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**First vs. second generation Islamic economists:
Deviations and differences in thoughts**

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Abstract: The present paper proposes to study differences in thoughts of the first vs. second generation Islamic economists, during the past forty years. It will also investigate deviations that occurred in thought and practice in this period. But first it will try to determine the basis of differentiation between the two generations and their distinguishing features. For our study purpose, we regard as the first generation those scholars who started writing on the subject of Islamic economics between 1950 to 1975, a period highly unfriendly if not hostile to the idea of economics with Islamic perspective. This phase culminated at the organization of the first international conference on Islamic economics by King Abdulaziz University in the Holy city of Islam – Makkah Mukarramah. A new era started after the conference, in terms of the establishment of research and study centers, issue of specialized journals, enrolment to Ph. D. courses, foundation of study departments, set up of financial institutions, organization of conferences and seminars, award of prizes, and creation of employment opportunities. It also attracted attention of some non-Muslim economists. Thus, those who joined the movement of Islamic economics after this conference will be considered as the second generation. In its concluding remarks, the paper would suggest certain steps that could be taken to bridge the gaps, minimize the difference, and train the new generation.

Keywords: Modern history of Islamic economics; Gaps in Islamic economics; Tawhidi economics; Spiritual Economics; “Financialization” of Islamic Economics; Future of Islamic Economics.

1. Introduction

The notion of a generation is a convenient way for the sake of differentiation or comparison that developed or changed with the passage of time at different stages. The same method has been used in the present paper to study the changes that have occurred in thinking and ideas of leaders and followers in the discipline of Islamic economics over a period of forty years or so dividing them into two generations. But let us first decide the time span of a generation.¹

There are different opinions on the duration of a generation. Ibn Khaldun assigned a period of forty years for a generation of human being. But that period is for vanishing of a particular generation. To him, Children of Israil, who lived among the Copts a life of slavery in luxurious environment of a city, when fled from Egypt were kept in desert of Sinai in wanderings for forty years so that a new sturdy generation was brought up who could face challenges of life and fulfill the Prophetic mission (Ibn Khaldun n.d. 141). But forty-year is not always and in every case a standard period. Prophet Muhammad (be peace upon him) said: “The best *qarn* (age, generation) is my *qarn*, and then the *qarn* of those who follow me and then the *qarn* of those who follow them” (al-Bukhari 1987, 5: 3). Here the *qarn* is in the sense of generation. We know that the periods of his generation and those of his companions

and followers were not equal. His prophetic life was twenty-three years. His companions lived for a longer life, and so their followers. We have seen how quickly generations of electronic goods are changing which means goods belonging to a specified stage of development in manufacture, usually implying improvement, for example a second generation mobile phone. Thus, it is clear that generation differs from object to object and even in time span.

Since our classification is based on dominant characteristic of a time span, it does not mean that when one generation stops its functioning, then takes the charge the next generation. After a generation is grown up and begins reproduction, it remains active for a certain period to train and bring up the next generation.²

2. First generation of Islamic economists

In this paper for the sake of generation determination, we have not considered the date of birth of a writer. Rather we took duration of 1950 to 1975 for the commencement of his writing on and/or association with Islamic economics. In this way we combine appropriately the two necessary elements of a cultural generation – time and thinking. Those who joined it with their writings or association later, form the second generation.

The justification for this criterion is that in the period between 1950 to 1975 the scholars joined the movement in highly unfavorable circumstances. Scholars of the first generation dedicated themselves to the study of Islamic economics without any institutional support. At present institutional assistance is playing a significant role in propagation and dissemination of Islamic Economics and finance. Now it has various attractions. In case of first generation, an interest in Islamic economics sometimes meant jeopardizing one's academic career. Mannan, from the first generation, illustrates the situation during the 1960s: "... a group of volunteer Islamic economists challenge the Neo-classical orthodox paradigm in the wake of great transformation of Muslim societies resulting from gaining independence from their colonial past. This group of volunteers putting themselves forward, at some personal cost, moving outside the comfort zone of familiarity to engage with new frames of reference and undertaking agreed tasks. They are motivated by a complex mixture of factors, quite specific to their individual situations and perceptions of themselves" (Mannan, 2008, p. 62). The first generation chalked its way without precedents. Their works were mostly original and innovative.³

While in the first half of the 20th century, *ulama* played leading role in foundation and formulation of Islamic economics, during 1950s and thereafter the number of professionally trained economists increased. In this period increasing number of professionally trained economists joined the field. Generally individual scholars led the movement of Islamic economics forward. They may be aptly called "*pioneer Islamic economists*". They played the leading role and they showed the way. Many of them were well-versed both in conventional economics and Shariah sciences. As compared to earlier works, their writings were more analytical and modern in style. They guided Ph. D. scholars on Islamic Economics in Economics departments. Some of them started teaching students of Economics. Some others involved in establishment of institutions like cooperative societies and self-help groups.

They generally focused on topics such as nature of Islamic economic system, critiques of capitalism and communism, property rights, economic role of state and public finance,

money and banking, partnership and equity finance, production and consumption, labor relations, *et cetera*. As Mannan (2008, 45) puts it: "The contributions made during that period were mostly ideological, detailing the economic system of Islam as distinguished from capitalism and socialism". The literature prepared in this period, inspired many to establish Islamic banking and financial institutions. They set up Mit Ghamr Saving Bank in Egypt, Tabung Haji in Malaysia during early 1960s and Dubai Islamic Bank, Islamic Development Bank (IDB), and Kuwait Finance House, all by the middle of 1970s.

The culmination of this period is the event of the First International Conference on Islamic Economics at King Abdulaziz University. The Conference was scheduled to be held in 1975 but due to a tragic incidence it could be organized only in early 1976. The First International Conference provided a forum for Muslim economists and Shari'ah scholars to discuss together some of the major issues and themes in economics. It provided a golden opportunity for scholars working in isolation on Islamic economics to be aware of existing state of affairs in the field of Islamic economics, to exchange ideas with each other, to take stock of the existing literature on the subject and realize the challenges ahead.

3. Post conference developments and rise of the second generation

In its Communiqué the First International Conference exhorted universities to start teaching of Islamic Economics, support researches in this area and provide basic facilities for this purpose through specialized libraries, research units, full time research scholarships, publication of periodicals, exchange programmes and the establishment of scientific associations (Ahmad, 1980, pp. 353-56).

The first International Centre for Research in Islamic Economics was founded at King Abdulaziz University, Jeddah, in implementation of the Conference's resolutions. In 1983 the Center started the first refereed professional journal in the field of Islamic economics, "*Journal of Research in Islamic Economics*"⁴. Another research institute was also established at Jeddah by Islamic Development Bank (IDB) called Islamic Research and Training Institute (IRTI). It was founded in 1401H (1981) and became operational in 1403H (1983).

In 1988 IDB started international prize in Islamic economics and banking. Europe saw the first professional research journal "*Review of Islamic Economics*", Leicester, U.K. in 1991. IRTI issued a refereed professional journal, "*Islamic Economic Studies*" in 1993.⁵

Islamic economics got a momentum after the first conference never seen before. It led to intensive and extensive researches on various aspect of the discipline, development of curricula on Islamic economics, foundation of research centers and study departments, establishment of a chain of Islamic banks and financial institutions which were already founded in few places and issue of specialized journals on Islamic economics. And a new generation was brought up in the post Makkah Conference period. However, this does not mean that the role of first generation Islamic economists was finished. In fact it is they who prepared the second generation by their guidance, supervision, works, and instructions. They continued writing on various significant topics in the post Conference period. Some of them are still active after passage of more than 35 years to the conference.⁶

In the period of second generation a number of new developments took place which provided boost to the new discipline of Islamic economics. No doubt, in many cases patronage was

extended by the leading scholars of the first generation. The second generation saw chains of conferences, seminars and discussion forums. In these programs, Islamic banking and finance has been the dominating theme. Advanced courses of study have been initiated not only in Muslim countries but in the West as well (For details refer to Belouafi, *et al.* 2012). Numbers of research centers, banking and financial institutions have been established. Prizes and awards have been announced. Some non-Muslim writers are also attracted to Islamic economics. Generally they look at it with great curiosity, show sympathetic association or demonstrate neutral scholarship with respect to the subject of Islamic economics. Contribution of Volker Nienhaus to the discipline goes back to early eighties of the last century. Rodney Wilson and John Presley also established relations during the same decade. Badal Mukherji, Vasudevan Sundararajan, Frank Vogel, Ibrahim Warde are some other renowned names. The second generation also saw a number of critics both from within and outside. Constructive unbiased criticism is always welcome and beneficial but a criticism to tarnish the image and objective of the discipline cannot be considered as healthy criticism. Unfortunately ideological differences on the part of a few writers have taken this kind of criticism

4. General characteristics of their works

With the expansion of quantity, the control of quality is the biggest challenge. In the post Conference period, although number of researches has increased considerably, the record is not very promising. The invention of internet has considerably increased the availability of information, and facilitated data collection in short time. But this has affected the quality of research "because there is no barrier to entry, hence regardless of credentials or veracity anyone can post anything as a "fact" (Ali, 2008, 225). Perhaps this is the reason that sometimes their works are duplicative, repetitive and monotonous. Generally repetition occurs due to not being aware of the extent to which research has advanced. For example, sometimes we find discussions such as whether credit creation is allowed or not allowed; paper money will be subject to zakah or it is not zakatable, while these issues have already been settled. There is also complaint that works of the most writers do not reflect that they know what developments are taking place in contemporary Western writings on economics and allied subjects to update their knowledge.

The evil of plagiarism has also been detected. In the opinion of a leading scholar of the first generation, "plagiarism is an endemic disease afflicting scholarship" (Siddiqi 2008, 7). To him there are indicators that 'it is assuming bothersome proportions'. However, efforts are going on at various levels to root out this evil. Organizers of various conferences, editors of research journals, and publishers give stern warning on plagiarism.

Reliance on secondary sources is common complaint against the writings of the second generation. Siddiqi (2008, 4) feels that "the source of most of the economics projected as Islamic has been *fiqh*", and that is also mostly picked up from secondary sources. They blur our vision of the total picture because we are living in a different time and place and "with the passage of time the constraining influence of the detailed rules and regulations of *fiqh* seems to have all but extinguished the spark of *maqasid*-inspired thinking" (ibid.).⁷ Nienhaus (2012) also feels that the contemporary generation stick to the "legalistic approach". They determine the Shari`ah compliance on the basis of Islamic law or *fiqh* without considering whether there is any economic justification.

But it is also a fact that quite a few scholars of this generation are distinguished in scientific and analytical presentations due to their modern academic background and training in prestigious Western institutions. They started using econometric models in their researches. Specialization in various aspects of the subject increased such as finance, insurance, waqf, zakah, history of economic thought, *et cetera*. In many cases their works have distinct combination of theoretical and applied researches. They innovated analytical tools applicable to financial lease and operational lease. They have wider audience and enjoy multicultural and multi-lingual interactions. This has provided great opportunity to enrich the discipline of Islamic economics and disseminate it to others.

5. Resentment over the unsatisfactory growth

Within ten years after the First International Conference, it was felt that progress of the discipline is not smooth and in accordance with the vision of its pioneers. First time in 1986 a symposium was held by the Royal Academy for Research on Islamic Civilization "Al al-Bayt Foundation" in Amman, Jordan, in cooperation with the Islamic Research and Training Institute, to discuss obstacles and problems faced in the way of research in Islamic economics. The next year a workshop was organized in Kuala Lumpur on the same issue. Since then up to date, several meetings, seminars, conferences and workshops have been organized to discuss this issue and take corrective measures. In May 2004 the Islamic Research and Training Institute arranged a round table discussion on "Current State of Knowledge in Islamic Economics and Development of the Discipline". The theme of the Seventh International Conference was "*Thirty Years of Research on Islamic Economics*". It was organized by the Islamic Economics Research Center, King Abdulaziz University, Jeddah, during 1–3 April 2008. In a similar effort, the International Institute of Islamic Thought also organized a seminar on "Methodology of Islamic Economics" on 1st July 2011. And lately, Islamic Economics Institute (formerly Islamic Economics Research Center), Jeddah, held a workshop on "the future of Islamic Economics" during 12-13 November, 2012. Many leading economists of the first generation have expressed their exasperation and dissatisfaction with the present development of the discipline.⁸ But their annoyance shows a paternal affection for correction and reformation, not frustration and abandonment.

Even within the second generation, there is feeling of un-satisfaction with the developments that are taking place at present. Haneef (2008, p.19) wonders: "have we been agents of change or have we become *changed agents*? He thinks that "the loss of idealism or the 'spirit of the Makkah Conference' is a root cause for much of the problems we face" (ibid.). Zaman (2008, 110) also feels that there is "need to find ways of Islamizing the economy which conform to both the spirit and the form of Islamic law, instead of just the form, which is taking up most of the current efforts of Islamic economists".

6. Research gaps

At present maximum number of works are available on Islamic banking and finance because that is the most saleable literature in the field of Islamic economics. This has incurred an opportunity cost as many other important areas have missed their attentions. Some important gaps in well known areas are note below:

One important gap in the contemporary scholarship of Islamic economics is the lack of empirical studies. The first generation has an excuse if has not done so because they have spent their energy in theorization of Islamic economics and banking. With the establishment of Islamic banks and financial institutions and with the development of numerous theoretical works, it was expected to have enough empirical researches so that one could see to what extent those theoretical works stand the test of time, and to know whether Islamic economic institutions are moving in the correct direction. Only then we can know whether our institutions are actually playing the role claimed for them in Islamic economic literature and we can evaluate our achievements. This is also necessary for future planning. But very little change in research pattern has been noticed in the second generation. We have still large number of theoretical researches than empirical and case studies. There is hardly any study on discrepancy in Muslim ideal and actual conduct. Siddiqi (1972) who once wrote on desirable behavior of firms and consumers "under Islamic spirit" complains: "We know very little about contemporary Muslim economic behavior" (2008, 5). No doubt, empirical researches need team work and sustained efforts. They also need financial support. The absence of these two is, indeed, behind the insufficient number of empirical research.

There is dearth of Islamic economic literature on poverty removal, inequality, development and redistribution of income. While pointing out these gaps Kahf (2004) writes; "It was only recently that a few Islamic economists started dealing with issues of development, political economics of the role of government and of the economics of poverty reduction." Siddiqi (2004) reiterates: "One has only to compare the emphasis on poverty elimination and inequality reduction in the early Islamic economic literature with the almost total neglect of these subjects during the recent years to feel the change". IERC (2008, 49) in "A Proposed Strategic Vision For Future Research In Islamic Economics" has rightly pointed out: "All religions have been poor-friendly, Islam particularly so. But this cannot be claimed for Islamic economics, so far. The attention paid to *zakat*, *sadaqat* and *awqaf*, the most poor-friendly of Islamic institutions, has been sporadic and feeble. The jewel in the crown of Islamic economics, Islamic banking and finance, proved to be largely irrelevant for the poor".

Zaman (2008, P. 17) suggests that 'effective *da'wah* to Muslims to pay Zakah and to adopt simple lifestyles recommended by Islam has the potential to eliminate poverty in Islamic societies'. But this claim needs to be verified by empirical studies. We have so many incidences in history of the denial/evasion of zakah beginning from early days of Islam. Sometimes only *da'wah* is not enough. It needs enforcing authority and efficient management. Moreover, poverty removal also requires enlargement of the size of cake, not only its fair distribution.

A number of Muslim countries are rich in natural resource and fertile lands. Building the foundations for sustainable development is the greatest challenge we face today as an international community. How to achieve growth with sustainable development should be their serious agenda. But very little attention has been paid to address this topic. Much earlier Khurshid Ahmad (1980) showed the way of *tanmiyah* with *tazkiyah*, material growth along with improvement in the human beings. Chapra (1997) has also made it his focus of attention. But little headway has been made in this direction in the subsequent period. Works on environment and sustainable development are also not very substantial.

In Islam, in the field of economics perhaps the area of public finance was first to attract the attention of Muslim scholars. Exclusive writings started on this subject as early as 2nd century

Hijrah (8th century CE). This was but natural in the wake of expanding territory of the Islamic state, availability of new sources of income, confronting new heads of expenditure and facing other socio-economic challenges. But at present works "on taxation, fiscal policy, social welfare and development financing" are very few. They followed almost the same patten as their predecessors in their treatment of the problem. They seldom look up "to gauge the reality faced in modern living" (Siddiqi 2008, 10). The first generation had the excuse as in the first place there was need to know our heritage in these areas. But it was expected from the second generation to advance this study through interaction with the current situation and taking into consideration the present reality.

In spite of commitment by many Muslim states to Islamize their economy, public finance and fiscal policy has not attracted attentions of the writers. This aspect of Islamic economics needs fresh thinking as some of the traditional sources of government revenue have become redundant at present. For example, *fay'*, *ghanimah*, *jizyah* and tributes represent a socioeconomic reality long extinct. There is need to fully discuss what would be sources of public revenue for a modern Islamic state and what would be its expenditure policy.

An important gap in Islamic economics is 'the absence of a unified and well-defined Shari'ah methodology' (al-Jarhi 2012). In the opinions of many scholars, Islamic economists, never discussed methodology properly. "Those who were trying to talk of methodology, referred to *usul al-fiqh*, that was understood as methodology of Islamic law/jurisprudence" (Haneef 2012, 146). It was due to importance of subject that Islamic Economics Institute (IEI) in its recently held workshop made it one of the main themes of discussion.

Researches on history of Islamic economic thought and economic history of Muslim peoples started before fifties in the last century. However it is still "a very thinly researched area" (Siddiqi 2008, 4, 2008, 3). Drive to "financialization" and concentration on practical aspect of Islamic economics, left very few to pay attention to study history of Islamic economic thought. Hitherto the research in this area has been language, region and period specific – Arabic, the Middle East and up to 9th/15th century respectively. Scholars of erstwhile Andalus, West Africa, Turkey, Persia and South East and Far East Asia have not been made subject of enquiry. More attention has been paid to write on economic thought of few personalities than others. There is need for intensive and extensive research to include more personalities, ideas, periods, languages and regions and to write a systematic history of the subject (Islahi 2008, 347).

Zaman (2012a) in one of his articles protests: "There is no textbook of Islamic Economics, despite numerous efforts to create one." No doubt it is a serious gap that has to be filled up. Much earlier Mannan (1970) prepared the first textbook on the pattern of contemporary texts. Until that time modern Islamic economics was in its early stage. But he tried to give Islamic perspective on every topic. Since then the literature on Islamic economics has increased tremendously. There should have been effort to develop textbook on Islamic economics in more systematic way with up to date information.⁹ This feeling is shared by many and several efforts are going on at individual and institutional levels to produce an authentic standard textbook on Islamic economics.

Islamic Economics Research Center (IERC) in its "A Proposed Strategic Vision for Future Research in Islamic Economics" (IERC 2008, p. 40) brought into notice various research gaps in scholarship of Islamic economics and challenges faced in the fields of globalization, environmental concerns, housing, drinking water, clean air, rapid technological changes,

flexible labor markets, hot money and flying capital, rising anxiety levels outpacing rising living standards, gender relations, family problems, an aging population and challenges arising out of it. All these issues got very little space in the works of second generation.

7. Departures and deviations from the first conference generation

Diversity of opinions and differences on various issues are not something uncommon among the intellectuals. Sometimes a seemingly different stand is just a matter of interpretation, with no consequential effect. Examples of changing outlook with the passage of time, and withdrawal of opinions are abundant in the short history of modern Islamic economics. It is full of controversies like *mudarabah* vs. *murabahah*, *mudarabah* vs. time multiple loans, paper money vs. gold money, insurance vs. no-insurance or which kind of insurance, *sukuk* vs. no *sukuk* or which kind of *sukuk*, financial lease vs. operational lease, scarcity vs. no scarcity, competition vs. cooperation, *tawarruq fiqhi* vs. *tawarruq masrafi*, self interest vs. selflessness, maximization vs. altruism, *et cetera*. With the passage of time and experience such differences are narrowed down, or lose their importance, or disappear altogether. They are not worrisome.

However, one cannot pass unnoticed from two significant departures shown by two eminent scholars of Islamic economics - Masudul Alam Choudhury and Asad Zaman. Both of them are educated in the prestigious institutions of the West, and specialize in mathematics and econometrics respectively. Both of them criticize Western economics and call for getting rid of neoclassical economics influences. They equally criticize mainstream Islamic economics and each of the two claims that he presents the real Islamic economics. However, the similarity ends here. Their writing styles are quite different. One writes in philosophical and mathematical jargon that majority of readers are unable to understand,¹⁰ while the other writes in simple understandable language. They are critic of each other.¹¹ One focuses on 'tawhidi economics' and the other preaches "spiritual economics". In Choudhury's opinion Zaman's thinking is "utopian". To him, reading his work "one gets the impression of an irreconcilable gap between a misconceived western intellection and an ideal Islamic reemergence" (Choudhury, 2012, 181). In Zaman's opinion Choudhuri limits the perfection of the Quran to its episteme. It "is perfect in its techne and in its pronesis as well"(2012b). "MAC (Masudul Alam Choudhury) seems to suggest that if we used topology instead of calculus, that would solve the problems we face. This seems very simple minded, and ignores the fact that tremendous amount of efforts to apply Differential Topology, Catastrophe Theory, Chaos Theory and other complex branches of mathematics over the past forty years or so have failed to produce a single worthwhile or substantial contribution to our understanding of the economic affairs of man" (ibid.).

Choudhury's first inroads into Tawhidi epistemology of the Islamic world-system was opened up by his various works during 1990s and relentlessly continues till date. He has benefited from Ibn Arabi's ideas of *Wahdat al-Wujud* (the Oneness of Being) to support his *tawhidi* argumentations presented in his work *Science and Epistemology in the Qur'an* (2006b).

Choudhury's approach is not confined to a religious way of disseminating thought. *Tawhid* as he understands it as the law of divine oneness expressed through the epistemic law of unity of knowledge is a highly methodological worldview. It applies uniformly to all the sciences even without the constriction of calling it Islamic-such-and-such.¹²

Choudhury (2006a) claims that foundationally, the *Tawhidi* methodological worldview is derived by analytical investigation and discourse from the Qur'an, the Sunnah, and critical examination of the historical works in comparative perspectives. He thinks that the present situation of a mess in Islamic economics can be remedied if we 'return to the Tawhidi methodological worldview and establish the universal and unique epistemology of the whole socio-scientific order on this as derived from the Qur'an, the Sunnah, and by learned discourse and applications'. The rest of Islamic economics 'died before it could deliver'.¹³

Many scholars who tried to understand "*tawhidi* economics" find it an abstract idea which has no significant practical importance just like concept of "general equilibrium" which is in itself a beautiful idea but cannot exist in practice.¹⁴

Zaman (2012a, 149) also thinks, though differently, that "current approaches to the development of Islamic Economics are bound to fail". He emphasizes "the *Spiritual Focus*" in his economic discourses. Hence it seems appropriate for our purpose to give his ideas the name of "Spiritual Economics". He states: "The strong *spiritual* focus of Islam contrasts favorably with conventional materialistic approaches to economics" (ibid. 159).¹⁵ He further says: "All of our acquisition of knowledge and our struggle to change the world occurs for the sole purpose of pleasing Allah Subhanuhu wa T'aala. This explicit *spiritual focus* characterizes the efforts of our Prophet Mohammad S.A.W. and differentiates Islamic Economics from any other existing approach" (ibid. 158).

It may be noted that the mainstream Islamic economists find "Spiritual Economics" as one sided approach which presents half picture of the whole system of Islamic economics. They do not and cannot disagree with this half.¹⁶ But they insist to take into account the other half as well.¹⁷

It is a fact that at present there are more than one stream of thinking in Islamic economics. But they have still not taken definite shapes. We have mainstream Islamic economics represented by majority of scholars in the field. There are Tawhidi and Spiritual streams. We have another stream of thought that insists on adoption of conventional assumptions (such as self-interest, maximization, rationality, etc.) of capitalist system with certain modification. It may be noted that before the fall of communists system there was also a group which advocated for 'Islamic socialism'. Of course, all these streams are not equally forceful. But in future either they will turn into various schools, or the principle of the survival of the fittest would work.

8. 'Financialization' of Islamic economics

It is the issue of 'financialization'¹⁸ of Islamic economics and banking that bothers leading scholars of the first generation and most of the writers of the second generation. 'Islamic banks have taken their own course which causes frustration' to Islamic economists. Generally dissatisfaction is expressed over the widening gap between theoreticians and practitioners in the area of banking and finance and the increasing role of the latter.

It is to be noted that the propounders of Islamic banking and finance have been stressing upon the value-based nature of the industry that would operate under Islamic spirit. It would aim at earning a reasonable profit with investment in merit goods and services. The advocates of Islamic finance always characterized it faith and ethics based. But in practice today various

providers of financial products and services primarily take 'the form of negative screens' (El-Gamal 2006).

Similarly, in theory it was claimed that partnership and risk sharing is the core of Islamic banking and finance. But now the dominance in practice is for *sukuk* based on *ijarah*, *salam* and *istisna`*. At one time there was controversy about legitimacy of *murabahah*, but it is left behind.¹⁹ Now sale of debt (*bay` al-dayn*) has been introduced in Islamic finance. *Tawarruq* and *`inah* are used as a way of obtaining cash now against a larger amount of cash to be paid at a date in future. Though it is given a shape of sale and purchase, in the opinions of experts "the economic role of the transaction can hardly be different from that of lending and borrowing money. "From the macroeconomic point of view" says Siddiqi, "the position of Islamic banks practicing *tawarruq* is exactly the same as that of the conventional banks giving (interest based) loans to their clients" (Siddiqi, 2006, 16). It bears all the evils of interest bearing loans. Just like interest based debt financing, in case of *tawarruq* also there is no integration between the real sector of goods and services and the financial sector. No real asset corresponds to an interest bearing loan.

Development of financial engineering ignored the objective and spirit of Islamic economics and finance. Consultation and seeking guidance from the original and classical Islamic sources has declined. Recourse to legal stratagem has increased. There is high resentments over the role of Shar`iah Supervisory Boards. Shar`iah advisers have *fiqh* background and hardly anyone has economics training. Hence they consider only to fulfill legal requirements. Passing through economic criteria is not their concern.

The Islamic banks and financial institutions try to fulfill their objective of competing conventional institutions through some kind of financial engineering. The *maqasid* prove hindrance in their way of 'financialization'. They develop products which are shaped in a way that satisfy *fiqh* rules but they are not in conformity with the *maqasid* of Shariah. It is well known that financial engineering is very different from social engineering. Financial engineering is driven by financial goals—monetary gains. Needless to say in many cases financial goals are not harmonious to social goals.

It is the result of 'financialization' of Islamic economics that banking and finance has become the most growing sector of Islamic economics. So much so that it overshadowed the other sectors such as *zakah*, *waqf*, *etc.*, as if Islamic banking and finance is the other name of Islamic economics. At one time theoreticians of Islamic banking and finance spent lot of energy to prove that Islamic products are different. Today maximum efforts are made to prepare products that could match the conventional ones. Thus the gap between Islamic and conventional financial practices is shrinking. This has made the barrier to entry much easier to surmount. That is the reason that indigenous financial institutions in the Islamic world are facing growing competition from multinational Western banks. If Islamic institutions do not reform themselves and return to genuine Islamic conducts, they may lose their identity. It is a matter of satisfaction that a majority of scholars share this feeling and at various levels efforts are going on to correct the situation.

9. The future of Islamic economics is not gloomy

However, the present writer thinks that there is no reason to be disappointed from the performance of the second generation as a whole. He may not agree with such statements as:

"it [Islamic economics] does not seem to be moving forward. It seems to be stagnating" (Haneef, 2012). Similarly, there seems to be a little bit exaggeration in Prof. Siddiqi's statement (2008, 8) that "Islamic economists hardly did any better than those without any learning of social dynamics, specializing only in traditional Islamic sciences developed more than a thousand years ago". True, 'too much focus has been given to Islamic Banking and Finance' and generally *fiqh* has been dominating on *maqasid*, and some writers prefer easy going and quick gaining, termed by Nienhaus (2012) as "Islamic Economics Light". But all have not accepted the current state of affairs. The resentment on the part of many from within the second generation Islamic economists gives hope for correction and future direction. No doubt, the discipline is making progress in spite of many up and down. A few topics on which we did not have any work until recently, such as risk analysis, hedging, risk sharing, microfinance, now we have important additions by the scholars of second generation Greuning and Iqbal (2008), al-Suwailem (2006), Askari *et al.* (2012), Obaidullah (2008, 2011), *et cetera*.

Similarly, in spite of certain limitations in research on history of Islamic economic thought, literatures prepared until now by Siddiqi (1964, 1982), Mirakhor (1987), Hosseini (2003), Ghazanfar (2003), and Islahi (2005) have refuted the Schumpeterian great gap thesis (1954) and pointed out to the 'serious omission in the history of economics of profound contribution made by Muslim scholars'. This literature has exerted some effects on scholars of the mainstream economic thought and a few of them are trying to rehabilitate it in the main body of economic thought. Moreover, for a long time we were in complete darkness about what was the situation of Islamic economic thought after 15th century. In recent years first time effort has been made to explore Muslim economic thinking in post Khaldunian era and other regions and languages. Now there are works to give at least some idea about it (Islahi, 2009, 2011a, 2011b).

The leading Islamic economists of the first generation, who are still active, continued to enrich the discipline with their valuable works all through these years. They are source of guidance and inspiration for the existing generation as well as for the coming one. At present there are several institutes dedicated to the research in Islamic economics, banking and finance, not only in the East, but in the West as well.²⁰ There are a number of professional and specialized journals on the subject, and increasing number of courses, and teaching departments both in the East and the West. It is not true that all are confined to the present trend of banking and finance and there is no reason to think that they will be so in future. The very existence of dissenting voices is rays of hope, not the shadows of frustration. The literature on Islamic economics and its various components increased in past 40 - 50 years like flood. And as happens with every torrent, it bears along the swelling foam. "Then, as for the foam, it passes away as scum upon the banks, while that which is for the good of mankind remains on the earth" (The Qur'an 13: 17).

10. Concluding remarks

Thanks to the financial crises in recent years. It forced economists all over the world to return to fundamentals. It has also awakened fanatics of "financialization". The recent crisis was the crisis of the system. Unethical behavior was the root cause behind it. It enhanced the conviction and self confidence of the first generation. It has opened the eyes of many second generation Islamic economists who were trying to imitate conventional banking and finance

"in Islamic way". It has also alerted the new generation in the offing, and created an urge among them to return to the fundamentals of Islamic economics.

Crisis seen in conventional economics has provided an opportunity to Islamic economists to have a critical look at the present state of the discipline and avoid repeating similar mistakes. During and after the recent crisis, a number of seminars and symposia were held to discuss the causes and remedial measures, and how Islamic economy can avoid such happenings. For instance, in such a conference held at Amman in Jordan during 1-2 December 2010, there was consensus among the participants that excessive lending and risk shifting in the conventional finance, in addition to interest (*riba*), excessive risk (*gharar*), gambling (*maysir*), speculations (*mujazafah*), were the main reasons behind the financial crisis. Capitalist system was held as to have an inherent tendency to frequent crises. In their opinions, the risk-sharing and Islamic economic system based on ethical values presents an alternative to avoid occurrence of such crises (Urran 2012).

Islamic economics, since its revival in the modern period, presented a balanced economic system between the two extreme of socialism and capitalism. At a time when these two systems were struggling to take rest of humanity into their hegemony, first generation Islamic economists saved Muslims from coming into the grips of capitalism and communism. At that time the focus of Islamic economics was to prove supremacy of Islamic economics against those two extreme economic systems (Mawdudi (1969), Siddiqi (1975), Rafi'uddin, M. (1969), Hamidullah (1950), Ahmad (1969), Abdul-Hakim (1953). and al-Sibai (1960). The second generation faced the challenges of wide spread banking and finance. At that juncture it showed the way how interest free participatory financial institutions could be established to avoid the curse of interest. Now the generation of Islamic economists in the offing is facing the challenges of globalization. In the past, the world was divided into cities, states and continents. Now the whole world has become a global village. So the new generation must address challenges arising out of it such as ecology, sustainable development, equity, and poverty eradication. These are shared concerns of humanity.²¹

Now the generation in the offing must adopt this approach. It has to carry the message of Islamic economics to all over the world making their problems as the problem of Islamic economics. This is what IERC, the organizer of 7th International Conference declared: "Let Islamic economics be for each and all, declaring their problems to be its problems, taking up the causes of humanity as its causes" (IERC p. 41).

I feel that the second generation is also about to lose its energy. There should not be much expectation from them. A new generation is coming up. Now certain measures should be taken to prepare them well and train them better:

There is need to organize a fresh round of conferences and seminars to discuss relevant issues and emerging challenges in Islamic economics. In such events maximum participation of young generation must be ensured. They should be guided and persuaded to take up those issues for research which missed the attention of second generation.

Interaction with them should be increased to convince them to fill the existing gaps in theory and practice of the discipline. Various methods should be adopted to encourage and appreciate good talents in this field, such as scholarship for non-traditional topics, stipend to do research in areas of gaps, prizes for young economists, *etc.*

For raising a new generation of Islamic economics researchers, IERC (2008, p. 50) has rightly emphasized the need to reiterate the challenges, constantly illuminate the potentials and promises of Islam, and expose the current grave human situation, and then make it rewarding for those who take up the cause. The young scholars should be motivated to undertake researches relating to problems facing common man. They should not remain confined to specific issues of limited implications.

Last but not the least, they should establish direct relation with the Qur'an and sunnah and seek recourse to *maqasid al-Shariah*, the spirit and not the form of *fiqh* and its regulations. It is well known that Islamic economics is mainly based on the Qur'an revealed to Prophet Muhammad (peace be upon him) and Sunnah - his excellent example (*uswah hasanah*), who was mercy for all creatures (*Rahmah li'l-'alamin*) (Qur'an 21: 107), not only for Muslims. Let Islamic economics be mercy for the whole world.

Notes

1. A generation is generally defined as all the people of approximately the same age, esp. when considered as sharing certain attitudes, etc. There are two main forms of generation - familial and cultural generations. Familial generation has been determined as ranging from 16 years to 30 years depending on the level of economic and cultural situations. We can roughly take 23 years as an average generation time, a period in which a person was born and started reproduction. But academic or cultural generations are cohorts of people who lived in the same age and shared similar cultural experiences. A new generation comes into existence when these two elements change.
2. In an earlier discussion paper, this writer, conveniently taking a period of 25 years for a generation, divided Islamic economists into four generations beginning from the first writings which appeared during the second quarter of 20th century, precisely during 1930s and '40s (Islahi 2010). There is not essential difference between that classification and the present division. In the present paper we have ignored the developments that took place in the first half of the 20th century and the last one, the new generation which is in the offing.
3. It may be noted that writing on modern Islamic economics started before 1950s during the second quarter of 20th century at the hand of mostly *ulama* (religious scholars). Few in number, they may be called as *founding scholars* of this new discipline. "*Founding scholars*" is in contrast to "*pioneering Islamic economists*". Prominent among those who started writing on Islamic economics before 1950s are: Abul-Ala Mawdudi, Muhammad Hamidullah, Hifzur-Rahman Seoharawi, Anwar Iqbal Qureshi, Muhammad Yusufuddin, Manazir Ahsan Guilani, and Shaikh Mahmud Ahmad from the subcontinent. From the Arab world we can put in this category Zaki Salih, Muhammad Ali Nash'at, Ahmad Muhammad Ridwan, Muhammad Abu Zaharah, Ali Fahmi Taman, Muhammad Abdullah al-Arabi, Muhammad al-Ghazali, Sayyid Qutb, *et cetera*.
4. It is the first and the oldest journal of Islamic economics. In 1989 it was renamed as the *Journal of King Abdulaziz University - Islamic Economics*].
5. Series of conferences, seminar, institutions and journal started after the first conference. At present there are more than a dozen specialized journals on Islamic economics, banking, finance, *waqf*, and accounting. These journals helped in dissemination of Islamic economics and finance all over the world.

6. Some of the first generation Islamic economists who are still active include: Muhammad Umar Zubair, Muhammad Nejatullah Siddiqi, Khurshid Ahmad, M. A. Mannan, Yusuf al-Qaradawi, M. U. Chapra, Abdul Hamid Abu Sulaiman, Hasanuzzaman, M. Anas Zarqa, Monzer Kahf, Muhammad Ahmad Saqr, Akram Khan, Rifat al-Awadi, Abd al-Salam al-Abbadi, Abd a-Rahman Yousri Ahmad, Rafic Younus al-Misri, etc.
7. It may be noted that most of the contemporary writers confine the *maqasid* of Shraiah into five objective: protection and preservation of religion (*din*), life (*nafs*), progeny (*nasl*), property (*mal*), and intellect (*'aql*). This is a traditional classification inherited from al-Ghazali (450-505/1058-1111), al-Shatibi (d.790/1388), and others. Siddiqi argue for the expansion of this list. He seems to be supporting Allal al-Fasi (1963) and Ibn Ashur (1366 H) who advocate expansion of this list. Siddiqi would like to include the following objectives relating to economics: "Sustenance for all, dignity, security, justice and equity, freedom of choice, moderation and balance, peace and progress, reduction of inequality in the distribution of income and wealth" (Siddiqi 2004).
8. For such statements see Zaman (2012a).
9. A few years before, another textbook came into the market under the title "Microeconomics with Islamic perspective" but it had very little Islamic input (Yusoff 2008). The author could not find anyone from the host of Islamic literature to refer except to himself and to a book written in Urdu in 1939.
10. The present writer wonders: Tawhid is a Qur'anic concept. Quran is meant for all. It uses the language known as "*Arabiyy mubin*" (clear Arabic language that everyone can understand). How people will benefit from *tawhidi* economics if it is discussed in philosophical style and in mathematical language that at the most only few selected could follow it.
11. See Choudhury's comments on Zamans' paper entitled "Crisis in Islamic Economics: Diagnosis and Prescriptions" in *JKAU - Islamic Economics*, 25:1 and the latter's rejoinder in *JKAU - Islamic Economics*, 25:2.
12. In reply to a letter of this writer.
13. Explained to this writer in a personal correspondence.
14. Readers are advised to go through an article published in *KAUJ – Islamic Economics*, 22:2 along with some comments. Although it is on "Islamic Critique and Alternative to Financial Engineering Issues", it will give an idea about Choudhury's Tawhidi economics and how main stream Islamic economists think about it.
15. We had such current of thought in our history sometimes called sufi economics. In the Islamic tradition, a group of Sufis presented a somewhat different school of thought in economics. Their thrust has been the minimization of wants, purification of soul, and preference of others to their own needs. According to Siddiqi (1992, p. 15): "The main contribution of *tasawwuf* (or *zuhd*) to economic thought in Islam is a constant pull against giving too high a value to material wealth and a persistent push towards altruism and unselfish service of Allah's creatures. They emphasized the ultimate concern of the human soul and its reaching out towards its source in the Divine. They personally exemplified this concern by minimizing the material values and extolling the virtues and attributes that contributed towards felicity in the hereafter while also enabling the life here on the earth".
16. For example, Siddiqi (2004) says: "Islam is primarily about a spiritual view of life and a moral approach to life's problems, including the economic problem. The contentment Islam promised man is rooted in this spiritual and moral framework". Zarka (2008, p. 35) observes: ""Islamic economics will not be complete theoretically

in research and teaching, nor in application on the ground through appropriate policies, but with the help of Allah the Almighty and then relying on those who know economics in addition to the knowledge of Shari'ah, jurisprudence and economic reality".

17. Readers are advised to go through Zaman's article published in *KAUJ – Islamic Economics*, 25:1 along with comments by M.N. Siddiqi, Shamim Siddiqi, Seif el-Din Tag el-Din, and M.A. Choudhury., and Zaman's rejoinder in 25:2 They will give an idea about Zaman's spiritual economics and how the main stream Islamic economists think about it.
18. I borrow the term "financialization" from Askari *et al.* (2012, 31) who used it in the sense of 'fast expansion of financial institutions', 'a significant expansion of the financial sector relative to the real sector', and 'an expansion that was not beneficial to the broader economy and may have even turned out to be harmful...'.
19. According to Kahf (2004), discussion on issues of *mudarabah* and *murabahah* kept Islamic economists busy in vain for a long time. The real practice of Islamic banks ended up at *tawarruq* which brought 'the whole Islamic banking theory to square 1'.
20. For example, Islamic Finance Project at Harvard Law School, Austin in USA, and Institute of Islamic Banking and Insurance (IIBI) in UK. For more details click the following link:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253141/UKTI_UK_Excellence_in_Islamic_Finance.pdf
21. As the IERC puts it: "It is no longer the question how Muslims are going to manage *their* economies. It is one world, one economy. The new economic order has to be conceived and executed at the global level. It has to be an Islamic economics for all, the entire humanity, rather than a Muslim manual on how to conduct your economy, as the contemporary Islamic economics largely happens to be" (IERC 2008, 46).

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