look on this economic order. As we argue below, Islamic economics holds promise in this area.

The dramatic changes in Eastern Europe, the USSR and China since 1989 have expedited the process of search for a better economic theory. It is almost clear that socialism has been finally defeated and people in the socialist countries are looking to capitalism as a saviour and anchor of last resort. Their disillusionment with socialism has shown them an easy route which leads to the same capitalism that they abandoned less than half a century ago. After the dust settles, these very countries will be obliged to rethink their strategy in the search for sustained development and a more just and civilized society. It will be at this juncture that they will wish to look seriously at what Islam has to offer as an alternative to the attempts at capitalism.

Theoretical work in the field of Islamic economics as yet is scant for the following reasons. First, the Muslims who should be the first to develop this subject (but who are by no means the only ones to make a contribution in this field, as every human being can discuss its concepts on rational basis) have suffered from an intellectual trauma. It came with the political domination by the West which not only destroyed Muslim educational

institutions but also damaged the spirit of inquiry in the Muslim lands. This has not allowed the Muslims to develop their own knowledge at the same pace as the Occident has done.

Second, the problem of intellectual space has also contributed to this phenomenon. The Occident is fully dominant in all seats of learning, publication and distribution of most of the serious literature in all disciplines. It documents, classifies and disseminates information on various disciplines. Whatever efforts have been made by scholars in Islamic economics, they have not been adequately documented by the Occident. Moreover, the scholarly journals published from the Occident do not easily accept the work done by the Muslim economists mainly because there is a strong aversion against all that smacks of having a religious flavour. Third, little empirical data exist to test or falsify Islamic economic postulates. This has posed an insurmountable problem for Muslim economists.<sup>5</sup>

## General framework

### *Basic concepts of Islamic economics*

The roots of Islamic economics go deep into Islam's vision of human nature. Human beings have been created by God to act as His vicegerent. He has endowed human nature with the best physical, mental and spiritual faculties.<sup>6</sup> Islamic economics denies the concept of original sin and the inborn selfishness of man. Thus it departs from the route of the 'dismal science' which conceives man as inherently selfish, greedy and sinful. Islam recognizes that human beings have a liking for material possessions<sup>7</sup> but it neither treats this liking as undesirable nor encourages promotion of it. Instead it persuades human beings to *control* this love for material acquisitions.

Man's primary role on this earth is to act as God's vicegerent. The resources at his disposal are a trust from God on which man has a limited jurisdiction. Thus Islam recognizes private property but within the broader framework of Islamic law and tradition. One is free to engage in any lawful occupation but is not sovereign to spend everything that one earns. There are definite limits on one's freedom to consume, save and invest. For example, one cannot waste one's earnings on the plea that they are private earnings. Similarly, one is required to spend at least a certain specified portion of one's surplus wealth on those who do not have adequate means for themselves. Besides this legal minimum (known as *zakah*), one is expected to spend on one's relations and on social needs from one's earnings. In no case can one invest savings on interest (*riba*). Prohibition of interest on capital is the hallmark of Islam's financial system.

Islam accepts a free market but has specific regulations to *control* and *supervise* it. Thus it has a mechanism which forestalls the emergence of monopolies and concentration of economic power. Islam's law of inheritance acts as a catalyst to the re-distribution of wealth, which could get accumulated through the market mechanism.

Consumer behaviour in an Islamic society is closely influenced by Islam's moral, social and cultural norms. It negates absolute sovereignty for

the consumer. Nor does it conceive a society where the fires of inflation are fanned by artificial demand creation through ingenious techniques of advertisement and sales promotion.

Islam visualizes a participatory arrangement in the labour–capital and land–labour relationships. The business or agrarian organization in Islam conceives a dominant role for man over capital and land.

Islam's social security system operates at the grassroots level. Everyone gets social security cover at three levels—family, community and state. In addition it encourages individuals or groups to establish endowments for the perpetual benefit of the needy. For covering unforeseen risks, it conceives a system of mutual insurance rather than the contemporary insurance which operates as a business.

Thus Islam founds a society where resources are shared and the economic actors cooperate to usher in a just and human society.

### *Economic goals of society*

Islam visualizes establishing and sustaining human society in a state of bliss. This has been termed *falah* in the Qur'an. *Falah* refers to a comprehensive state of spiritual, cultural, political, social and economic well-being in this world and God's pleasure in the hereafter. Because of its eternal nature *falah* is primarily a state of bliss in the hereafter. But it is also applicable to conditions of survival, economic well-being and human dignity in this world.

At the micro level, it refers to a situation where an individual is gainfully employed, free from want, enjoys freedom, participates in social and political life, and has opportunities to grow spiritually and culturally. At the macro level, *falah* means the establishment of a society with hygienic environments, enjoyment of freedom and economic independence with opportunities for social and cultural advancement. It is a society which is free from want and exploitation, where people cooperate in various capacities, share in the resources and care for one another.

But it does not mean 'material prosperity' only. In fact, material prosperity which focuses on the acquisition of more and more goods is not even an essential condition of *falah*. A person can be at a state of *falah* if he has bare means for economic survival but fulfils its other social, cultural, political and spiritual conditions.

At the same time, *falah* does not mean negation of material prosperity either. At the macro level, a society can achieve *falah*, for example, if it is politically and economically independent, has institutional arrangements to establish economic justice, involves its people in decision making and provides environments congenial to physical and spiritual health. Its GNP may not match any of the present-day industrially developed societies. It can still be at a state of *falah*.

Thus *falah* can be had with or without material prosperity. Material prosperity is not the focus of economic activity although there is nothing in Islam that debars an individual or a society from achieving it. But it will be considered as a milestone on the path to *falah* and not *falah* itself. Since there are alternative routes available to *falah*, material prosperity may not always fall on the way.<sup>8</sup>

### **Islamic economics: economics of the future**

If the present trends continue, the economic future of human beings does not hold much promise. Some economic problems, as mentioned above, are so obstinate that they have survived all conventional wisdom. As the 21st century dawns, these problems are only likely to be aggravated. The present-day economic order, based on neoclassical ideas, is not likely to steer the human ship clear of these stormy waters.

This is because, first, neoclassical economics, being a positive discipline, does not play any active role in *directing* or *controlling* human behaviour or economic events. It merely *explains* or *rationalizes* them. Second, some of its basic postulates, such as inherent human selfishness, unregulated free enterprise, consumer sovereignty, the absolute freedom to earn, save, invest or waste, are instrumental in creating these problems. Solution of present-day economic problems requires a complete departure from contemporary conventional wisdom. Our basic assertion is that Islamic economics holds that promise. It approaches the economic problems of humanity from a completely new angle. A serious and objective study of Islamic economics has the potential to lead present-day society into a more just and human future.

The pressure of future economic problems will force human beings into such a search. At that juncture human society will be obliged to look more closely and objectively at what Islam has to offer by way of a solution to its problems.

### *Unemployment and inflation*

Since the 1960s the economies of the free world have been facing the twin problems of inflation and unemployment. So far no recipe has succeeded in solving them. The problems have persisted only because none of the solutions has struck at the root cause of the problem. The Islamic viewpoint is that the main cause of unemployment is interest on capital which retards the level of investment, leaving physical and human resources unemployed. At the going rate of interest there will always remain some investment proposals which will not earn enough to pay for the interest on capital. Therefore, some projects will always remain non-viable. Thus, the solution of involuntary unemployment lies in reducing the rate of interest to zero. The question as to how this can be done does not concern us at the moment. This can perhaps be left as a challenge to human ingenuity, once it is recognized that the root cause of unemployment is interest on finance and our first priority is to eradicate it.

Incidentally, Keynes also analysed this problem along these lines and recommended reducing the rate of interest to its technical minimum. (He thought it to be 2% at that time). This he termed as the 'euthanasia of the rentier'. He prescribed deficit financing or expansionary spending after the rate of interest has been reduced to its technical minimum. Unfortunately, Keynesian advice was not heeded properly. Its first part, which pertained to the reduction of the rate of interest to its technical minimum, was discarded and the policy of expansionary spending as elaborated by Beveridge's social insurance package was adopted. The result was that, on the one hand,

brakes on investment (in the form of interest) were applied, and on the other the accelerator of public spending on social insurance was continuously pressed.

The train of the economy started jerking seriously. The level of unemployment caused by high rates of interest was notably hard to reduce while inflation strode ahead as a result of deficit financing. The social security system visualized by Beveregeian economics (and now deeply institutionalized) had left only two options to governments—raise funds through taxes or borrow on interest. The first solution dampened the economy further. The second not only increased the fiscal deficit and thus inflation, but also distributed income in favour of the rentier class and led to economic injustice. Present-day societies were trapped in an impossible situation.

The Islamic position is quite simple. Abolish interest on capital in all its forms and allow investment to rise to its maximum. This will increase employment levels reducing the need for social security spending. Second, Islam does not visualize deficit financing as a desirable policy. The once golden rule of the balanced budget is still recommended by Islam.<sup>9</sup> Once this is accepted, the only problem (and of course, a formidable one) would be to find an institutional arrangement for providing interest-free finance. To our mind, efforts should have been focused on this question, instead of elaborating the rather easier course of providing social security benefits.

So far as the problem of inflation is concerned, Islamic policy takes care of that also. First, one cause of inflation is interest itself, which enters into the cost of production and is included in the price of products. This point was not plausible under the assumption of perfect competition. But, now that we know that corporations wield enormous economic power and are almost autonomous in fixing the price of their products, it is accepted that interest enters into the price level and causes inflation.<sup>10</sup> Once we abolish interest, prices would come down to the extent interest entered into the cost of production.

Second, the abolition of interest gives a boost to investment and to production of goods and services. This, too, becomes an element in bringing the price level down.

Third, Islam's *zakah* is a tax on financial wealth and agricultural income. It is collected and distributed at local level to provide assistance to those who need it for any reason. The community at local level and family at micro level are responsible for looking after the poor and the indigent. The government only takes up the residual needs of the poor, and that too through taxation and other incomes and not through deficit financing.

Fourth, Islam prescribes a low-cost lifestyle based on simple living. Consumer behaviour in Islam does not follow the consumerism of western society. Nor is this feasible in an environment where interest-bearing finance is not available. Islam also does not like people to live beyond their means. Thus the cultural pattern prescribed by Islam keeps inflationary forces in check.

Fifth, Islam visualizes an economy where the production sector is organized, preferably on a profit-sharing basis so that labour gets a stake in the well-being of industry. As a result, the chances of wage-push inflation are reduced to a minimum.<sup>11</sup>

In brief, Islam follows a straightforward approach to tackling the twin

problems of unemployment and inflation. The foremost measures are abolition of interest, a balanced budget, the institution of *zakah* and consumer behaviour couched in the cultural pattern of Islam. The neoclassical approach to solving these problems is topsy-turvy. It does not want to abandon interest, which is the main cause of unemployment. However, it wishes to retain deficit financing to provide for social insurance and debt servicing, which propels inflation. It ends up with the worst of both worlds.

### *Public debt*

Public debt has emerged as a serious problem in the post-war period. The role of the public sector has increased many times since then. Governments find it difficult to meet their expenses from taxes and other revenues. Therefore, they resort to public debt obtained from their own citizens as well as from abroad. Except for a small segment of foreign grants, the entire public debt—internal as well as external—is taken on interest. Gradually, the burden of interest payments increases and makes it difficult for governments to repay their debt. It induces them to seek more debt on interest leading to a debt trap. Most LDCs are now enmeshed in this trap, and are not finding a way out of this difficulty. The rentier nations who have lent their money also feel threatened because defaults by the borrower nations can ruin them.

Economists of all shades and creeds have put forth proposals to solve this problem.<sup>12</sup> But all these proposals fall short of hitting the real target. None of them speaks of the root cause of the problem—interest on capital. Interest on capital is instrumental in accumulating the debt burden.

Islamic economics approaches this problem from a different angle. It stands for the abolition of all past interest on capital lent.<sup>13</sup> This would immediately cut down the total burden of debt by one-half.<sup>14</sup> For the future, it visualizes financing on the basis of equity financing or grants-in-aid. But, more fundamentally, it prescribes the now discarded concept of balanced budgeting. Governments should cut their coat according to their cloth. This is made feasible by changing the concept and strategy of economic development and social security, which are the main culprits for deficit financing. To these questions we now turn.

### *Economic development*

*Concept.* Almost all countries profess their commitment to achieving economic development. With slight variations the models for development being followed by the developing countries are those of the prosperous industrial countries. The objective is to increase the stock of physical goods and services for the population as a whole and on a per capita basis. The experience of over half a century of development economics does not provide a very rosy picture. The poor countries are, perhaps, poorer now as compared to the rich countries than they were half a century ago. Despite all the efforts to increase capital formation, deepening of capital stock, industrialization and urbanization, the developing countries are nowhere near the western models that they are following.<sup>15</sup>

The position in advanced countries is no less worrisome. Amidst affluence there is poverty. The environment and ecology are under continuous threat. The waste of non-renewable resources, especially of energy, is depleting reserves rapidly. The western nations are worried about sustaining their present standard of living. This fact alone requires that a fresh look be cast on the development philosophy of the West.<sup>16</sup>

The Islamic perspective has a distinct concept of development. First, the ultimate objective of human society is to achieve *falah* and not necessarily material prosperity. Second, Islam emphasizes economic justice in income and wealth distribution. If a society moves from state A to state B such that its distributional inequalities are reduced, in Islamic parlance it is development even though there is no increase in absolute size of the resources. Third, Islam conceives a development philosophy which builds on local cultural and social traditions, relies on local talent and physical resources, and involves the entire population in the process.

*Strategy.* While focusing on *falah* Islam takes into account the initial conditions of resource endowment in a region. To illustrate the Islamic strategy for development we take two extreme cases. In the first case, imagine a poor country in sub-Saharan Africa or South Asia with dense population and a low income level. The Islamic development strategy for this type of country will be to rely mainly on its own physical, human and technological resources. The development objective will be to achieve a state of *falah*.

The objective will be translated into fulfilling the basic needs of the population with austerity. The development effort will concentrate on development of human resources, construction of necessary infrastructure like roads or ports and development of appropriate technology. As far as possible, local raw material and local talent will be used. The target will not be to catch up with the West. This effort will be supplemented with a programme for spiritual development of the people through persuasion, formal education, public policies and institutionalization of moral values. The population will be conceived as a resource rather than a liability. There will be no ambitions to introduce high technology. As far as possible foreign aid will be avoided, except as donations or through equity participation.

Public policy will focus on improving the distribution of wealth and income, providing preferential treatment to the handicapped and involving people at the local level in development activities. In such a country the per capita income can be far below the current level of some industrially advanced countries. From an Islamic point of view this country will be nearer to the state of *falah*, and thus developed.

The second case can be taken of a rich country like some OPEC state. The development strategy for this country will have the same objective of achieving *falah*. It will have a high stock of capital. It will focus on industrial development and the introduction of high technology, providing a materially prosperous lifestyle for its people. But the overall considerations of economic justice, spiritual growth, participative decision making and development of local talent will remain dominant considerations. Such a country can set aside some resources for giving interest-free loans or grants to other countries or for the development of defence industries.



This country will be under a serious threat of drifting into a consumerist society like the West. Therefore, a sizable chunk of resources will be spent on the spiritual training of the people through persuasion, formal education, public policies, and institutionalization of the moral values of Islam. It will develop institutions which will control direction of the material prosperity to *falah* rather than to an high-consumption permissive society. From the Islamic point of view this country will be nearer to *falah*, and thus more developed than a contemporary western society.

### *Economic power*

The classical and neoclassical economic models do not give due weight to the role of economic power in real life. Economic power is a fact of life. People are born with unequal abilities and opportunities. As a result, some are likely to accumulate more economic power even though they do not make any conscious effort to exploit anyone. The economic power provides a tool to suppress and exploit the weak. The classical assumption was that economic power would not influence the economic relationship adversely since perfect competition would not let it happen. But the period after World War II has witnessed the emergence of the global corporation. Capitalism has entered a new phase in its evolution. The corporation has given way to the global corporation which knows no national boundaries. It is a conglomerate of economic power. The free world has not been able to devise a mechanism to control and regulate the activities of the global corporation.

At the international level the powerful countries have the freedom and ability to behave irresponsibly and adopt policies that are harmful to other nations. There is nothing that the weaker nations can do against these powerful nations.<sup>17</sup>

The Islamic perception is that the economy should be regulated in a manner such that economic power is not accumulated in a few hands. It recognizes inborn inequalities in human faculties. But it does not allow people to get unearned income, which is a major source of accumulation of economic power. Moreover, it dilutes economic power by laws such as the inheritance and *zakah* law, and by public policies such as equal educational opportunities, equal access to information, and equal infrastructure, etc. But perhaps the greatest of all its measures against economic power is its principle of accountability. It makes every individual, organization and government accountable for its actions.<sup>18</sup>

In the case of the global corporation, for example, the Islamic system would not, in the first instance, permit the emergence of such powerful economic giants. The source of this economic power lies in three important features of capitalism—the availability of capital on interest, the principle of limited liability, and the organization of production on the basis of wage labour.

Space does not permit us to elaborate on these points here. Suffice to say that these three features of capitalism allow the corporation to collect huge amounts of capital without invoking a proportionate degree of risk. They are thus able to earn large profits by having the ability to control the market.

The Islamic system does not allow credit on interest; neither does it agree to the principle of limited liability; it encourages organization of production by making workers partners rather than mere wage earners. Thus it spreads the base of wealth widely. The possibility of the global corporation emerging in the Islamic system is considerably minimized. The Islamic system perceives that the economy will be dominated by a large number of small or medium-size firms which compete and cooperate with one another.

But suppose, if despite all this, large corporations do emerge within or across national boundaries, the Islamic system of accountability comes into play. At the national level it seeks to revise the scope of traditional auditing so that corporations are held accountable for their actions and omissions. At the international level it conceives the establishment of a Supreme Audit Institution of the World which should be responsible for auditing the accounts of the global corporations. The scope of this institution should be to hold these corporations accountable for their various decisions regarding output, pricing, investment, quality of products, and environmental effects etc. The same institution should also be responsible for the audit of such policies of the national governments which affect other nations.

It seems, at this stage, that this is a wild idea. But it is quite in conformity with the contemporary thinking in support of accountability for public managers. It is unfortunate that despite all the lip-service to universal human rights, freedom, liberty and equality, the world has not given any serious thought to the accountability of the economically powerful so that the freedom of the weak is protected.

### **Islamic economics in practice**

In this part we give a brief account of some Islamic economic institutions like Islamic banks, *zakah*, *waqf* and *hisba* as they exist today. In doing so we indicate the problems and challenges being faced by these institutions. The objective is to highlight the efforts made so far in translating Islamic economic ideas into reality and to predict the direction of their future growth.

#### *Islamic banks*

In no other area, perhaps, has the practice of Islamic economics taken precedence over theory as in Islamic banking. Since Islam puts a complete ban on interest, mention of Islamization diverts the mind immediately to thinking of banking without interest.

The 1950s and 1960s saw a number of theoretical studies for establishing interest-free banks.<sup>19</sup> But actual practice had to wait until the mid-1970s when the Islamic Development Bank was established at Jeddah under the charter of the OIC with the avowed objective of providing interest-free finance to Muslim countries.<sup>20</sup> Soon after, a number of private Islamic banks emerged in some Muslim and non-Muslim countries like Egypt, Sudan, Kuwait, UAE, Cyprus, Luxembourg, Denmark etc. In the early 1980s, two countries—Pakistan and Iran—attempted to Islamize their entire banking

system and prohibited all transactions explicitly involving interest on capital. At present there are more than 60 Islamic banks in different parts of the world.<sup>21</sup>

The Islamic banks carry out their business on the basis of equity participation (*musharakah*, and *mudarabah*), leasing (*ijarah*), lease-purchase (*ijarah wa iktina*), cost-plus financing (*bai' murabaha*), and rent sharing. These institutions have also innovated in devising some new financial instruments like Participatory Term Certificates, Term Finance Certificates, *Muqaradah* Bonds, Leasing Certificates etc.

The Islamization of banks in Pakistan and Iran seems to have survived the initial shock of change. Similarly, private Islamic banks elsewhere are operating on profit. These banks have attracted colossal amounts of deposits and face a liquidity glut.

The Islamic banks face a number of challenges. First, they have not, as yet, been successful in devising an interest-free mechanism to place their funds on a short-term basis. The same problem arises in financing consumer loans and government deficits. Second, the risk involved in profit sharing seems to be so high that most banks have resorted to those techniques of financing which bring them a fixed assured return. As a result, there is a lot of genuine criticism that these banks have not abolished interest in fact but have only changed the nomenclature. Third, the Islamic banks do not have the legal support of the central banks of their respective countries (except for Pakistan and Iran) which exposes them to undue risk. Fourth, the Islamic banks do not have necessary expertise and trained manpower to appraise, monitor, evaluate and audit the projects. As a result they cannot expand despite having financial liquidity.

The future of Islamic banks hinges, by and large, on their ability to find out a viable alternative to interest for financing all types of loans. They should recognize that their success in abolishing interest has, at least, been partial and that they have to go a long way yet in their search for a satisfactory alternative to interest. Simultaneously, the Islamic banks need to improve their managerial capabilities by training their personnel in project appraisal, monitoring, evaluation and performance auditing. Moreover, the future of Islamic banks also depends on developing and putting into practice such accounting standards which provide timely and reliable information of the type that Islamic banks would require for profit sharing, rent sharing or for cost-plus financing. These standards are yet to be developed. The Islamic banks would have to work hard to persuade their clients to accept these standards so that a reliable information base is established.

### *Zakah*

*Zakah* is an obligatory financial levy on all surplus wealth and agricultural income of the Muslims. It is charged at varying rates and collected by the state. Its objective is to provide financial support to specified categories of people such as the poor and the needy. The institution of *zakah* has existed in all Muslim societies throughout history but was neglected during colonial rule. With the independence of Muslim states, there have begun moves to rejuvenate this institution. Some countries like Bangladesh, Pakistan, Saudi Arabia, Sudan, Iran, Libya, UAE, Kuwait etc, passed formal legislation to

establish it. In these countries state or autonomous organizations exist to collect and distribute *zakah*.

Conceptually, *zakah* is supposed to be a milestone in providing social security, eradicating poverty, and stimulating the economy. But in none of the countries where *zakah* has been introduced has it played its avowed role. The main reason has been the marginal position on which this institution has been allowed to operate. The governments of these countries have not allowed this institution the pivotal position it enjoys in the theoretical framework of Islam. Moreover, the management of *zakah* in Muslim countries leaves much to be desired. Idle *zakah* balances, leakage of funds, inadequate coverage of *zakah* assessees and lack of proper accounting, monitoring and evaluation are some problems being faced by these institutions.

*Zakah* has a bright future. Unlike interest, which is deeply entrenched in the whole financial system, efficient operation of a *zakah* institution is a much simpler task. It does not need the demolition of an existing system. It only needs the establishment and strengthening of a new institution for which the Muslim population also shows enthusiasm. Therefore, the future of *zakah* largely depends on the keenness with which the Muslim states establish and operate it.

### *Waqf*

The institution of *waqf* refers to a foundation set up by keeping a property in perpetual existence and making its income available for specified beneficiaries. This institution has been in existence from the very early days of Islam. It has always played an important social and economic role. The *waqf* properties have traditionally financed expenditure on mosques, schools, research, hospitals, social services and defence. Almost all Muslim countries have this institution in one form or another.<sup>22</sup> This institution developed in the Ottoman empire to vast dimensions where large tracts of arable land were owned by the *awqaf*.<sup>23</sup>

During colonial rule, the Muslim lands saw enactment of secular laws and the establishment of *awqaf* departments. At present almost every Muslim country has some form of *awqaf* but its management has fallen into incompetent hands. Because of poor management and government interference the incentive to establish private *awqaf* has also weakened.

The future of *waqf* lies in re-activating this institution. As a first step, an inventory of existing *awqaf* in the Muslim countries should be taken. It should be followed by taking appropriate legal, administrative and social measures to improve their management. The institution of *waqf* has great potential and can be utilized to improve the educational, research, health and defence capabilities of the Muslim states.

### *Al-hisba*

The institution of *al-hisba* has its roots in the early days of Islam when the Muslim states established a separate office to supervise the market, provide municipal services, and to settle petty disputes. Throughout Muslim history

this institution existed in one form or another until the colonial governments handed over its functions to various secular ministries.

Pakistan is perhaps the only Muslim country which has attempted to re-create this institution. It has established an office of the *Muhtasib* who has jurisdiction over the administrative excesses of the federal government departments and agencies. It provides protection to ordinary citizens against administrative wrongs. The *Muhtasib* in Pakistan has a limited role. It does not cover provincial or local government departments and functionaries. It also does not protect a citizen against the malpractices of business firms. Despite these shortcomings the institution has been widely acclaimed for its healthy role. There has been a widespread demand to expand the scope and role of the *Muhtasib* in the future. The future of this institution depends on the response that it gets from Muslim states.

### **Conclusion**

In this article we have outlined the basic concepts of Islamic economics. We have argued that Islamic economics has the potential to solve some serious economic problems, and that this potential would lead the world to benefit from it in the future.

Islamic economics as yet has not developed a body of theoretical doctrine. Most of what is written consists of general principles, and that too within the framework of an ideal Islamic economy which does not exist anywhere. Only some of its ideas have found a place in the real world partly because its potential is not widely known. It is time that Muslim economists came out of their shells and started addressing humanity at large. They need not concern themselves with the Islamic economy alone. Their immediate concern should be to show the world that Islamic economics can present acceptable solutions to contemporary world economic problems. They need to make a formidable case for Islamic economics. Islamic economics has the potential to persuade the economists of the world because, first, all the tenets of Islamic economics are rational and in this age rational arguments are readily acceptable; and second, there is a lot of dissatisfaction among professional economists about the assumptions, analytical framework and conclusions of neoclassical economics. They are already looking for an alternative paradigm. In this situation Islamic economics gives a ray of hope.

Muslim economists need to change their focus. Instead of developing a theory in the framework of an ideal Islamic society, they should choose a contemporary economy and show, on the basis of real-life data, that the primary cause of existing economic problems lies in deviation from the Islamic principles of economic management.

The economics that can grow with valid assumptions, adequate methodology and a body of economic theory capable of ushering in a humane society, would be the economics of the future. Islamic economics has the potential to meet this challenge. All that is needed is for Muslim economists to girdle themselves up to present their case in a persuasive manner.

## Notes and references

1. A number of bibliographies have appeared which show the amount of literature being produced on Islamic economics. See, eg, Muhammad Akram Khan, *Islamic Economics: Annotated Sources in English and Urdu* (Leicester, The Islamic Foundation, 1983); Tariq-ullah, *Islamic Economics: A Bibliography* (Jeddah, IRTI, 1984); V. Nienhaus, *Literature on Islamic Economics in English and German*. A quarterly publication of the Islamic Foundation entitled *Index of Islamic Literature* lists current literature on Islamic economics. *Index Islamicus* also presents a list of literature on Islamic economics.
2. If a date has to be placed on it, it is 1976 when over 200 Muslim intellectuals and economists gathered in Makkah to hold the first International Conference on Islamic Economics. Since then, a lot of intellectual activity has taken place.
3. For an excellent treatment of the subject see Moin Baqai, 'Societal framework for economic development' in Haq and Baqai, *Employment, Distribution and Basic Needs in Pakistan* (Lahore, Progressive Publishers, 1986), pages 371–407.
4. See, eg, World Commission on Development, *Our Common Future* (Oxford, Oxford University Press, 1987), page 69.
5. K. Ahmad, 'Problems of research in Islamic economics', in Aidit Ghazali and Syed Omar (editors), *Readings in the Concept and Methodology of Islamic Economics* (Selangor, Malaysia, Pelanduk Publications, 1989), pages 141–154.
6. *al-Qur'an*, 95:4.
7. *Ibid*, 100:8.
8. For a detailed exposition see Muhammad Akram Khan, *Challenge of Islamic Economics* (Lahore, All Pakistan Islamic Education Congress, 1985).
9. This is based on the Qur'anic prescription of moderation (*iqtisad*) which is applicable to the public sector as well. See *al-Qur'an*, 17:29.
10. Kurt F. Flexner, *The Enlightened Society: The Economy with a Human Face* (Lexington, MA, D.C. Heath, 1989), page 78.
11. M. Akram Khan, 'Inflation and the Islamic economy: a closed economy model', in M. Ariff (editor), *Monetary and Fiscal Economics of Islam* (Jeddah, ICRIE, 1982).
12. For a survey of proposals, see Richard L. Kitchen, *Finance for the Developing Countries* (New York, John Wiley, 1988), pages 307 ff.
13. *al-Qur'an*, 2:275–277.
14. Kitchen, *op cit*, reference 12, page 270.
15. World Commission on Development, *op cit*, reference 4, page 6.
16. *Ibid*.
17. *Ibid*.
18. This is based on the primary belief on the Day of Judgment. Traditions of the Prophet (SAAW) also specifically mention the accountability of everyone. The same principle was extended to the affairs of this world by Muslims throughout their history.
19. The most influential study is by M. N. Siddiqi, *Banking Without Interest* (Leicester, The Islamic Foundation, 1983).
20. S. A. Meenai, *Islamic Development Bank* (London, Kegan Paul International, 1989).
21. For a comprehensive survey see John R. Presley (editor), *Directory of Islamic Financial Institutions* (London, Croom-Helm, 1988).
22. For a survey see Hasmet Basar (editor), *Management and Development of Awqaf Properties* (Jeddah, IRTI, 1989).
23. J. R. Barnes, *An Introduction to Religious Foundations in the Ottoman Empire* (Leiden, E. J. Brill, 1986).