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## **Methodology of Economics: Secular Versus Islamic**

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**METHODOLOGY OF ECONOMICS**  
**SECULAR vs ISLAMIC**



# METHODOLOGY OF ECONOMICS SECULAR vs ISLAMIC

“A Comparative Study of Economics:  
From Self-Interest to ‘God’s Interest’”

WALEED A.J. ADDAS



INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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### *Note on cover design*

Islam has succeeded by overwhelming its predecessors; a church turned into a mosque in the same vein as the methodology of economics from an Islamic perspectives encompasses the secular methodology and does not let it go out of its sight. Second, the demolishing of the church symbolizes the collapse of the Received View in the philosophy of science today. Islam, in my opinion, has all the answers to today's social and economic problems. Moreover, within the courtyard of the mosque lies the Dome of the Treasury-another example that shows how in Islamic economics, money and wealth creation are an integral part of the religion.

The principles that inspired this cover design derive to a large extent from the insights of my daughters and I also wish to record my gratitude to Mrs. Karim Allaoui of Cambridge university who has helped in proof-reading and final checking on the colours, etc.

# Preface

This book is based on the thesis that I submitted in August 2006 to the International Islamic University Malaysia in partial fulfillment of the requirement for the award of the PhD degree in Economics.

It was a difficult topic but this reality dawned on me only after I had already crossed the point of no return. I found the area hazy and controversial in mainstream economics. In the case of Islamic economics the situation was even worse. Methodology was invariably confused with a research design or work plan. The subject in a formal form did not even exist. Whatever was available in the literature was part of discussions on Islamic economics or Shari'ah issues. Usually, the discussion was of a 'touch and go' nature. The writers were seldom found coming to grips with real issues in the area let alone reaching any worthwhile conclusions.

Much confusion and controversy in the methodology of economics essentially centered on the efficacy of criteria, rules, and procedures that have to be observed for evaluating the performance of economics – secular or Islamic. In fact, until today there has hardly been a common view or a clear understanding among the Islamic scholars as to whether Islamic economics itself has a separate existence independent of its mainstream counterpart let alone having a methodology to assess and oversee it. In this dark and un-chartered area, I have tried to show that Islamic economics is both epistemologically 'linked' to and is also 'independent' of secular economics. To be precise, methodology of Islamic economics is and would broadly be the application of the *Shari'ah* norms to mainstream dispensation with a view to assessing their compatibility with the Islamic faith and the position of the *Shari'ah* on the many and divergent micro and macro economic *issues*. We shall find in the following discussion that the subject under the name '*Islamic economics*' is presently no more than the result of applying the Islamic rules and injunctions, i.e. *Islamic fiqh*, to secular economics: Islamic economics is not yet, contrary to what some scholars would want us to believe, a discipline that *replaces* secular economics.



In Islamic educational institutions worldwide, curricula and teaching programs are dominated – even if out of necessity – by course structures and reading materials appropriate for Western social setting and values designed as they are on the assumption of an impersonal market environment.

The *Islamization of Knowledge* program in economics follows what one may call a ‘step-by-step approach’ for developing the subject. This de facto means that there has been no attempt to replace the mainstream concepts and theories *completely* with the pure Islamic ones: the initial plan has been just to modify and integrate them with what Islam would allow or could modify to fall in line with the *Shari’ah* tenets. When the subject itself was in a state of infancy, one need not wonder if its methodology were all the more found confused and patchy. However, it is this messy state of methodology that lends reason and significance to the present work. It *fills* a gap, however imperfect it might look: I am aware of its limitations.

The main issue relevant to our discussion in this exploration was whether reality adjusts to doctrine or that doctrine conforms to the reality or one finds a mutual interaction between the two in the field of economics. What methodological affinities or divergences, if any, are between them? Also, we attempted to see whether prediction could or should be the hallmark of a theory in social sciences as is currently believed in economics at least, or the tractability of events, their analysis, and human prescription were of greater importance. It will be satisfying if the readers could find this small work light bearing on these and related issues.

# Acknowledgements

Praise be to Allah *Subhanahu Wata'ala* but for whose blessings and guidance I could not have undertaken or completed this humble work

Among others, my heartfelt gratitude goes to my main supervisor; Professor Dr. Zubair Hasan This work bears on almost every page the imprints of his enlightening lectures on Islamic Economics I attended during my PhD course work program. His scholarly views on methodological issues scattered over his numerous writings referred to in the work have been of immense value while writing the thesis. I owe much to his patience and paternal attitude in correcting for improvement several drafts of the work including the editorial assistance he extended in formatting it for publication. I am indebted to him for all the knowledge, wisdom and experience he shared with me during my studies at the IIUM. That process of sharing, encouragement and support continues unabated.

Thanks are also due to Professor Dr. Mohammad Aslam Haneef and Associate Professor Dr. Muhammad Arif Zakauallah, members of the supervisory committee, for their help at different stages of writing the dissertation. The work would not have been what it is but for their constructive criticism and useful suggestions. I am grateful for their unreserved encouragement that helped me much in completing the research on time.

In addition, my thanks and profound respect goes to the IIUM administration, especially to Professor Dato' Dr. Azmi Omar, the Deputy Rector for Academic Affairs, for his unwavering assistance and support during my stay as a postgraduate student at the IIUM, the great seat of learning in the Muslim world.

Last but not least, I express my sincere gratitude to my wife Tahani and daughters who spared me time from family duties over the years I was working on my thesis. Also, I cannot forget my loving parents, their unceasing prayers, I am sure, contributed to my successes in life, including the present one. May Allah shower His blessings on them all here and in the hereafter *Ameen*.

Waleed A.J. Addas  
Jeddah

March 2007



## Dedication

*I dedicate this work to my loving mother Mufida (Umwaleed),  
my guiding father Ahmad, and my caring wife Tahani  
and also to all my four daughters, Asmaa,  
Walaa, Nidaa and Tala*



# CHAPTER



## Introduction

*They said: “O Shu’aib”! Does your salat (prayer) command that we give up what our fathers used to worship, or that we give up doing what we like with our wealth? Verily, you are the forbearer, right minded! (they said it sarcastically). Surat Hud Verse 87\**

Disciplined knowledge is the result of man’s cognitive explorations. The exploration is invariably directed to find ways for making life more comfortable and rewarding, including the spiritual solace. It is an ongoing process that continually adds to the existing stock of human knowledge. With the passage of time, the tree of knowledge grew into distinct branches essentially because of the limitations of the human mind to absorb the fast expanding totality of the phenomenon. The roots of the tree – belief, reason and convention – though have hardly changed they continue to serve basically the above stated purpose in all its ramifications.

### Methodology: Role and Nature

Every branch of knowledge deals with the wider issue of human well-being from a particular angle and seeks to resolve issues as they emerge in achieving its agreed goals. It is in the nature of things that there ought

to be a way to know and discover how efficaciously a branch of knowledge has developed, and is developing, to address the goals it exists to achieve.<sup>1</sup> The way to assess that is shown by the philosophy of the branch of knowledge in question including economics – secular or Islamic.<sup>2</sup>

Organized knowledge, including that of economics, is usually called ‘science’ and is built for achieving its objectives on some perception of rationality. The issues concerning science are epistemic and what is called the *Methodology* of the subject e.g. economics deals with them. Methodology is the *theory of theories*: in the field of economics it refers to the process economists use to authenticate the knowledge about economic phenomena. It is, therefore, an important constituent of the philosophy of science. Interestingly, in the context of a discipline or subject<sup>3</sup>, it often is a moot point whether methodology is to be considered a part of the subject itself or as independent of it. In case of economics both views prevail, some even treat it as a halfway house between the two.<sup>4</sup> However, we feel that to keep them separate may help avoid confusion and improve understanding of their respective roles. *Thus, for us methodology of economics looks at the discipline of economics from outside the discipline with a view to evaluating its performance even as there is intimate interaction between the two.*

The relationship between the two – economics and its methodology – is of the same sort as between *Fiqh* and *Usul-ul-Fiqh*.<sup>5</sup> In evaluating the performance of economics, its methodology is both a descriptive as well as a prescriptive discipline. It explains what economists are doing, how well they are doing it, and suggests what they should be doing in view of the *a priori* objectives. It is at this point that instead of overseeing the achievement of *given* objectives, the objectives themselves tend to become a moot point in the methodological discourse.<sup>6</sup>

Recent years have witnessed increased interest in the study of methodological issues in economics.<sup>7</sup> The number of books and journal articles on the subject has multiplied quite fast over the past two decades or so. It is argued that this renewed and increased interest in the subject has been aroused by a variety of factors: for instance, there is a growing feeling that economies are not performing as well as they used to; one finds poverty amidst plenty, involuntary unemployment co-exists with high rates of inflation and there is hardly a reliable solution to the recurring

local economic depressions or even regional financial crisis - not to mention the current clash between increasing economic liberalization on the one hand and the anxiety to preserving the sovereignty of nations on the other. These anomalies have raised the doubt if the economists are indeed working in the way the '*Philosophy of Economics*' would require they should.<sup>8</sup>

Another reason of this late revival of interest in methodology in the field of economics is that economists, in their effort to impart a positivist air of the natural sciences to economics had tended to cut the subject off from philosophy that raised moral and ethical questions regarding human objectives and behavior. The isolation became almost complete with the publication of Lionel Robbins' *Nature and Significance of Economic Science*.<sup>9</sup> Friedman closed the circle altogether. It is only recently that the moral and social aspects of human conduct are being emphasized in economics, hence the resurgence of interest in its philosophy. Ours being an Islamic context, we shall focus more on the normative aspect of the subject.

Despite some recent improvement in the understanding of the methodological issues as we unfold them in the following chapters, the confusion in certain areas, especially concerning the distinction between *methodology* and *methods* still lingers in the literature.<sup>10</sup> While methods *per se* essentially fall within the ambit of the subject of economics, methodology is a subject within its own right, and evaluation of the methods of economics is one of its important tasks. Islamic economics too is not altogether free of confusion on this fundamental point.

For example, Chapra (1996, p. 36) rightly quotes from Cave the definition of method as "*the specification of steps which must be taken in a given order to achieve a given end. The nature of the steps and the details of their specification depend on the end sought and on the variety of ways of achieving it*".<sup>11</sup> However, this does not lead us to the rules and criteria that methodology provides us for the acceptance and rejection of scientific research programs.

In a situation where the general public doubts economics and some economists doubt even themselves, it becomes all the more important to understand and clarify the position. The confusion and controversy on methodological issues in secular economics makes it imperative to look at

the issues involved from the viewpoint of Islamic economics as well, more so in a comparative vein.

Some of the important issues methodology deals with are: the purpose of economic inquiry, the sources of knowledge relevant to it, the subject matter and the scope of its inquiry, the limits to the application of knowledge, and the decisions about the appropriate structure for erecting economic theories and/or testing econometric models.<sup>12</sup> We shall return to such topics in some details later.

Methodology also studies the relationship between *theoretical concepts* and *warranted conclusions* about the real economic world.<sup>13</sup> It examines the ways in which economists derive their theories, the ways they seek to justify them, and the reasons they offer for preferring one theory to another. Its primary task is to evolve sets of criteria for theory appraisal. Traditionally it consists of a broad set of criteria, rules and procedures that the philosophers of the subject have evolved over time to examine the nature, scope and performance of their subject.

The criteria address such questions as the demarcation between science and non-science, the scope and application of economic theories, the degree of correspondence between theory and reality, and how is this degree to be corroborated and tested.<sup>14</sup> Much confusion and controversy in the methodology of economics essentially center on the efficacy of these criteria, rules, and procedures.<sup>15</sup>

In addition, methodology helps *explain* the nature of the theories behind economic behavior and human action; it also aims at *prescribing* acceptable methods and techniques of economic inquiry in order to enlarge the stock of knowledge. Methodology also defines the assumptions that govern human behavior, and as such, it is an implicit statement on the nature of economic man.

Methodology is part of the *theory of knowledge* and the two have an interactive relationship. The latter is a vast complex area and a discussion of its details here is perhaps uncalled for. Suffice it to say that methodology helps in charting the course for a universal *Theory of Knowledge* that separates the 'good' or useful branches of knowledge from the 'bad' and useless ones in the *tree*; it is much occupied with separating the wheat from the chaff. As such, it stresses on the importance of defining the *bases* or roots for theoretical economics: it

continually investigates whether what we claim to *know* in economics is really *true*.

The treatment of the subject of methodology in mainstream economics is in a state of flux: confusion and controversy dominates the scene. The situation in *Islamic economics* is even worse. In fact, until today there has hardly been a common view or a clear understanding among the Muslim scholars as to whether Islamic economics has a separate existence i.e. if the subject really is independent of mainstream economics. Kuran, a leading critic of Islamic economics, concluded after reviewing some of the books in the area that “*Islamic economics does not offer a comprehensive framework for a modern economy. It fails to provide a well-defined and operational method of analysis*”.<sup>16</sup> Interestingly, Khan (2002) quotes from one of Siddiqi’s earlier writings supportive of his position: “*The craving for a de novo discipline of Islamic economics is ill-conceived. No such thing is possible*”.<sup>17</sup>

In Islamic institutions the world over, curricula and teaching programs are mostly dominated – out of necessity – by courses’ structures and reading materials appropriate for a Western social setting and values designed as they are on the assumption of an impersonal market environment. The *Islamization of Knowledge* process has, in economics, adopted what one may call a step-by-step approach. This *de facto* means that there has not been an attempt to entirely replace the mainstream concepts and theories with the pure Islamic ones but modify and integrate them with what Islam would allow.<sup>18</sup> Part of the confusion on the methodological issues in Islamic economics can presumably be attributed to this sort of gradual and graded approach.

The term *methodology* has often been used as no more than a “Plan for Action” to develop Islamic economics. Unlike its secular counterpart, methodology is not seen by most of the Muslim economists independent of Islamic economics meant for overseeing and evaluating the performance of the subject from *outside* the subject (Hasan 1998, p. 3).

We shall find in the following discussion that the subject under the name ‘*Islamic economics*’ is presently no more than the result of applying the Islamic rules and injunctions, i.e. *Islamic fiqh*<sup>19</sup>, to secular economics: Islamic economics is not yet, contrary to what some scholars would want us to believe, a discipline that *replaces* secular economics.



To reiterate, a cursory look at the curricula, course structures, and reading materials being used in modern Islamic educational institutions is enough to convince one of the validity of the statement. If this approach to develop Islamic economics continues – which it seems difficult to abandon – it would be impossible to declare the independence of the *discipline* from its secular counterpart in decades ahead. Of course, the compulsions of this approach would put the nature and scope of Islamic economics in a new perspective.

## Approach

Given the current state of confusion in the area of methodological discussions in the philosophy of economics we shall seek: to clarify the nature and role of secular methodology with a view to seeing why and how the Islamic methodology differs from it, and to examine the implications of these differences for the nature and scope of Islamic economics. This would necessitate a brief discussion on the nature of worldview differences that underlie the affinities and the differences between the two disciplines. We will also have to examine the divergent sources for knowledge each methodology approves; what meaning and place it assigns to ‘rationality’ and ‘revelation’ in its scheme of things, and with what results? It is all the more important as the positions on the point are divergent on this issue not only *between* the secular and Islamic disciplines, but interestingly *within* each discipline as well.<sup>20</sup>

We shall see that to identify the norms of behavior and value systems that each of the methodologies upholds for building the discipline; how these values are selected in each case, and what impact the choice makes on the respective disciplines. Implicit in this formulation is the stance that secular economics is not value free. This approach shall enable us to understand how the nature and scope of the two economic disciplines is conditioned and may lead to different policy concerns.

We shall argue that it is in the context of divergent approaches<sup>21</sup> on these points that provide the Islamic and the secular versions of economics their divergent ideological bases, value frames, meanings of basic concepts, behavioral rules, and the procedures for erecting theories and installing

their verification procedures. These differences also condition the nature and scope of the two methodologies and economic disciplines.

Since our goal for the study of economic methodology is to provide a comparative analysis, it may be helpful to reiterate that the works in the field of economic methodology has only become more widespread and rewarding essentially during the last two decades because of the stupendous difficulties economies the world over have of late been facing and the growing wedge between economic theory and practice. So many issues remain unsettled and controversial.

## Why this Work

An examination of the methodological issues is important for a variety of reasons both theoretical and applied. To some of these we have already alluded to at the beginning of this chapter. Additionally, one finds that the interest of the academics, and policy makers in other disciplines, especially in the areas of political science, sociology, psychology, and anthropology is fast growing in methodological issues, and the economists' attempt to make them believe that the economic approach is the only fruitful approach to the study of human behavior in their respective fields as well: economics is the model that *all* social scientists must follow. This makes methodological questions relating to economics significant for other disciplines as well, and has provoked controversy and debate on methodological issues at the inter-disciplinary level.

The recent surge of writings on the philosophy of mainstream economics has produced even more divergent views and debate on methodological issues: some important ones we discuss in the following Chapter. The position is all the more entangled in the case of Islamic economics where in our view a serious methodological discourse is yet to make a start. Of course, there is no dearth of writings on methodology in Islamic literature, but most of them are confusing and sketchy. Those exclusively devoted to the subject and with depth of argument, especially in a comparative mold, are rare and far between.

Above all, no worthwhile attempt to look in depth at the mainstream postulates and positions, and to juxtapose them with Islamic methodological

positions, however conceived, has so far been made. Presumably, Hasan's writings, especially his 1998 paper, constitute one of the rare attempts to discuss the two methodologies in a comparative vein albeit his explanations are at places sketchy and incoherent.

The reason for this state of affairs is that positions in many areas of Islamic economics remains infirm, even untouched. For example, there is confusion on such basic issues as the scarcity of resources, pursuit of self-interest, maximizing behavior on the part of economic agents, bases of interest-free finance and so on. There are few writings that can pass as a methodological discourse in the same sense, level or rigor as there are available in the case of mainstream economics.

Much of what one comes across is dotted with ill-conceived half-baked ideas, confusing explanations, and rhetoric. Again, there often is a lack of understanding of the issues involved or their adequate analysis.<sup>22</sup> All the more important is the decision about the procedure of *Islamizing of knowledge* in economics: should one adopt a *step-by-step* or an *all-or-nothing* approach to the issue?<sup>23</sup>

The present work is a modest effort to provide clarifications where needed and possible, and strengthen the comparative study of the two methodological positions in the area. In the process, the study may illuminate some dark spots in the secular methodological discourse. On a more important side, it seeks to identify the issues, assess positions and illuminate them in the area of Islamic methodology; especially in a comparative framework. The accomplishment of this task is difficult, challenging as well. But it perhaps is imperative for the very survival and purposeful growth of Islamic economics.

Furthermore, some recent developments in the field of secular economics and its philosophy have added to the importance of improving the current undertaking of the subject; especially because we find that the upcoming Islamic economics is largely the result of applying the Islamic methodology to the conventional secular economics for constructing Islamic knowledge.<sup>24</sup> One may have genuine reservation about this procedure and hopefully it would change in the future but currently one cannot escape this ground reality.

Since the field of Islamic economics is still in its infancy, a comparative exploration of the two methodologies may prove rewarding; since the

really enlightening literature on the subject is scanty. The present undertaking may also help future research in this new and important field. Also, the work is likely to provide some help and guidelines for the future teaching of Islamic economics.

In this context, we shall need to identify the common ground between the secular and the Islamic economic disciplines: for example how would the concepts of scarcity, rationality or maximization differ in theory and application in the two cases? For understanding the differences of the sort, it may be helpful to take note of the *thematic* structure of the present research.

Again, this work is intended to benefit in some measure the general readership as well. It includes both those with a research interest in economic methodology, and those interested to learning the basics in the field. The study may also be of benefit to the students and teachers of economics with an epistemological bent of mind. As such, the subject of methodology could as it should become an integral part of any university level teaching program in economics; as it would be helpful for the students to know the foundations on which their knowledge of economics is based.

More importantly, it has to be stated at the outset that the present research is not meant to provide a set of narrow tools that might function as a 'hands-on' or a practical guide for the practice of Islamic economics. This work is left for the jurists to accomplish; the literature on Islamic jurisprudence is already rich and a well-defined set of rules is readily available for the purpose.

The scope of the present research is, therefore, limited to a discussion of some main issues concerning the methodology of economics. The work is spread over the following chapters. They being part of an integrated whole may tend to overlap; but effort is made to distribute the material evenly.

## Sources

Finally, a word about the sources of information and knowledge we shall be using for this study. Of course there is no dearth of literature on secular economics and its methodology. In fact, it is too voluminous to go through

for the present work. The problem here is of the sources of Islamic knowledge, and their availability. Let us have a brief look at this issue.

There are two ways of looking at the sources of knowledge in Islam. First, one may want to investigate from the primary sources – the Holy Qur’an and the Purified Sunnah – what the religion permits, what it does not. This is the area of Islamic jurisprudence meant for exploration by *Shari’ah* experts. It is a delicate and intricate task. Not many, including the present author, are really qualified to enter the field. In the modern era, the *Fiqh* Academies or *Shari’ah* Boards established for the purpose are engaged in doing this work.

Second, one can rely on authentic *secondary* sources – translations of and commentaries on the verses of the Qur’an, books narrating holy traditions, works on *fiqh*, practices of the Right Caliphs, historical legacies and so on. Here, the scope for making new interpretations from original sources is quite limited, if not entirely non-existent.

The difficulty with Islamic economics is that economists-turned-jurists in this area are not conceivably knowledgeable enough to understand and use *Shari’ah* positions. Their writings may sometimes unwittingly tend to defy the *Shari’ah* norms. On the other hand, we have jurists-turned-economists who are often ignorant of modern economic analyses, practical issues, and the overall bigger picture. All of them do not know what is happening in their own economic backyards: They are often found to reside in the past, as they look the way forward. In either case Islamic economics is the sufferer. I do not yet belong to either of these groups. I would use essentially the secondary sources of Islamic knowledge for the present study.

Fortunately, various bibliographies of published and unpublished literature in Islamic economics have been compiled and are updated on a periodic basis. Leading journals of Islamic economics, Islamic research institutes, and universities are making significant and valuable contributions to the effort. Even secular literature indexes are including Islamic publications in their publications.

Among the individuals, Akram Khan, and M. N. Siddiqi have done commendable work in this area. International Institute of Islamic Thought, Center for Research in Islamic Economics, King Abdul-Aziz University, Islamic Foundation, and Islamic Research and Training Institute of the

IDB are some of the leading institutions providing the service. Thus, ample and reliable secondary sources are already available for the present work.

## Chapter Scheme

The scheme of the research work is spread over eight chapters including the introduction. The chapters cover a number of interrelated topics.

The argument opens with the literature overview in the following **Chapter Two**. It looks at the current debate surrounding economic methodology from the secular and the Islamic perspectives. Substantive methodological issues – some we have already mentioned above – will be identified and discussed, focusing especially on some of the major points of departure of Islamic methodology from its secular counterpart in the key areas.

It must be stated that *methodology* is a vast subject and volumes are and can be devoted to reviewing the literature. The chapter would present just a thumbnail sketch of what is barely needed for the stated objectives of this work. No demand for a comprehensive discussion of the topic is expected, or claims thereto made.

**Chapter Three** deals with the nature and significance of worldview as a conditioner of human conduct. In this context, the common view of the ‘economic man’, as a rational-utility maximizing agent; pursuing his self-interest in a single-minded way will especially be reviewed. Adam Smith considered man as he is: dominated by self-love, but without much altruistic concern for others. This seems to be true for Islamic economics as well but with a difference. The difficulty seems to lie partly in its operational interpretation.

In the process of our discussion we shall compare the worldviews underlying the two economic disciplines and assess their impact on the course the two disciplines have taken or could possibly take. The point that the Islamic worldview has overpowered the secular one will be taken up. Also the quality of *haymana* (overpowering and supervising quality of Islamic methodology) and the consequences of the same on the subject will be discussed.

**Chapter Four** deals with the roles of reason and revelation in obtaining and promoting knowledge and would show how the two impact

the explanation of reality concerning economic matters. The chapter would also examine the limitations Islam imposes on the use of pure reason in making economic decisions. In fact, the distinction between reason and revelation is of Western import: For example, Adam Smith in his *Theory of Moral Sentiments* (1759) separated the two in an attempt to discover the natural laws that govern human behavior independent of religion. However, Muslims never ascribed to such a distinction or made an issue out of it.

In **Chapter Five** we examine the nature and role of values in economics and compare the different ways of their determination. Contrary to earlier claims, it is now well recognized that secular economics is not entirely value free. In this context, we shall talk about the notion of the '*unity of science*'. The chapter explains the Islamic notions of '*halal*' and '*haram*' and shows that the two *inter alia* constitute the essential point of departures in Islamic knowledge from its secular counterpart.

**Chapter Six** takes up the issue of *methods*, especially the discussion of the experimental approach and empirical testing, statistical and econometric analysis and inference in economics. We are supportive of the position that quantitative studies are to be invariably guided by theory and that they may most aptly be described as explorations of the verification rather than the installation of theory. In almost all cases, the theory exists before the statistical investigation is made; as it is to no bet derived from the statistical methods or techniques of empirical investigations.

**Chapter Seven** spells out the nature and scope of economics under secular and Islamic dispensations in the light of the foregoing discussions. We shall argue that Islamic economics is essentially a normative science albeit it has some identifiable positivist elements. Also, Islam being a 'way of life' Islamic economics has a significant art aspect with policy overtones. We shall also see that from a methodological perspective, Islamic economics has a superior (overpowering) quality (*haymana*) that is lacking in secular economics. This result comes from the relationship between the Islamic and the secular worldviews and their impact on the methodology of economics.

**Chapter Eight** summarizes the main argument of the paper and the policy guidelines for the methodology of Islamic economics and what

it envisages the Muslim economist should act so as to develop the Muslim world. The chapter ends with a few concluding remarks.

It may be stated that the issues discussed in the work are parts to an integrated whole. This holistic mosaic is arbitrarily divided into chapters for convenience of discussion and to facilitate the comparative task of the work. For example, one can reasonably argue that different parts of the argument all spring from worldview differences characterizing the two economic disciplines, and can be discussed – as some have in fact done – under that heading. We have no dispute with such an approach to the issue of methodology.

But while we endorse the holistic nature of the problem and keep it in view, we shall still stick to our scheme of desegregation for it has distinct advantages in terms of focus, explanation, and analysis of the issues involved. Largely, the thesis will try to follow the selected issues categorized in Hasan (1998).

We have presented above merely a thumbnail sketch of what we propose to do in this work. One looking for details may find the present chapter wanting on several scores. One reason for being brief is not to be seen repetitive as the argument develops in the later chapters. However, one is likely to get answer to a question one might have in mind as the discussion develops in the following pages.

## Conclusion

We have discussed in this Chapter the definition, nature and role of methodology in economics, its connection with the theory of knowledge, and the distinction from methods. We have stated the reasons of the recent upsurge in writings on the subject and identified the issues which it is the objective of the work to discuss. The position of the subject in secular and Islamic economics has been outlined and briefly evaluated, and the significance of the study also clearly stated. Last but not the least we presented a brief chapter scheme to discuss the indicated issues separately.

The literature on the subject, especially in the area of secular economics has tended to grow so fast that one finds it difficult to keep knowledge updated. In this modest work we have tried to cover as much



ground as we could with full awareness of its deficiencies, weaknesses, and limitations. In matters of promoting knowledge no effort can produce the ultimate but we hope that this work would at least meet the requirement for which it has been undertaken. We begin our journey with the literature review in the following Chapter.

## Notes

- \* The translation of the verses quoted in this work is from the English Translation - King Fahd Complex-Al-Madina Al-Munawwarah, 1404H.
- <sup>1</sup> Even though there has been much disagreement in the literature on the 'agreed objectives'.
- <sup>2</sup> It must be made clear that the term 'secular economics' in the present work simply refers to mainstream or orthodox economics. We retained the term because most of the writings on Islamic economics make distinct their subject from the mainstream by adding to the latter the adjective 'secular'. We are aware that a number of Islamic scholars have taken pains to explain the meaning and implications of the words 'secular' and 'secularism'. See, for example, Al Attas (1995).
- <sup>3</sup> Following the common practice we shall be using the words 'subject' and 'discipline' interchangeably.
- <sup>4</sup> See, for example, Glenn Fox who treats philosophy of economics as an interdisciplinary inquiry (p. 33).
- <sup>5</sup> The former governs the latter which, we shall see, is directly related to evolving the methodology of Islamic economics.
- <sup>6</sup> Blaug, Mark. *The Methodology of Economics or How the Economists Explain?* (Second Edition) Cambridge University Press, 1992, p. xii.
- <sup>7</sup> See Blaug, pp. xi-xii.
- <sup>8</sup> For an expression of such dissatisfaction concerning the performance of economics in recent decades see Hausman p. 2.
- <sup>9</sup> The work is reproduced in Chapter 3 of Hausman's book, 1994.
- <sup>10</sup> See Fox p. 33.
- <sup>11</sup> He has aptly quoted Blaug too on the point that method refers to the 'technical' procedures of a discipline.
- <sup>12</sup> The 'Introduction' in Hausman (1994) provides a good account of the goals of science, nature of scientific explanations, theories and the assumptions they rest on, (pp.10-24).
- <sup>13</sup> Blaug, Mark, (1992) p.12.

- <sup>14</sup> See, for example, Fox pp.34-36.
- <sup>15</sup> Hasan, Zubair., *Islamization of Knowledge in Economics: Issues and Agenda*, IIUM Journal of Economics and Management, Volume 6 No. 2. , 1998. p.16.
- <sup>16</sup> Kuran, Timor., *Islamic Economics and the Islamic Subeconomy*, Journal of Economic Perspectives, 1995, Vol. 9 (4) , pp. 155-173.
- <sup>17</sup> Khan, Fahim., *Fiqh Foundation of The Theory of Islamic Economics*, IRTI Book of Readings, No. 3, 002, pp. 59-60.
- <sup>18</sup> Here we are not concerned with the much wider debate on Islamization of knowledge – its principles and procedures, and comparative schools of thought – irrespective of academic disciplines. A large body of literature already exists on the subject for the one interested in that part of the story. We are in a much narrower and operational groove the subject of economics as currently being taught in our educational institutions. In this narrower ambit there is a good discussion on the meaning and rationale of a step-by-step approach vis-à-vis the puritan all-or-nothing approach in Hasan (1998 and 2001). For discussion on a wider plane one may refer to, for example, Abu Sulayman (1989) among others.
- <sup>19</sup> A discussion on the efficacy of different *fiqh* schools for raising Islamic Economics is not needed here.
- <sup>20</sup> For example, M. Kabir Hasan (2003) in his review of Umar Chapra’s book, *The Future of Economics*, writes, “It was the extremists on both the sides who generated a great deal of heat and changed the tone of the whole debate, creating an atmosphere of confrontation. On the conservative side the extremists like the *Hashwiyas* insisted that faith is based entirely on the Qur’an and the Sunnah and that there is absolutely no room for reason. In sharp contrast with this, extreme rationalists like Ibn al-Razi insisted that reason and revelation were incompatible and that all matters, including right and wrong should be judged by reason alone.”, pp. 67-68. We shall argue later that such extreme positions are untenable but we feel that Kabir’s dichotomy – conservatives and rationalists – in the Western mold is ill-conceived and divisive.
- <sup>21</sup> These issues have been identified on the basis of their discussion in various works on the methodology of economics in both secular and Islamic literature: no one source lists them all.
- <sup>22</sup> See for example, Mahmoud Abu Saud in Tahir et al (1992), pp. 24-48.
- <sup>23</sup> This issue has raised much debate in Islamic economics. Al-Farrouqi was for a step-by-step approach. However, the later formulators of the IIIT position advocated the opposite viewpoint. Interestingly, Hasan (1998)

advocates again for a step-by-step approach, (pp. 3-4). We shall come back to this point in the following Chapter.

- <sup>24</sup> In the literature covered at least in the readings for this research, this has nowhere been acknowledged or mentioned, and as such, it may well shed new light on the current debate, and influence the teaching of Islamic economics and illuminate its relationship with mainstream methodology.

## CHAPTER

# 2

## Literature on Methodology: An Overview

*Say: (O Muhammad صلى الله عليه وسلم) “O Al-Kafirun” (Disbelievers)!, I worship not that which you worship, Nor will you worship that which I worship. {Surat Al-Kafirun (The Disbelievers, Verses 1-3, English Translation - King Fahd Complex-Al-Madina Al-Munawwarah, 1404H).*

### Introduction

The literature on the methodology of mainstream economics is voluminous. Going into its details here is neither possible nor required. We present a brief sketch to give reader a feel of its nature and content. Methodology is, as alluded to earlier, a subset of epistemology or the theory of knowledge. This theory seeks to explain the origin of knowledge, and its sources, the methods of acquiring it, its classification rules, and verification procedures.<sup>1</sup> Methodology is contextual in nature, and can essentially be talked about with reference to a particular branch of knowledge, for example economics. It is concerned with the question of admissibility of sources of knowledge for that branch and about their authenticity. We shall confine our discussion here to the more recent developments after the resurgence of the subject in recent years.

Methodology of mainstream economics is a vast and controversial subject marked with a high degree of confusion.<sup>2</sup> The source of confusion is, in our view, what Joan Robinson calls the ideological underpinning that economics has always carried. This is the ideology of nationalism and economists take it to be so. Thus, the positions they take in principle differ and clash over time and space.<sup>3</sup> We shall limit our discussion to some broad developments in the area highlighting mainly those that are related to or could have relevance for constructing guideposts for methodological comparisons between the two disciplines of economics – secular and Islamic.

The main questions relevant to such a comparison seems to be the inquiry whether reality adjusts to doctrine or doctrine conforms to the reality or one finds a mutual interaction between the two. Is the current position efficacious? Also, should prediction be the hallmark of theory in a social science as is currently believed in economics or the tractability of events, their analysis, and prescription are more important? And finally, is or should economics be value-free or must also have normative and policy aspects? The literature review must essentially attempt a search for an answer to such questions. But before we embark on such a search a word or two about the nature of methodology of economics may be in order.

The following discussion rests on the assumption that the reader is familiar with the evolution of economic thought. It would be an advantage if he also has some knowledge of the history of economic ideas and analysis (Schumpeter 1954).

## Methodology of Economics: Evolution

To begin with, economic methodology developed in part through a process of borrowing from the *philosophy of science* but ran into some serious difficulties during the latter half of the preceding century.<sup>4</sup> Philosophers of science in the 1960s and 1970s were in the midst of abandoning the ‘*Received View*’ inherited from ‘*Logical Positivism*’ promoted by the Vienna Circle during the 1930s, and fed on the excitement associated with names such as Karl Popper, Thomas Kuhn and Imre Lakatos. The task was soon transferred to a smaller contingent of historians of economic

thought interested in the topic of theory appraisal, which also served to establish economic methodology as a new field closely linked to the history of economic thought.

But the element suppressed, if not entirely omitted, throughout this temporal development of the subject has been the *national interest* that invariably inspired and motivated the economists of all shades in their theory constructions. Since national interests very often tended to clash rather than harmonize; there could neither be *eternal* economic principles nor could their application be *universal*. Non-recognition of this fact could only lead to the confusion and dispute one finds the literature on methodology of mainstream economics today is seated on.

The essential reason accounting for the lack of uniformity in national interests was presumably the diverse positions of various countries on the time scale of scientific, technological and economic progress with England leading the queue. The primary task of economists, therefore, became to justify the achievements of their industry and country and to promote their continuation, even at the cost of others, in the garb of *principles* they insisted were, as opposed to those of others, *universal*. Philosophers of economics as well as economists of different shades were to come up with methodological evaluation and erection of investigation rules supportive of national interests.<sup>5</sup> Sub-divisions tended to emerge even in the same tribe of economists to defend conflicting interests within nations.

Indeed, methodology of mainstream economics is a development of *posterior* import invariably struggling to endorse and justify what the economists and economies had already been doing. Methodology was too weak a tool to reverse the tide of actuality. Philosophers were mere spectators of the economic drama as it unfolded before them over time and space and thought it fit to stand up and clap, as they may have been suspect if they did otherwise in the eyes of interests that mattered.

We shall see that this stance of mainstream economists is *the* point of departure of the methodology and economic principles. We shall have occasion to return to the point later in the discussion. Presently, we look at the mainstream literature to discover what has conditioned its nature and development.

## Some Landmarks

Most works on the methodology of mainstream economics start with focusing on the question what scientific knowledge is, and whether economics in general, or an economic theory in particular, can or cannot be considered as scientific knowledge? Methodology has ever been concerned with the logical appraisal of economic theory i.e. the task of deciding whether an economic theory is a success or a failure with respect to the rigorous standards of the scientific method, given the objectives it has to address. Also does it successfully meets those objectives?

This approach is to be seen in the context of the triumph the ‘Enlightenment’ movement had already achieved over the dominance of the Church and the norms of morality it preached to retain its hold on the social and economic life of the communities in Europe. It distanced science by definition from both religious metaphysics and ethics: it insisted that reason and objective facts could alone form the basis and source of *scientific knowledge*. Implicitly, *reality directed doctrine*. We shall see that it is or must just be the reverse in the case of Islamic economics.

However, the directional contrast in the doctrine-reality linkage alone does not provide much of justification for proceeding with the present research; there are a number of other equally important reasons. Simultaneous with the maturing of the philosophical field, there appeared several altogether new approaches to various topics in methodology of economics, both secular and Islamic. These new approaches challenged the form of theory appraisal – methodologists’ chief preoccupation during the recent decades.

Even as some earlier contributions, e.g. of Ricardo, were not insignificant in the historical evolution of the subject of methodology, the work of John Stuart Mill<sup>6</sup> still represents one of the most articulated of documents on the philosophy of economic science. His basic theme was that economics is, and should be, a science, but *its* method was not exactly the same as the method of the physical sciences. This was the dominant view for the next one hundred years – until it was later challenged, as we shall see, by J. N. Keynes – and still remains one of a handful of views currently competing within the methodological arena.

For Mill, chemistry was a science, mathematics was a science as all knowledge comes through the senses, but different sciences just have different ways of obtaining such knowledge. For Mill the issue was not of demarcating science or even good science from nonsense. The issue was of deciding which discipline gets what from amongst the spoils of debate and controversy. As we crossed over from the nineteenth into the twentieth century, things began to change and the sense of achievement in the area of methodology faded. Mainstream economics was all under attack from the historicists – British, German, and Marxian. Advocates of institutionalism, and most other critics appeared as launching their attacks from a position seemingly fortified by better science. *Demarcation* and *rules* became the order of the day.

The focus on methodological issues started sharpening with the publication of Hutchison's *The Significance and Basic Postulates of Economic Theory* in 1938. He attacked with full force, in the same way as the Vienna Circle did, the *apriorism* of the orthodox writers: he laid down the fundamental criterion that economic principles for earning the certificate of being scientific must allow for interpersonal empirical testing. He clearly echoed Popper albeit he always did not recognize his debt to the latter (Knight 1956, p.163).

The centerpiece of Hutchison's argument was that economic propositions could either be tautological or empirical. He regarded those in the latter category alone as scientific and labeled at the same time most economics propositions as tautological not sparing even those assertions that were only disguised definitions. Among such assertions fall, for example, such beliefs that the price system invariably acts to harmonize the interests of all economic agents, or that all economic agents always act rationally, with rationality implying pursuit of self-interest. Such 'hard core' metaphysical assertions in mainstream economics have attracted, as will be seen later, much attention and criticism from Islamic economists as well.

Presumably, the most scathing – in some measure wild and confusing – criticism of Hutchison came from Knight who concluded that truth in economics is not the same as in the natural sciences: "*it is not possible to 'verify' any proposition about 'economic' behavior by any 'empirical'*



*procedure, if the key words of this statement are defined as they must be defined to be used with relevance and precision”.*<sup>7</sup>

An interesting, almost simultaneous, development was Bridgman’s reaffirmation of the methodology of operationalism in *The Nature of Physical Theory* (1936). Samuelson in his *Foundations of Economic Analysis*<sup>8</sup> published in 1948 won accolades for its demonstration that the standard assumptions of constrained maximization are not sufficient to derive most economic predictions: the method of comparative statics does not deliver unless a corresponding dynamic system is specified and shown to be stable. The declared objective of the *Foundations* was to derive operationally meaningful theorems i.e. propositions that could be refuted only under ideal conditions.

To illustrate, we may say that the marginal productivity theory need not be rejected if we cannot demonstrate that it is violating distributive justice under perfect competition. The development resulted in empirical research guiding theory not following it. The reversal of the sequence has done much disservice to the generalized growth of theoretical economics.

It was at this stage that several important writings of Karl Popper appeared on the scene during the latter half of the twentieth century in the area of philosophy of economics with special emphasis on methodological issues. In his better-known work *The Logic of Scientific Discovery* Popper was much critical of positivism that originated in Descartes and supported empirical methods as well for establishing economic theories and their subsequent verification. He emphasized the use of *falsification* for testing of economic theories.

At a time when Popper’s *Logic* was still on its triumphant march there appeared in 1970 another landmark work of Imre Lakatos entitled “*The Methodology of Scientific Research Programmes*” as part of the proceedings to a conference structured as a debate between Thomas Kuhn and Karl Popper. For Lakatos, Popper’s falsificationism presents an appealing image of scientific progress. Although we cannot “know” the truth we can “know” falsity, and science progresses, claimed Popper, by stating boldly and clearly the conditions under which a proposition will be rejected or falsified.

However, for Lakatos, this is a *naïve* falsificationism: it ignores the fact that scientific practice embodies a high degree of conventionalism,

where propositions are not ruthlessly rejected when confronted with apparently contradictory evidence as no experimental result can ever kill a theory since any theory can be saved from counter instances either by some auxiliary hypothesis or by a suitable reinterpretation of its terms.<sup>9</sup> More so as any theory can be amended rather than falsified in the light of “contradictory” experimental evidence. To Lakatos *sophisticated falsificationism* can appraise only the series of theories rather than the specific elements in it, and it is this series of theories that constitute a scientific *research programme*.<sup>10</sup>

A research program is constituted by two sets of methodological rules. First, the *negative heuristic* specifies the paths of research to be avoided, and is designed to insulate from criticism with a cluster of “hard core” propositions and beliefs. The negative heuristic effectively quarantines the hard core, which can then be taken as background knowledge during the course of the scientific research. Concrete research is then guided by a second set of methodological rules, which form the *positive heuristic* of the *research programme*. The positive heuristic provides with the guidelines for further research; the permissible range of scientific inquiry.<sup>11</sup>

The plea for methodological pluralism – a hallmark of Lakatos – puts him between the ruthless falsificationists and elimination of falsified theories (advocated by Popper) and the universally dominant paradigm that is beyond judgment for an extended period (advocated by Kuhn). This gave the methodology of scientific research programs (SRPs) a wide appeal within the field of conventional economics.

Put briefly, the literature on economic methodology centered on the debate that either described the ‘scientific’ practice of economists as a kind of *falsification* or *verification* process. Mark Blaug argues in favor of *falsificationism*, defined as a methodological standpoint that regard economic theories and hypotheses as scientific if and only if their predictions are at least in principle falsifiable i.e. if they forbid certain acts or events from occurring. Assumptions of economic theories provide the protective hedge; with its fall falls the theory as well.<sup>12</sup>

Blaug further claims that modern economists do in fact subscribe to the methodology of *falsificationism* despite some differences in opinion among them, particularly about the direct testing of fundamental assumptions, since mainstream economists refuse to take any economic theory seriously

if it does not venture to make definite predictions about economic events, and that economists judge economic theories in terms of their success in making accurate economic predictions.

Caldwell, on the other hand, doubted if *falsification* was an appropriate or recommended methodology.<sup>13</sup> He argued that its structure is so demanding that little of economics would survive if it were rigorously applied. In addition, he finds few economists practicing falsification even innocuously as Blaug, he says, wanted to make us believe. Caldwell advocates a sort of “*methodological pluralism*” to replace *falsification*. In other words, “Let A Hundred Flowers Bloom”.<sup>14</sup> He found ample support in the *Anarchistic Theories of Knowledge* of Paul Feyerabend and Donald McCloskey. Klant and de Marchi too expressed deep misgivings about *falsifiability* in economics regarding it as an ideal never attained in practice, and at best only attainable to a certain degree. However, all these writers did leave the door open to *falsificationism* as a normative methodology.

These two extreme positions – *falsification and anarchism* – created a real problem in the discussions of economic methodology. If all methodological standards are equally legitimate, it would be difficult to see what sort of theorizing could ever be excluded.

Interestingly, Deborah Redman shows little respect for such philosophers of science as Popper, Kuhn and Lakatos, and regards the Popperian legacy in economics as almost disastrous; interpreting falsification as to mean “conclusive disproof”.<sup>15</sup> Defending them, Mark Blaug argues “*that no one has ever defined falsification as equivalent to conclusive disproof since Popper spent pages in his Logic of Scientific Discovery arguing against the thesis that one could ever conclusively disprove anything*”.<sup>16</sup>

Even so the so-called Duhem-Quine thesis states that it is logically impossible to decisively refute any theory, since any test of a theory involves the conjunction of component elements of that theory. Daniel Hausman also argues that falsificationism is never practiced because it is impracticable.<sup>17</sup> Furthermore, he pleads for what is usually called “*deductivism*” or “*verificationism*”, whose very early advocate is John Stuart Mill and not Karl Popper.

Bill Gerrard, in a useful survey of recent publications on economic methodology sums up the above debate by clarifying what he sees as the

distinction between radical and dogmatic versions of *falsificationism* as under:

“Radical falsification recognizes the fallibility of knowledge, stresses the role of empirical testing as a safety valve protecting subject fields from falling prey to dogmatism and acknowledges the difficulties involved in empirical testing as a result of the conglomerate nature of theories. Dogmatic falsificationism, on the other hand, treats empirical testing as an infallible and purely objective means of arriving at certain knowledge”.<sup>18</sup>

But Blaug restates his defense of falsificationism. “*The history of modern economics is replete with theories and hypotheses that were rejected, because of repeated, if not decisive, empirical refutations*”. Nevertheless, it is difficult to think of a proposition in economics that all reasonable economists agree to have been decisively falsified by the evidence. Perhaps more important is the issue of formal tractability of events and their interrelations.

A research undertaken during September 1987 in Holland reached similar conclusion. The project was oddly enough entitled “*Of Lookout Cows and the Methodology of Economics*”<sup>19</sup> It reiterates the role of beliefs in scientific inquiries alluded to above. The central conclusion of the project was that whatever one *believes in* will almost always shape one’s ultimate methodology. And whatever was one’s ultimate methodology is will shape one’s final economics. Thus, economics was an art of ‘*story-telling*’, and that in choosing which story to tell out of many possible sets of stories the received or dominant paradigm will play the crucial role.

Each methodological school seeks to affirm a particular story about why the economists act as they do or how the economy operates in reality or should operate in theory, and consequently, will select those problems and hypotheses (and even ‘evidence’) which are in line with the accepted proposition/story: research findings will always be influenced in some way by what the researcher believes in; and that precisely was the point that demanded investigation both under the requirements of *falsificationism* or *verificationism*.<sup>20</sup>

Concluding this debate, Hasan (1998) observes:

“A critical review of logical positivism does appear in the methodological contributions of Karl Popper, Thomas Kuhn, and Imre Lakatos and others, but the development their writings ushered in

does not signify so much a departure from logical positivism as an attempt at its refinement, and recognition of the limitations of empirical testing. They maintained the ‘unity of science’ view, endorsed the predictive goal of economic theories, and did not give up the demand for their empirical testing. They remained within the ambit of positivism, though they modified and enlarged it in some ways.”

Thus, there was a mainstream view of the philosophy of science during the middle of the twentieth century as the ‘*Received View*’ or the ‘*Legend*’, or *Positivism* to use a more sophisticated expression. For the common man all this simply was a gospel eulogizing *materialism* to the exclusion of *spirituality* so central to religion including Islam. This early mainstream view of science began to unravel during the late 1960’s and early 1970’s. The problem the majority of the philosophers of science face today is that despite the unsatisfactory aspects of it, there is not as yet a *clear replacement* for positivism.

The foregoing discussion on secular methodological positions, though brief, is adequate to demonstrate that the subject is in a state of flux. However, its broad overall contours are quite clear: to reiterate, there is no break from positivism though normative aspects are now accommodated, the power to predict remains the main criterion for a good economic theory, and the belief in the unity of scientific laws – natural and economic – still lingers in the literature.

In fact, a sort of reinforcement movement for positivism got underway with the appearance on the scene of Milton Friedman’s famous essay ‘*The Methodology of Positive Economics*’ in 1953. He mainly raises two points. First, he maintains that a large portion of economic theory is positive i.e. it does not contain any value judgments; it is concerned with the way things are, not with how they ought to be. Second, he raises the question: how to decide whether a suggested hypothesis or theory should be tentatively accepted as part of the positive science of economics?

His answer is that the worth of an economic theory “*is to be judged by the precision, scope, and conformity with experience of the predictions it yields..... The ultimate goal of a positive science is the development of a ‘theory’ or ‘hypothesis’ that yields valid and meaningful ... predictions about phenomena not yet observed.*”<sup>21</sup>

In recent writings, he has been refuted on both counts. Value judgments are in-built in the assumptions and policy prescriptions of secular economic theory, so much so that not to have a value is itself a value. R. H. Coase, a winner of the Nobel Prize in economics, does not consider that Friedman has dealt with the *prediction issue* satisfactorily. He rightly observes:

“(T)he view that a theory is to be judged solely by the extent and accuracy of its predictions seems to [be] ... wrong. [A] theory is not like an airline or bus timetable. We are not interested simply in the accuracy of its predictions. A theory also serves as a base for thinking. It helps us understand what is going on by enabling us to organize our thoughts. ... Testable predictions are not all that matters. And realism in our assumptions is needed if our theories are ever to help us understand why the system works in the way it does. Realism in assumptions forces us to analyze the world that *exists*, not some *imaginary* world that does not (emphasis added).”<sup>22</sup>

He further adds,

“(T)he strangest aspect of “The Methodology of Positive Economics”... is what we are given is not a positive theory at all. It is, I believe, best interpreted as a normative theory. What we are given is not a theory of how economists, in fact, choose between competing theories, but ... how they ought to choose. ... . If all economists followed Friedman’s principles in choosing theories, no economist could be found who believed in a theory until it had been tested, which would have the paradoxical result that no tests would be carried out. ... A great deal of economic theory, so-called pure theory (and this is most of economic theory), consists of logical constructions based on assumptions about human nature so basic that they are difficult to question.... . In almost all cases, the theory exists before the statistical investigation is made, and is not derived from the investigation” (p. 17).

Furthermore, “there is no sure method of guaranteeing that the fallible knowledge we do have of the real [economic] world is positively the best we can possess under the circumstances. We can invite the most severe criticism of this [theory] appraisal, but we cannot pretend that there is on deposit somewhere a perfectly objective method, that is, an inter subjectively

demonstrative method, that will positively compel agreement [by everyone] on what are or are not acceptable scientific [economic] theories.”<sup>23</sup>

Again, the increasing haze around methodological issues notwithstanding, it has become now clear that even for inclusion within the large set of contenders for the replacement of the *Legend*, any particular approach to scientific knowledge must be able to address a set of specific and fairly well-defined issues; these are essentially the issues that ‘sunk’ the former consensus – *Positivism* – and needed to be addressed by new and competing approaches to formulate methodological norms.

In fact, the way these issues were formulated, discussed, and solutions to them offered in the literature were all conditioned by the basic stance that economics essentially is a positive science even as it could have some normative and prescriptive content as well. The consequences include emphasis on empiricism, a-priori reasoning, practical utility, and the nature and reality of assumptions, a shift to description, survival of the fittest, and on impact of institutionalism.<sup>24</sup>

Also, an essential element in Friedman (1953) was that the insistence on the assumptions of a theory not to conform to reality is wrong and a source of much mischief. Not only it is unnecessary for assumptions to be realistic, it would be a positive advantage if they were not (p.14).<sup>25</sup> Interestingly, many Islamic economists often attack mainstream theories on the ground of the assumptions they rest on not being realistic. Indeed, there are mainstream economists who too have reasons to worry if the assumptions of their theories are palpably unrealistic. Machlup possibly for that reason preferred the language of verification to that of falsification (1978, p.140).<sup>26</sup> Even as he endorses the importance of empirical research in economics with the rider that all tests of economic hypotheses are of inconclusive nature, there seems little point in commending empirical work if it makes no difference to the beliefs one holds i.e. it does not falsify them. And his isolation of a whole class of assumptions, postulates, or notions for defending as ‘heuristic’ conventions needed to facilitate analysis is more in an apologetic vein than logical conviction.

Finally, a common plank of mainstream economics to be in line with natural sciences is the belief that the Darwinian theory of the survival of the fittest is equally applicable in running the market mechanism as an automatic regulator of the participating agents’ behavior. In this connection

most of the merits of the capitalist system stem from the perfect competition model. The obvious corollary is that these merits would evaporate to the extent competition departs from the benchmark of perfection. The tragedy is that perfect competition is a mirage non-existent in actual real life.

It is important to note that controversy surrounding these issues apart, the root cause of the prevalent confusion in the area of mainstream methodology of economics that is in the framing of its principles, rules, and procedures, has all along been essentially an attempt at formalizing what was already taking place in the economic field over the centuries. The 'glide' in secular economics, so to speak, was, and continues to remain, from *economic realities* to *doctrine* and the reverse has rarely been true. We shall see that it is the other way around in Islamic economics because in Islam *action* is dependent on *niyyah* (intentions) which is a function of a unified *aqeedah* (an adhered faith and worldview), and not a variety of many different beliefs devoid of revelations as in Secularism.

The rhetoric of economics and the discourse analysis were the first to be recognized. More recently, contributors from the studies of natural sciences have also added important and new perspectives to methodological issues. But realism, the sociology of scientific knowledge, postmodernism, and most importantly for our immediate goal, the impact of the *Islamization of Knowledge* on economics had offered new and alternative approaches. Moreover, some Muslim economists and econometricians began to write about and comment on the methodology of economics.

## Methodology and Islamic Economics

Such being the state of confusion and indeterminacy in secular methodology, Islamic economists can hardly find any consensus for guidelines to build on for their discipline. In fact, the Islamic treatment of the subject is all the more entangled. The reason partially lies in the fact that Islamic economics still is a very new subject. Its development has so far been quite patchy and lopsided. The underdevelopment of the subject has not so far necessitated the evolution of methodological rules and guidelines to oversee its significant growth.

To be sure, Islamic economists have little interest in the *falsificationism* or *verificationism* criterion to evaluate the efficacy of



economic theories: they scrutinize their validity just from an Islamic perspective anchored in a set of beliefs and rules derived from *Revelation*. Muslims would *falsify* or *verify* what is to be considered as true knowledge or otherwise on that criterion alone. In this sense, the methodology of Islamic economics is based neither on ‘falsification’ nor on ‘verification’. It uses both.

The decisive methodological question is that of approach to the *Islamization of Knowledge* as spelled out by a number of scholars. However, their writings deal with generality, rarely with issues faced by specific subjects, especially economics. In this area Hasan (1998 and 2002) perhaps alone provides a fuller discussion on this key point. He makes in his own way a broad distinction between a ‘step-by-step’ approach on the one hand, and the ‘all-or-nothing’ approach on the other. He writes:

“Two shades of thought are identifiable in scholarly writings on the subject. The first seems to insist on what may be called an all-or-nothing-approach...It requires Islamic economics not to brook any intrusions which the classical interpretation of the Shari’ah would not permit. The underlying assumption of the writings in this vein is of a practicing Muslim society being in existence at all levels. Under the assumption Islamization would result, as it does, in producing ‘pure’ Islamic models rarely having links with ground realities.

In contrast, the second view seems to look at things in a rather pragmatic way. It underlines a step-by-step approach for Islamization to achieve the ultimate in an evolutionary mold rather than at one go. In fact, recent writings in the area of Islamic economics are increasingly following this course. Today there is more talk of teaching economics from an Islamic perspective than of Islamizing economics” (2002, p. 97).

One may differ from the above viewpoint but then must present a viable alternative. Historically, the process of Islamization of Knowledge was popularized by IIIT under the guidance of Ismail Al Farooqi who advocated for a step-by-step approach.<sup>27</sup> This met stiff resistance from the proponents of the ‘all-or-nothing’ puritan advocates, in particular from Al Attas (1989, 1993, and 1995). The IIIT wavered for sometime – tended to change the course of the discussion in the puritan direction – but has eventually returned to its initial position.<sup>28</sup>

Hasan (2002), taking the same route, spells out the reasons for preferring the step-by-step approach. The approach according to him “*recognizes the compulsions of history, the ever increasing sway of the ‘economies without borders’ concept, the job market requirements, and the career aspirations of the young*”. In recognition of these constraints one finds that the Islamic universities remain dominated by the Western curricula frames, course structures, reading materials, and evaluation procedures.

Once we accept the realistic nature of the approach and its pragmatism, the methodological question in Islamic economics would assume a new look. It will essentially revolve around an inquiry into the Islamic acceptability or otherwise of the mainstream economic concepts, theories, tools, and methods with or without modifications. To be precise, methodology of Islamic economics is and would broadly be the application of the *Shari’ah* norms to mainstream dispensation with a view to assessing their compatibility with the Islamic faith and the position of the *Shari’ah* on the many and divergent micro and macro economic *issues*.

The present work assumes this interpretation of the methodology for Islamic economics in the discussion that follows. But before we take up more substantive issues, let us take a hurried look at the current literature on the methodology of Islamic economics so as to complete the picture. The literature is marred with inconsistencies mainly because of having taken its eyes off the ground realities.

To begin with, the *exclusive* sort of writings on the methodology of Islamic economics are scanty and far between. A common error, sometimes witnessed even at the highest levels of scholarship, is the failure to distinguish between *methods* and *methodology*.<sup>29</sup> To reiterate, the latter is mostly treated *internal* to the discipline, not as an epistemic instrument for evaluating the performance of the subject from *outside* the discipline. It often connotes a plan of discussion on a particular issue or area of interest.

The closest we come to the concept of methodology is in writings with a juridical flavor putting forth decision rules in specific matters like ownership of land, faire wages, and distribution norms and so on is in the writings of Baqur-as-Sadr (1982). Rigorous comparative studies involving discussion on secular methodological tools and the extent of their efficacy for use in the case of Islamic economics are quite rare. The observation

need not imply that there are no works worth mentioning. Chapra (1996, pp. 36-46) is a refreshing exception. We postpone the discussion of his views to Chapter 6 of this work.

The declared purpose of *Islamic economics* is to identify and establish an *economic* order that conforms to *Islamic* scripture and traditions. In this direction the main postulates and positions were shaped in the late 1930s in the Indian sub-continent. The movement was initiated by religious scholars. No research seems to exist on the origins of contemporary *Islamic economics* though, one may recall that the first comprehensive, and well-documented treatise on Islamic economics was probably of Maulana Hifzur-Rehman Seoharvi published in Urdu in 1938 by Dar-al-Musannafeen, Jama Masjid, Delhi under the title: '*Islam Ka Iqtisadi Nizam* (The Economic System of Islam).<sup>30</sup>

The book has since run into a number of prints, the last one (of the second edition) appearing in 1946. That it ran into two editions and six printings on a commercial basis, when no one talked formally of Islamic economics, speaks volumes of the substance, range, and vitality of the work. Rehman may presumably be regarded as among the first writers on Islamic economics in a systematic way.

Abul Ala Maudoodi, Khurshid Ahmad, M.N. Siddiqi, M.Umar Chapra, and others joined the queue far behind him. His work is encyclopedic in content and coverage: it hardly leaves any topic relating to economics mentioned in the classical jurisprudence untouched. Even though cast in a puritan mold, it compares at places the Islamic positions with the secular ones on a rational basis. Its language and style are sober, non-rhetoric. It is rather intriguing that most of the later day Islamic economists fell short of recognizing the scholar's seminal work in their writings, and remain unsure to whom the credit of rolling the ball should go.

Writing in the same vein, Akram Khan (1994) states<sup>31</sup> that 'the hard core' of Islamic economics consists of the Holy Qur'an and the Purified Sunnah of the Prophet (peace and blessings of Allah be upon him), and as such "*the question of truth or falsity does not arise ... they [the Qur'an and the Sunnah] are true because of their divine origin*".<sup>32</sup>

The formal dialogue on *methodology* of Islamic economics, however, started much later.<sup>33</sup> It has two distinct shades. Most of the writings, as

noted earlier, discuss methodological issues as part i.e. *within* the ambit of Islamic economics, but some have lately attempted to look at the subject from the mainstream port. In the latter category, a first attempt to formulate the methodological position in Islamic economics in the light of its mainstream counterpart was probably that of Arif (1989). He discusses some important issues like the role of reason and revelation, worldview significance, and the place of values in paradigm building for social sciences, economics in particular. However, he seeks to cover too much ground in a narrow span, and shifts from one topic to another without adequate elaboration.

For example take the basic ‘scientific law’ in economics. One reads that the main purpose behind the behavioral assumptions under secular microeconomic consumer theory is to establish a solid “scientific basis” or a rationale for the monumentally termed *Law of Demand*. Indeed, the formulation of these assumptions in all of the three “celebrated” secular consumer theories i.e. *Cardinal utility theory*, *Ordinal utility theory* and the *Revealed Preference Hypothesis* were all geared towards that main purpose: to provide a strong rationale or a scientific explanation to the *Law of Demand* – as universally<sup>34</sup> expressed in the recognized inverse relationship (*ceteris paribus*) between the price (p) and the quantity demanded (q) of economic goods in the market.

This law, it is acclaimed, has conferred upon economics a status akin only to the natural physical sciences. At last a “universal economic order” was discovered, which was also seen by some to be independent of the degree of market imperfections<sup>35</sup> or even the geographical location of the ordinary consumer. The law applied to all mankind and throughout time and space.

Accordingly, secular economic behavioral models and assumptions are simply abstractions<sup>36</sup> from the real world. They aim at providing an understanding (*a model*) of the workings of the real economic world; in particular the function of the *Price Mechanism* in allocating resources that could have alternative uses. Furthermore, these models aim at predicting important outcomes on (q) in response to changes in (p); holding other related variables such as income or tastes constant (assuming we can do so). In other words, these models explain consumer behavior in the real world.

Hal R. Varian summarizes *microeconomic modeling* and the problems encountered in the *abstraction process* quite adequately:

“In the case of firm behavior, we may believe that we accurately model the objective of the firm as profit maximization, but we may feel that we do not have an adequate a priori description of the technological constraints the firm faces. The situation is precisely the reverse in the case of consumer behavior: there we feel that we have an accurate description of the constraint the consumer faces – the budget constraint – but we do not have an adequate a priori description of the objectives of a given consumer.” Hal R. Varian, ‘Microeconomic Analysis’,

(Norton 1984).

Scientific theories are, therefore, nothing but “*nets*” cast to catch what we call the world. To explain it<sup>37</sup>, to rationalize it (as much as we can or are allowed to do so), and at the end we should be able to harness it.

Now based on the book “*Readings in Microeconomics: An Islamic Perspective*” edited by Sayyid Tahir *et al.* (1992) and published by Longman Malaysia Sdn. Bhd., we find many similarities (in *method*) and variants (in *opinion*) in as far as consumer theory or consumer behavior from an Islamic Perspective is concerned. Syed Omar Syed Agil in his article “*Rationality in Economic Theory: A Critical Appraisal*” rejects the egoistic rationality assumption, and instead assumes bounded rationality or altruism. Similarly, Muhammad N. Siddiqi questions the conventional assumptions of rationality and consumers’ utility maximization behavior: he replaces them with purely Islamic behavioral assumptions. Interestingly, he goes further to predict a decline for luxury items and a tendency for the demand of necessities to rise. Monzer Kahf defines consumer goods in Islam, which attribute moral or ideological values, and Mohammad Fahim Khan assumes an esoteric type of consumer choice based on the concept of needs. Muhammad Anas al-Zarqa outlines the scale of rewards and punishment depending on the level of consumption. Finally, Asad Zaman introduces axioms that describe compatible Islamic consumer behavior in an Islamic economy. In other words, all these notable authors assume many important things but fall short of explaining any thing (or the most crucial thing) i.e. *the Law of Demand* from an Islamic perspective, which, as we elaborated earlier, is the main objective behind

the model-building assumptions under the secular economic theory of consumer behavior.

Thus, as far as we are aware, none of the above noted Muslim economists has voyaged beyond the formulation of behavioral assumptions: *how a Muslim consumer (or producer) should behave*. Over and above, we doubt if any of them has provided an *alternative* to or an acceptable “Islamic explanation” of the familiar *Law of Demand* – the cornerstone of mainstream economics. Either they have “missed the point” or misread the purpose behind the theoretical framework and apparatus of conventional consumer theory. Possibly, they found it difficult to give support to behavioral assumptions that are construed to be either secular and/or non-realistic. Consequently, Muslim economists have painstakingly expounded on the Islamic behavioral assumptions of consumers and producers but terminated their endeavors just there; without going any further to give an appropriate scientific explanation for the *law of demand* in the light of their modifications to the consumers’ behavioral assumptions. For this reason, it would be interesting to find out whether Muslim economists should innocuously pretend the *Law* to hold under their modified behavioral assumptions or must propose any *new scheme*? Alternatively, should we take the *Law* as valid on the plea that one need not feel obliged to explain it: restrict ourselves merely to the formulation of behavioral assumptions even if they are not commensurate with the *Law* albeit inadequate to explaining the real world economic behavior of the consumers?

In view of the above, we are surprised to note how a most fundamental concept in microeconomics such as *Demand* could totally be missed out by Muslim Scholars.<sup>38</sup> One would even argue that the whole economic discipline hinges on this basic concept. And without a solid scientific explanation of the central concept of demand, the whole or even the best of economics would cease to exist. Consequently, the absence of an acceptable scientific explanation or the dissociation from a prevailing one, albeit secular, may render it extremely difficult to even pronounce one’s self as an *economist* – Islamic or otherwise.

Another example from Al-Ansari is model-building in quantitative methods in economics. A formalized model may be defined by a set of fundamental assumptions, a set of auxiliary assumptions. Therefore what is ‘Islamic’ economic theory, and how it is distinct from modern, or

‘neoclassical,’ economic theory? According to most secular economists, “Islamic” (or “Christian” or “Buddhist” or any other) economic *theory* does not exist, although Islamic (or other religious) economic *law* obviously does. Neoclassical theory claims to accommodate any rational, or internally consistent, set of values or tastes. Accordingly, Islamic economics is a “special case” of neoclassical economics *at best* (assuming that Islamic and other religious values are internally consistent).<sup>39</sup> Witness to this the fact that Milton Friedman declared in his Nobel acceptance address, “*The great Saints of history have served their ‘private interest’ just as the most money grubbing miser has served his interest.*”<sup>40</sup> Economists admit that nineteenth-century *classical* economic theory assumed only greed, but often insist that contemporary *neoclassical* economic theory does not, and that critics either do not recognize the difference or deliberately employ misleading arguments.<sup>41</sup> From this point of view, religious values do not alter the analytical tools for studying the economizing process as such, and alternative motivational assumptions have limited relevance for production and exchange processes in a modern, impersonal, market-coordinated economy.<sup>42</sup> Neoclassical theory may therefore avoid a whole range of important philosophical questions.

## Distinctions

We shall demonstrate that the above arguments are deeply flawed, and that Islamic economics – at least from a methodological perspective – is distinct from the neoclassical theory; in fact it *overwhelms* it in a very subtle way and never lets go of it (*the haymana*<sup>43</sup> *principle which will be discussed under Worldview Differences in Chapter 3*). To begin with, Islamic economics distinguishes between needs and wants in the context of a hierarchy of spiritual and other needs, whereas neoclassical theory does not and lacks the analytical tools to do so. In fact, it reduces values to tastes and quality to quantity based on a mono-utility function.<sup>44</sup> This approach does not provide a “heuristic device” that can be successively adjusted for all rational values involving a single end, because it applies only to a particular domain of them, i.e. tastes on the one hand and unethical preferences on the other.<sup>45</sup>

The same applies to choices involving risk and uncertainty, which neoclassical theory reduces to *quantitative* differences in an expected mono-utility function. But the *irreducibility* of quality to quantity in a hierarchy of spiritual and other needs greatly affects the economizing, production, and exchange processes in cases of certainty, risk, and uncertainty from the Islamic point of view.

Moreover, Islamic economics asserts that fulfilling a hierarchy of needs is necessary to establish and maintain equilibrium within man and society, whereas neoclassical theory does not.<sup>46</sup> Accordingly, Islamic economics has a different “central case,” or starting point, of analysis, since disequilibrium in these processes is intelligible only in terms of equilibrium.

Despite these fundamental differences, Muslim economists have not, by and large, satisfactorily articulated them in my opinion. Consequently, Islamic economics has been relegated to a “special case” of neoclassical theory at best.<sup>47</sup> In fact, most Muslim economists appear to believe that adding moral “constraints” to a mono-utility function is sufficient to accommodate Islamic values. This view is internally inconsistent, because such constraints are only possible with a mathematical *relation*, not a function, given a single end. Similarly, a hierarchy of spiritual and other needs presupposes qualitatively different use values, not a *mono-utility* approach. Hence, we coin the term “multi-utility relation” for the analytical approach to understanding Islamic values in the economizing, production, and exchange processes, which no one (to our knowledge) has properly addressed so far.

In fact, Muslim economists generally appear to misjudge the effects of Islamic values on these processes. For example, Muslim economists often believe that production processes and technology are spirituality neutral. But if processes such as assembly-line production are neutral, then the Islamic system of exchange cannot be fundamentally different from *industrial* capitalism, socialism, or some combination of the two. The contrary claims of some Muslim economists are internally inconsistent and open the entire field to severe criticism from economists like Timur Kuran.<sup>48</sup> This situation is particularly perplexing in light of the contemporary literature on the relationship between the Islamic sciences of nature and the productive sciences on one hand,<sup>49</sup> and the classical literature on the



relationship between the Islamic productive sciences and economic institutions on the other.<sup>50</sup>

All this highlights the fact that the Islamic approach to consumption, production, and exchange (and corresponding analytical tools) ultimately depends on the irreducibility of quality to quantity. To the extent this corresponds to reality it determines the relevance of Islamic economics, and it is vitally important to recognize how the reduction of quality to quantity in the secular science has secularized economic theory. Some critics of neoclassical theory go so far as to claim that it blindly imitates nineteenth century physics, implementing a “unity of analytical tools,” not simply unity of method, between the disciplines.<sup>51</sup>

## Conclusion

In conclusion we find that the main points of departure for Islamic methodology from its secular counterpart relate, among others, to the fundamental system of belief which hinges on the concept of worldview, the role of rationality, reality-doctrine relationship, methods used, and the nature of the subject under the two dispensations. The identification of these demarcations is implicit in numerous writings in Islamic economics. Even as they do not pay exclusive attention to critical methodological matters e.g. the Law of Demand, they do examine the issues in secular economics for deciding what can be accepted and with what modification, if modifications were required, for inclusion in the ambit of Islamic economics. Some leading examples are: the scarcity of resources, maximization behavior of economic agents, notion of distributive justice, role of values, nature of assumptions in theory construction and so on. The views of various Islamic economists on such issues shall be discussed in the following chapter.

## Notes

- <sup>1</sup> The origins of knowledge lies in beliefs however formed and among its sources (see Fox, 1997, pp. 423-43) we include reason or introspection, human observation of the external world, tradition, history and so on. We shall return to a more dated discussion on epistemology in chapter 4.

- <sup>2</sup> Blaug (1992) sees modern economics in a state of crisis (pp. 237-241) and identifies theory- measurement interface, falsifications, and applied econometrics as the primary areas of controversy and debate, (pp. 241-246).
- <sup>3</sup> See Joan Robinson (1962. Chapter 6). She traces back the development of economics over the centuries being shaped primarily by the national considerations. Since interests of various nations usually differ – often clash – the space-time compulsions made economists give the cloak of theory to make national interests look universal. The commitment gave rise to confusion and controversy not for theoretical structure of the subject and its content but also its methodological criteria, rules, and procedures. She argues that even Marxism or utilitarianism are not cosmopolitan in substance.
- <sup>4</sup> Notice that the global economic scenario dramatically changed after the Second World War. During the latter half of the century most of the colonies got rid of the foreign rule. Independence created new ambitions and aspirations. The world output during the period aggregated what the world had not achieved in the entire span of its existence prior to 1950. National interests became much diverse and more often clashed. The dominant feature was the race for discovering new resources or capturing them from others. Increasing arm conflicts, regime change by brutal force, violence, conspiracies and corruption are all manifestations of the clash of economic interests.
- <sup>5</sup> The history of economic thought right from the Mercantilists to the present euphoria for globalization bears ample testimony to this observation. One can find an interesting substantiation of the point in Joan Robinson (1962) Chapter 6 entitled: What are the rules of the game? She does not grant independence of time and space even to Marxism or welfare economics and candidly brings out the partisan nature of the major schools of thought and their proponents. Hasan (2002) provides a classic example of national interests dominating theory formulation in the area of international trade based on List's National System of Economy in the 19th century Germany.
- <sup>6</sup> Mill, John Stuart., *On The Definition of Political Economy; and on the Method of Investigation Proper*. See his Principles, Second Edition, Longmans (1968).
- <sup>7</sup> See Knight, Frank H.(1956) pp. 163-164.
- <sup>8</sup> The impact was that the PhD thesis of Paul A. Samuelson *Foundations of Economic Analysis* immediately carried the sub-title: *The Operational Significance of Economic Theory a year later*. Blaug (1992) p.87.

- <sup>9</sup> Lakatos, Imre., *Falsification and The Methodology of Scientific Research Programmes. In Criticism and the Growth of Knowledge*, ed. I. Lakatos and A. Musgrave, Cambridge, Cambridge University Press, 1970, pp. 91-92.
- <sup>10</sup> Ibid.
- <sup>11</sup> Lakatos, Imre., *Falsification and The Methodology of Scientific Research Programmes. In Criticism and the Growth of Knowledge*, ed. I. Lakatos and A. Musgrave, Cambridge, Cambridge University Press, 1970, pp. 93-96.
- <sup>12</sup> Blaug, Mark, *The Methodology of Economics Or How Economists Explain*, Cambridge University Press, 1992, p. xiii.
- <sup>13</sup> Caldwell, B. J., *Beyond Positivism: Economic Methodology in the Twentieth Century*, Allen and Unwin, 1982, pp.124-125.
- <sup>14</sup> Caldwell, Bruce J., *Some Problems with Falsificationism in Economics*, Philosophy of the Social Sciences Volume 14, pp. 489-95.
- <sup>15</sup> Blaug, Mark, *The Methodology of Economics Or How Economists Explain*, Cambridge University Press, 1992.
- <sup>16</sup> Ibid.
- <sup>17</sup> Hausman, D.W., *Is Falsification Unpracticed or Unpracticable?*, Philosophy of the Social Sciences, 1985, Volume 15, 1985, pp. 313-319.
- <sup>18</sup> Gerrard, B., *On Matters Methodological in Economics*, Journal of Economic Surveys, Vol. 4(2), 1990, pp. 197-223.
- <sup>19</sup> Samuels, Warren J. *Of Lookout Cows and the Methodology of Economics*, Journal of Economic Issues, Volume 22 No.3, 1987, pp. 864-867.
- <sup>20</sup> Ibid.
- <sup>21</sup> Coase, R.H., *Essays on Economics and Economists*, University of Chicago Press, 1994, pp. 16-18.
- <sup>22</sup> Ibid.
- <sup>23</sup> Blaug, Mark, *The Methodology of Economics Or How Economists Explain*, Cambridge University Press, 1992, p. 26. However, we shall see later that only under the Islamic worldview there is a perfectly objective method that can tell what is acceptable from what is not acceptable scientific economic theory.
- <sup>24</sup> For an extensive discussion see Mark Blaug, (1997) Chapter 4, pp. 83-111.
- <sup>25</sup> For a detailed discussion on the point, see Blaug (1992, pp. 91-99).
- <sup>26</sup> For an understanding of the distinction between verifiability and falsifiability see Blaug (1992. pp.14-16).
- <sup>27</sup> For details see AbuSulayman 1989 and 1994.
- <sup>28</sup> See the more recent publications of the IIIT on the subject i.e. after 1997.
- <sup>29</sup> See Hasan (1998).
- <sup>30</sup> I do not know the Urdu language though I have seen the bulky book. The mere scanning through the pages speaks volumes of its coverage, reach, and

documentation. It is sprinkled at places with Arabic quotations. However, what I write about it below is not *irfani*: it comes from the review of the book Professor Zubair Hasan presented during one of his class lectures on Islamic Economics.

- <sup>31</sup> Khan, Muhammad Akram, *An Introduction to Islamic Economics*, International Institute of Islamic Thought and Institute of Policy Studies, 1994, pp. 60-61.
- <sup>32</sup> I think a re-qualification of the statement of Khan is necessary here: they (the Holy Qu’ran and the Purified Sunnah) are true because we believe in their divine origin.
- <sup>33</sup> There is of course a whole array of writers – Chaudhary, Zarqa, Kuran, Sardar and others – who have written on the methodological issues; not a few of them have in fact been quite critical of the treatment.
- <sup>34</sup> The inverse relation is considered as a general case where at least the substitution effect is either negative or zero. But there are special cases where the law does not hold e.g. when the income-effect is positive and very strong; outweighing the substitution effect – as in the case of rare inferior or *Giffen* goods.
- <sup>35</sup> The aggregate market demand curve under perfect competition is downward sloping. Also the industry market demand curve under imperfect competition is downward sloping.
- <sup>36</sup> Since all abstractions made by conventional scientists are secular, these scientists have no other way but to depend on experience (empiricism) or reason (rationality); since Revelation does not play any role in their “scheme of things”.
- <sup>37</sup> All conventional scientific theories aim at providing an explanation of the real world “what is out there” and “what is right now”, and in this sense all of them could be considered as “secular” in that they are confined to the real; and the real may not necessarily correspond with the Truth. However, if such explanations are not in disagreement with Revelation, then one should not dispose of them in total until we can find an alternative explanation. But if they are in disagreement, then we have to provide the alternative.
- <sup>38</sup> We prefer to use the term ‘Muslim Scholars’ instead of ‘Islamic economists’ as the error, in our opinion, is so serious that economics, as a scientific discipline, would have collapsed to the ground as a result of this fundamental flaw.
- <sup>39</sup> The following statement is typical: “The desires (*of Homo economicus*) can be ‘good,’ ‘bad,’ ‘selfish,’ ‘altruistic’ – anything you like. The only proviso is that those desires generate a preference ordering; that is, the person can always say whether he or she prefers one bundle to another or is indifferent between them, and that the ordering satisfies the following conditions (reflexivity,

completeness, consistency, and continuity).” Similarly, in their *Free to Choose*, Milton and Rose Friedman stress “... the broad meaning that must be attached to the concept of “self-interest.” Narrow preoccupation with the economic market has led to a narrow interpretation of self-interest as myopic selfishness, as exclusive concern with immediate material rewards. Economics has been berated for allegedly drawing far-reaching conclusions from a wholly unrealistic “economic man” who is little more than a calculating machine, responding only to monetary stimuli. That is a great mistake. Self-interest is not myopic selfishness. It is whatever it is that interests the participants, whatever they value, whatever goals they pursue. The scientist seeking to advance the frontiers of his discipline, the missionary seeking to convert infidels to the true faith, the philanthropist seeking to bring comfort to the needy – all are pursuing their interests, as they see them, as they judge them by their own values.”

<sup>40</sup> Quoted from Tibor Machan, “Reason in Economics versus Ethics,” *International Journal of Social Economics* (1996), p. 21.

<sup>41</sup> It is particularly important for scholars in the humanities to note this distinction within economics, since they often criticize classical economic theory rather than neoclassical economic theory. The distinction is critical because economists dismiss arguments that do not recognize the difference.

<sup>42</sup> Paul Heyne articulates the neoclassical position succinctly and provides valuable references in his extremely well-written *A Student’s Guide to Economics* (Wilmington, Delaware: ISI Books, 2000) available on-line at [www.isi.org](http://www.isi.org).

<sup>43</sup> Haymana is Arabic meaning encompassing, supervising and/or overwhelming.  
<sup>44</sup> A mono-utility function requires that preferences are “complete” (an agent can rank bundles A, B, and C, for example), “consistent” (an agent prefers A to C if the agent prefers A to B and B to C), and “continuous” (an agent is indifferent between B and D, which is some combination of bundles A and C). The first two conditions accommodate both needs and wants, whereas the last condition does not, since it excludes needs.

<sup>45</sup> A “heuristic” analytical device makes simplifying assumptions that are neither negligible nor specify a domain of reality, but serve to discover truth, such as Newton’s assumption of a single planet in a solar system. For the classic discussion of negligibility, domain, and heuristic assumptions in economic theory, see Alan Musgrave, “‘Unrealistic Assumptions’ in Economic Theory: The F-twist Untwisted,” *Kyklos* 34 (1981), pp. 377-87.

<sup>46</sup> “Integrity is related to integratedness” from the Islamic point of view as Abbas Mirakhor points out. See his “Muslim Contribution to Economics” in Baqir al-Hasani and Abbas Mirakhor (eds.), *Essays on Iqtisad: The Islamic Approach to Economic Problems* (Silver Spring: Nur Corporation, 1989), p. 89.

- <sup>47</sup> For a critical review of the literature, see for instance Seyyed Vali Nasr, *Islamization of Knowledge: A Critical Overview*, International Institute of Islamic Thought Occasional Paper 17 (Islamabad, Pakistan: International Institute of Islamic Thought, 1992), and his “Whither Islamic Economics?” in *The Islamic Quarterly*, vol. XXX, no. 4 (Fourth Quarter 1986), pp. 211-20. For an earlier survey of the literature, see for instance Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature* (Leicester: The Islamic Foundation, 1981). For a more recent study of the Islamic economic thought of six Muslim thinkers, see for instance Mohamed Aslam Haneef, *Contemporary Islamic Economic Thought: A Selected Comparative Analysis* (Kuala Lumpur: Iqraq, 1995).
- <sup>48</sup> For instance, see Timur Kuran, “The Economic System in Contemporary Islamic Thought: Interpretations and Assessment,” *International Journal of Middle Eastern Studies*, Vol. 18, No. 2, 1986, pp. 135-164.
- <sup>49</sup> On the relationship between the Islamic sciences of nature and the productive sciences, see for instance Seyyed Hossein Nasr *Islamic Art and Spirituality* (Albany: State University of New York Press, 1987); Titus Burckhardt, *Sacred Art East and West* (Middlesex: Perennial Books, 1986); and Frithjof Schuon, *Esoterism as Principle and Way* (Middlesex: Perennial Books, 1981), Section III on “Aesthetic and Theurgic Phenomenology.”
- <sup>50</sup> See for instance the monumental compilation of volumes in *Revealing the Islamic Economic Heritage (Takshif al-Turath al-Islami al-Iqtisadi)* (Cairo: International Institute of Islamic Thought, 1997), which includes volumes on: *ashab al-sanai’ wa’l-hiraf* (guilds), *al-hisbah wa’l-muhtasib* (regulatory institutions), and *al-as’ar* (pricing). The compilation provides an index to over 130 classical Islamic texts by more than 100 classical scholars in over 150 economic categories. Authors range from al-Ghazzali to Ibn Taymiyah to Ibn ‘Arabi and represent many different schools of classical Islamic thought.
- <sup>51</sup> See for instance Philip Mirowski, “Physics and the Marginal Revolution,” *Cambridge Journal of Economics*, 1984, pp. 361-379.

## CHAPTER



### Worldview Differences

*There is no compulsion in religion. Verily, the Right path has become distinct from the wrong path. Whoever disbelieves in taghut (false deities) and believes in Allah, then he has grasped the most trustworthy handhold that will never break. And Allah is All-Hearer, All-knower. Surat Al-Baqarah (Verse 256).*

#### Introduction

The decisions on the sort of issues which have been listed towards the close of the preceding Chapter depend on what we call the worldview or *vision de monde* underlying any social system. Capitalist, socialist or Islamic economic system each derives its basics from a deliberate or unconscious commitment to the societal perception of life – its purpose, aspiration and regulatory framework. In other words, it is the worldview of a community that makes its economic system what it really is in operation. This chapter begins with explaining this all-important notion – the worldview; the discussion would unfold epistemological ramifications of the notion.

One comes across the discussion of worldview in numerous writings in various branches of knowledge – philosophy, political science, psychology, ethics, religion, economics, sociology, and even physical science. The object

(worldview) looks different from each prism but its broad contours remain broadly the same. For instance, Al Attas in his writings has elaborated the concept essentially from a philosophical angle in the confines of a secular versus Islamic framework. His is a comprehensive discussion indicating the components and ramifications of the two worldviews. But philosophical approach, however excellent, has little utility for a work focused on hard economic realities and requires “applications” to important disciplines like economics.

Many writings on capitalism like those of Schumpeter, Heilbroner, and Galbraith mention the subject not always directly and in a passing way but obviously talk within a secular framework. In Islamic economics too several authors including Chapra and Naqvi pay attention to the worldview differences but do not integrate their ramifications with economic theory. Hasan’s discussion, albeit short and deficient in many ways, does attempt to present such integration in a comparative setting. Hence, it has a somewhat enhanced relevance for the present work.

## Definition and Nature

The Fontana Dictionary of Modern Thought (1982) provides a formal definition of worldview (*or the overly used German word Weltanschauungen* which simply means a complete commitment to a way of life) as under:

“Worldview refers to a general conception of the nature of the world, particularly as containing or implying a system of value-principles. Any total philosophical system may be so styled which *derives practical consequences from its theoretical component...*”.

Such a system of *value-principles* may be inspired by religious tenets or by moral philosophy independent of religion. However, their common element that the above definition underlines is that *theory guides, or should guide, practice*. This may, at times require a reinterpretation even modification of the prevalent theoretical structures. In other words, the notion of a worldview is *contextual*. It is difficult to explain it without indicating whose worldview we are talking about, at what point in time, and for what purpose. The distinctive spiritual and material aspects of the society



an individual lives in often tend to mold his worldview. Also, his perception of the outside world is often reflective of the image he has of his own society and his status therein. Here the *subjective* is seen as carving and painting the *objective* – the concrete – upon its own face.<sup>1</sup>

One can think of a wide variety of worldviews – individual, sectarian, national or cosmopolitan. However, such variety “*cannot make for the thrust and content of a discipline: one has to make a choice for the purpose. Thus, it is imperative to look at the worldview dynamics the different social systems rest on and attempt to protect and promote. Individuals in a society can still have their own variations, but their average behavior would tend to conform to the norms of what has socially been agreed upon*”.<sup>2</sup> Therefore, when we discuss the worldviews, we will be discussing the generally accepted public or social concerns and not those of the private individuals. Individual worldviews, strictly speaking, could be infinite.

A worldview is not only contextual; it is also *evolutive* and *architectonic*. Social phenomena are dynamic and because of the interaction between the changing realities of life and the societal worldview perception, the latter invariably has a temporal dimension.<sup>3</sup> Furthermore, as knowledge expands, there are attempts to influence and mold the societal worldview along a certain path. Thus, the worldview remains in a process of change and reconstruction over time around some *unalterable* elements. This is true of all sorts of worldviews – secular or religious.

Here we are concerned with the two main worldviews: the Islamic and the capitalist from the secular kit. The latter is presently the triumphant one in terms of dominance over both economic theory and practice. We shall desist from discussing in this context economic ideologies that have become defunct or uncommon in the modern world. In particular, we shall investigate the impact of the two worldviews – secular and Islamic – on our understanding of the methodological issues in the area of economic knowledge, especially with reference to the relationship between doctrine and reality, assumptions and restrictions that surround them, the sources of knowledge they admit, and the divergence they cause between the two economic disciplines – secular and Islamic.

According to Islamic belief system, God has created man (and *jinn*) only to worship Him. And the word worship here has no other meaning

except that it encompasses all permissible human activities and intentions as part of the general act of acceptable worship (*ibadah*). Within the ambit of the *Shari'ah*, a man's entire life is an act of worship; and as such, his living either follows the commands of God (including in commercial transactions) or ignores them for his 'self-promotion'. In this way, man needs to seek the correct knowledge of what he must do in order to please God – his Creator.

Thus we find that Islamic economics accords primacy to the pursuit of *spiritual interest* i.e. adherence to divine instructions in worldly affairs as the ultimate act of worship. This is in contrast to secular economics' insistence on the human pursuit of *material interest* alone as the primary goal of satisfaction in economic endeavors.

The pursuit of *self-interest* as part of the human instinct is well recognized in Islam and covers both the spiritual and the material aspects of man's existence. Islamic economists are quite mistaken in ascribing the motive to mainstream economics alone: it is naive to attack it indiscreetly.<sup>4</sup> If Islamic economists are overwhelmed by the obsession of mundane overtones of self-interest, their mainstream colleagues are innocuously elated with its qualities to spur human march on the road to progress and prosperity. It is this difference in approach to the *same* notion that has contributed much to the divergence of one worldview from the other in content and consequence. The divergence emanates primarily from differences in the two belief systems; as we consider capitalism, socialism, and democracy too as sorts of belief systems.

As pursuit of self-interest is one of the strongest motivational forces that condition man's behavior and interacts with his worldview, a clearer understanding of the notion in the two economic systems – secular and Islamic – will not be out of place. One comes across a balanced comparative discussion of the notion as provided in Hasan (2002, pp. 99-100). The following quotation from his work is somewhat lengthy but it offers a fairly vivid comparison of the concept in Islam and in capitalism. He writes:

“As the elementary needs of the people have always and everywhere been the same, individuals' desire well being through need fulfillment, and must seek wealth. The pursuit of personal gain – satisfaction, utility, or profit – is ingrained in human nature. However the pursuit never implied the denial of the existence of other motives including

altruism as affecting human conduct. Self-interest came to the fore in economics, as its primary aim was to study the relevant economic phenomena en masse – the crowd not the individual.

Mainstream economists maintain that of the motives that condition economic conduct of people, the relatively more universal and stable one is that of promoting self-interest. It underlines greater element of uniformity in human behavior providing in that a firmer base for constructing economic theories. But let it be known that Islam too is not averse to the seeking of personal gain provided the tenets of the religion are not violated. Even the moral, spiritual, or ethical motives spur people only to act in their *own* interest. These motives may shun the urge for pecuniary gain, but not for satisfaction in a wider sense. Mainstream economics is not unaware of the role of non-pecuniary motives in shaping economic conduct. It just relegates them either to the considerations of other disciplines or consigns them to the *ceteris paribus* bin.

It essentially is a question of discretion, not of elimination. Furthermore, the pursuit of self-interest need not invariably be equated with selfishness. Selfishness implies deficiency in the consideration for others, while self-interest can be pursued, along with sympathy and benevolence. In a world based on division of labor and increasing economic interdependence of individuals as well as of nations, the pursuit of self-interest rather compels us to care for the interests of others. The ‘prosper thy neighbor’ approach to enrich self signifies the elating change that greets the new century.

It comes about that promoting self-interest may not by itself be unwelcome to Islamic economics. There are, however, reasons why the seeking of personal gain has run into disrepute at times to the extent of being ridiculed even in mainstream literature. The first, and presumably the foremost, is that mainstream economics imposes the pursuit of self-interest as the sole and inviolable condition for being rational. It is this what makes people equate self-interest with selfishness. But Islamic economics need not, as it does not, endorse this view of rationality. Second, the idea is entangled without any compelling reasons with individualism, and the related ideology. However, individualism need not always operate against the ideas of cooperation and spirit of brotherhood in the Islamic system. Third, it

is objected that the individual is not only actuated by personal gain, he is urged to maximize it.

We shall argue that maximization too is not a serious problem from an Islamic viewpoint. The desire for personal gain primarily stems from the natural urge for self-preservation. The famous – or infamous! – ‘economic-man’ need not have been painted out of it. Economists could have achieved what they did even without him. Economics could have been better off by remaining ‘the study of mankind in the ordinary business of life’, as Marshall put it, in the opening sentence of his *Principles*.

Despite much truth in the criticism the way the pursuit of self-interest has been projected in mainstream economics, the bulk of it seems to be rather stretchy and misleading. This also is valid, we shall see, for the unqualified condemnation of maximizing economic gains either by the producer or by the consumer in a market economy, mainstream or Islamic”.

Evidently, believers consider only the Islamic worldview as true and valid. Indeed, we shall rather argue that within the scheme of the true (Islamic) worldview the secular one has entirely been captured: it is explained and identified by Islam from the very outset. The Qur’an talks of Abel and Cain, knowledge and ignorance, right path and the wrong, evil and good, justice and injustice, the guided and the misguided. Those who *submit* to the indicated dictates – the Right Path – have an Islamic worldview, those who choose to go the other way are said to adopt what is described as the secular worldview. Both have been contained in the *same* divine declaration.

## Main Differences

Man is granted *free will* to choose any of the ways. Indeed, the Qur’an is replete with elaborations on, and warnings against, what constitutes the bases of the so-called secular worldview. Thus, the proponents of the Islamic worldview will continue, as they do, to describe the secular counterpart within its own distinctive framework, condemning it as following in the footsteps of Satan. There are then fundamental differences in the theoretical and policy implications of the two worldviews – secular and Islamic – for economics.

First, the separation made by the secular worldview between the *mundane* (external) and the *spiritual* (internal) affairs of man's existence is an important departure point. Islam sees both these aspects – mundane and spiritual – of human existence as *unitary* wherein the *material* and the *moral* considerations as well as the *here (Now)* and *hereafter (Next)* of human life are inextricably entangled.

Furthermore, and more fundamentally, the secular man-made worldview can change infinitely at the discretion of man as his external stimuli and attitude change. Islam, on the other hand, provides humanity with a unique worldview that is primarily derived from the Holy Qur'an and the Purified Sunnah of the Prophet Muhammad (peace and blessings of Allah be upon him) – the last Messenger from God. Accordingly, the two sources of the *Shari'ah* (the totality of beliefs and practical rules of conduct) are not only seen as complimentary to each other but as parts of an indivisible whole. In other words, the Islamic worldview is not a product of human thought resulting from any scientific inquiry: it is a *divine direction* leading to a *unique* way of life. It links the life in this world (the *Now*) with life in the hereafter (the *Next*). Thus, the *Shari'ah*, although flexible in certain areas is not replaceable and therefore, cannot be influenced by any human whim, while, at the same time; it promotes change and aims to influence human intentions, conduct and behavior towards the *Straight Path*.

In the West, the *Physiocrats* – probably influenced by the triumphant Newtonian discoveries – were the first to present the world with an economic worldview having a religious ting. The concept of a 'natural order' was the corner stone of their philosophy. Following the analogy that the laws of nature regulate physical phenomena efficiently, they argued that there too are natural laws that would regulate the socio-economic order equally well. This natural law was, they thought, the grant of freedom to people in economic pursuits. On this edifice later economists, notably Adam Smith who added the pursuit of self-interest to the kit and David Ricardo, raised the façade of mainstream economics. Using this analytical tool, they explained the processes of the creation and of the distribution of wealth.

In addition to the new scientific discoveries, failures of the Church to understand and/or reconcile with the changing social aspirations and public demands resulted in seeing emancipation in a revolt against its perpetuation

of a discriminatory social order as a stumbling block to human progress. Secularism became a symbol of neutrality – if not hostility – to religion. This distanced economics from ethical norms and moral values under the impact of the rising secular worldview. This distancing continued to grow with the passage of time. A position paper published by the Vienna Circle in 1929, put forth the secular worldview that it called scientific, as under:

“(T)he scientific worldview thought of the universe as a self-acting machine following the natural (deterministic) laws, even when God remained its original creator. It restricted man’s vision to his existence in this world without any thought of the hereafter. It relied on reason alone as a tool for explanation and inquiry”. (Shariati 1982, p. 35).

Consequently, the Secular worldview is conditioned by science alone i.e. any subject that goes beyond the limits of human reason is not acceptable. Chapra (2000 p. 21) blames the development on three elements projected as foundational for mainstream economics: rational economic man, positivism, and the Say’s law of markets.<sup>5</sup> The Islamic worldview attempts to project an economic order that would minimize, if not eliminate, the separation of the mundane from the spiritual; it treats life in this world and in the hereafter as interlinked.

The Islamic worldview, although it respects the rational mind, is not confined to the limits of human reason or to observable scientific investigations (‘reality’): it contemplates both, the observables and the non-observables. In other words, ‘material science’ is the ultimate word under the Secular worldview, whereas under the Islamic worldview it is not.<sup>6</sup> Thus, both worldviews have different understandings or notions concerning the ‘truth’ or ‘reality’. What seems to the rational mind, as ‘reasonable’ may not have the same ‘rationale’ in the mind of the Islamic intellect. Consequently, the whole concept of a worldview boils down to a matter of social belief, consensus and persuasion.<sup>7</sup>

## Ideology and Worldview

In the history of economic thought, the term ‘ideological’ has been used at various times to indicate biased, non-objective, false, value-laden, illusory, normative, political, bourgeois, materialistic, particular and even cosmological

and metaphysical notions. Is economics a ‘science’ or is it merely an ideology’?<sup>8</sup> This question, in one form or another, has dogged the pursuit of knowledge in economics since the days of Adam Smith. The ideological has always been construed from the opposite of the scientific, suggesting the existence of an ideal for an objective economic inquiry. There has been what Hasan (1998, p. 20) calls a glide from reality to doctrine, while the reverse is or should essentially be the case in Islamic economics.

The history of economic thought can in fact be viewed or read as a series of efforts to distance knowledge claims from the taint of ideology, a continuing struggle to establish the scientific status of the subject. At the same time, the criticism that an economic theory is ‘ideological’ has often served a way of establishing the superiority of one theory over another. The search for a natural economic order has been an important dimension for the struggle to establish economics as a science: From Smith’s pursuit of Newtonian laws of economic motion, to Ricardo’s exposition of the natural laws of distribution, Jevons’ mechanical analogies, Marshall’s extensive use of biological metaphors and, finally, to Samuelson’s use of the techniques of optimization and dynamics borrowed from physics, economic phenomena have been represented as natural, subject to the physical and natural laws.

This has linked economics to natural science in a sort of legitimating by association. But the naturalization tendency can also be seen as a manifestation of the more general quest for objectivity in social inquiry, an attempt to purge the influence of ideology.

Until Marx, the methodological struggle for economists was to alienate political economy from ethics. It is with Marx that the methodological problem in political economy became the demarcation of economic science from ideology. Ideology, as part of the capitalist superstructure, created the class relations of society, and impacted what Marx characterizes as ‘the mode of production of material life conditions social, political and intellectual processes in general’. Marx argued that the dominant ideology supports the interests of the dominant class: hence he coined the term ‘vulgar’ or ‘bourgeois’ economics to describe the Marginalists as providing an apology or legitimacy to the status quo.<sup>9</sup>

How can we distinguish ideology from science and is economics a science or is it merely an ideology? The answer to this question of course requires definition of terms. All discourses – even which we call ‘scientific’

– are ideological when they are defined as the portrayal of a particular system of meaning as universal. The key term in the question above is neither science nor ideology, but the pejorative term ‘merely’. Ideology, seen as denying vision of society and subjectivity, becomes not just an unavoidable component in the creation of social knowledge, but also a necessary element in the creative process and sense of social life itself.

Only when economists move towards an acceptance of the necessity of vision and belief systems and the importance of *Revealed Knowledge* to the social and economic life will the concern over ideological bias begins to have important implications for economic method and would increasingly find support, not in models of constrained optimization, but also in such techniques that deal with case studies involving historical analyses of social institutions.

It comes about that the economic vision the two worldviews – secular and Islamic – subscribe to (believe in) is the key, the crucial element, in their respective methodologies. Under the Islamic worldview, God has created the universe for the benefit of all creatures; with man made as His vicegerent. He has made the resources of the universe available to man who has the responsibility to make ‘the best use’ of these resources without spreading corruption (*fasad*) in His land. Islam ordains that the social and economic benefits should always outweigh the social and economic costs. More importantly, if the benefits of what is declared as *haram* is more than the cost involved, the product should not be produced or even consumed (here, the golden secular economic rule that *More is Better*<sup>10</sup> does not always apply under the Islamic economic system of thought; in particular if such acquisition is on the account of the *Akhirah* considerations).

Accordingly, God has given man a completed and a perfect Guidance on what to do and what not to do in order for man to receive God’s pleasure i.e. a complete methodology for economic affairs has already been provided and clearly laid-down. Furthermore, man has no knowledge of the *Unseen*, since God is the Absolute Knower of the *Seen* as well as of the *Unseen*. This implies that not every seen (observed) thing in reality or experience is to be considered as necessarily true, and conversely, not all unseen things are necessarily false. Accordingly, all Muslims must believe in the Unseen (*ghaib*) as a pre-requisite of faith. This gives us a very important dimension to one key methodological rule: all economic realities need not necessarily



coincide with the truth, and hence, Muslim economists may not be as enthusiastic as non-Muslim economists in trying always to explain economic realities and/or to predict them because of this underlying key difference in the two worldviews.

What is real may not always be what is true, and hence Islam calls upon man to change his economic behavior to follow the Divine Truth. Furthermore, all economic knowledge, scientific included, is corrigible except the knowledge revealed by God, and as such Islam leads the way for good science and not the other way around. Over and above, all the (economic) activities of Muslims must be performed with sincere intent seeking God's pleasure and in compliance with the *Shari'ah* (the famous *fiqhi* rule of *Ikhl'as and Ittib'ah*). In other words, Islamic methodology aims at ensuring that all the activities of man (including his economics) and the social economy are moving within the confines of the *Shari'ah*. Muslims therefore, must submit by definition for their salvation to an arrangement already put in place by *Divine Wisdom*.

This does not imply that Muslims should not ask questions. Reason is also central to Islam since without it, the provisions of the *Shari'ah* beyond the basic elements of faith are difficult to understand and implement. The role of faith, however, remains supreme even if we do not find a rationale for the action it demands. That *is* the underlying difference between the two worldviews as Islam encourages man to believe in the unseen (*ghaib*), whereas, secularism will always be concerned with the *present* as it sees no room for the *hereafter*.

This is the *haymana* principle which was alluded to earlier whereby the Islamic worldview has an *all encompassing* feature that does not exist in the secular. The criterion for this important principle is the verse of the Holy Qur'an (*saminaa wa'atanaa*: (Oh Lord) we have listened (to Your Commands) and we shall obey). In other words, when it comes to worship, *Mukmins* do not ask questions of first principles since they have already believed but are allowed to ask questions so as to reflect and understand.

Does the element of faith in the Islamic worldview negate the 'unity of science' stance of its secular counterpart? One answer to this vital question – an interesting one – is found in Hasan (1998 pp. 10-11)). In Islam, argues Hasan, the matter-spirit interlock in the human personality would not allow man to follow either asceticism or mammon worship. A

unitary law epitomized in the provisions of the *Shari'ah* maintains this inter-lock. It takes care of both the physical and spiritual aspects of human life in a coordinated and balanced way. In that one does find a 'unity of science' version in the Islamic worldview as well; but once the Enlightenment dismembered the two aspects – mundane and spiritual – of human personality, confining economics to the first alone, capitalism never permitted them to rejoin. *"In fact, what the Vienna Circle projected was not a "scientific" but a loaded worldview. It enabled the Institution of the Church to perpetuate its interests, locally and internationally, as a logical and creedal one. The achievements of capitalism along that path have been glorious but 'it awakened the body, slumbered the soul'. It went far to replace quality with quantity, search for truth with search for power, life for the sake of an ideal with life for the sake of life...and so on. Beauty, truth, and charity – the three most cherished and lasting values in culture – were dismissed and in their place were installed the three popular principles of capitalism: realism, power, and consumption"* (Shariati quoted in Hasan 1998, p.11).

The Islamic worldview also has well spelled out objectives known as *Maqasid Al Shari'ah*. These are meant to promote the welfare of the *entire* mankind, and enjoin on believers the safeguarding of their faith (*din*), their human self (*nafs*), their intellect (*aql*), their posterity (*nasl*), and their wealth (*ma'al*).<sup>11</sup> For, Islam is the *Right Path* for the emancipation of mankind. There are detailed discussions in Islamic jurisprudence on how these objectives can be achieved. The rise and fall of Muslims in world history can directly be traced back to their rigorous pursuit of these *Maqasid* or to their utter neglect.

In contrast, the material progress modern societies have registered mostly devoid of ethical concerns has come at incalculable cost for God's entire creation – not human beings alone – in terms of environmental and moral degradation. Dismemberment of the unitary religious worldview in the name of 'science' made the capitalists the dominant social class and put unassailable exploitative power in their hands that subordinated even states to their discretion.

## Conclusion

In sum, the concept of worldview that guides and regulates an economy is visionary, contextual, and flexible within limits. The basic differences between the secular (capitalistic) and the Islamic economic worldviews center around the issues concerning the sequential relationship between doctrine and reality, the reason-revelation interface, notion of distributive justice and the means of achieving it, the sort of values entertained and promoted, the methods of investigation and research, the place of ideology in the system and so on.

The Islamization of knowledge process in economics must restore the basic unity of the religion's worldview between political and economic areas as a necessary condition to regenerate Islamic realistic academic disciplines for promoting the notion of an integrated social welfare. We must preach what we practice and walk the way we talk in order to lift the state of the *Ummah* from the mire of current misery, self-liquidation, and ridicule.

We have seen the nature and significance of worldview as a conditioner of human conduct. More aptly, the common view of the 'economic man', as a rational-utility maximizing agent; pursuing his self-interest in a single-minded was also discussed. Adam Smith considered man as he is: dominated by self-love, but without much altruistic concern for others. This seems to be true for the Islamic economics as well but with a difference. The difficulty seems to lie partly in its operational interpretation.

In the process of our discussion we have compared the worldviews underlying the two economic disciplines and assessed their impact on the course the two disciplines have taken or could possibly take. We have seen the importance of belief in the Unseen as an integral part of the Islamic worldview. We have also shown that unlike the secular worldview, "more is not necessarily better" according to the demands of Islamic methodology. Finally, economic realities need not be truthful and vice versa; abstract economic methodology may not necessarily be false. And in our view, the Islamic worldview captured the secular worldview from the very outset and this fact has had serious repercussions on the relationship between the two economic disciplines - secular and Islamic.

In the following chapter we take up a discussion of the sources of knowledge the each worldview approve for use in its own system.

## Notes

- <sup>1</sup> See Shariati (1982, p. 20).
- <sup>2</sup> Hasan (1998 p. 6).
- <sup>3</sup> Even the earlier Islamic worldview remained in a process of ‘evolution’ until the final agreement on the contents of the Qur’an was reached. The process continues in a measure even today, as the process of *ijtihad* has not completely stopped as the level of our understanding deepens. However, this ‘evolutive’ part is only now relevant to the outer belt of the hard core. The latter cannot be changed since it is based on the *Ijma’h* of the Ummah.
- <sup>4</sup> For a commendable discussion of this point, see Hasan 2002, the section entitled *Self-interest and Ethics* pp. 99-100.
- <sup>5</sup> Interestingly, one finds Chapra in his ‘Future of Economics’ talking of ‘secularist values’ (p.19) while earlier he lamented that secular economics is ‘value free’. See Zubair Hasan (1995, pp. 59-60). The impact of Hasan on Chapra’s latest work (2000) is evident. But, unlike Hasan, he does not clarify how his secularist values would be compatible with positivism that he decries.
- <sup>6</sup> Unlike the Christian bibles revised versions, the Holy Qur’an operates on science from the outside i.e. science will never come up with a ‘truth’ that is not already enveloped by the Qur’an in one way or another. And we do not use science to confirm what is in the Qur’an, but the reverse is true, the Qur’an is our first guide to confirm whether science is telling us the truth and whether science is on the right track. This is the Islamic methodology for science that forms the bases of our economic knowledge or inquiry.
- <sup>7</sup> Because the adherents of the two worldviews cannot explain their respective positions to each other on the basis of reason alone, as the difference is of faith – which can hardly be explained through ‘reason’ alone (rational mind): for, if it were possible to convince everyone of the Islamic worldview through reason alone, the whole of mankind might have embraced Islam. Thus, the adherents to the secular worldview believe in the norms of secularism while the adherents to the Islamic worldview believe in the Islamic norms.
- <sup>8</sup> J. Robinson raised this question in her *Economic Philosophy*, Pelican Books, 1962, p. 7.

- <sup>9</sup> Islamic economists either did not understand Marx or decided to ignore him under the influence of Western writings. Interestingly, Marx is being read and researched more there after the fall of communism in Europe.
- <sup>10</sup> Indeed, human nature prefers more of ‘goods’. The famous hadith of the Prophet (P.B.U.H.) stipulates that if the son of Adam has a mountain of gold he would want to have another one. Similarly, the Munafiq on average consumes (eats) more than the *Mukmin-Hadith*. As such, for a *Mukmin*, more may not necessarily be a desirable objective function.
- <sup>11</sup> The literature on Islamic Jurisprudence is replete with extensive discussions on the *Maqasid Al Shari’ah*. We, therefore, desist here from their detailed explanation. An often quoted source is Al Ghazali (d. 505/1111).

## CHAPTER



### Sources of Knowledge

*Have they not traveled through the land, and have they hearts wherewith to understand and ears wherewith to hear? Verily, it is not the eyes that grow blind, but it is the hearts which are in the breasts that grow blind. Surat Al-Hajj (Verse 46).*

#### Introduction

Secular economics considered all knowledge emanating from human research and exploration. It makes a distinction between reason and revelation derived from the generic western thought and relies on reason alone as the sources of knowledge. Islam does not make or recognize such a distinction. It does not even consider that there is an issue between the two. <sup>1</sup> Here the issue, in our opinion, is of choice between the two different sorts of ‘rationality’. The first is the one defined and constrained by the Islamic law or *Shari’ah*. The second is the concept evolved and articulated by the secular scholars, especially in the field of economics, during and after the era of the Enlightenment – a movement independent rather than defiant of religion in intent or direction.

It is rather unfortunate that Islamic economists succumbed to the distinction, as they did to many other Western ideas, without much thought

or discretion. In Islam, revelation promotes reason (*fikr, tadabbur*): it is not pitched against it. Still, we shall follow the common practice of regarding them as different in the Islamic economics literature as well.

## Epistemological Position

Reason and revelation are both sources and means of obtaining knowledge, *albeit* their misuse has led to much corruption and bloodshed on earth since times immemorial; the discussion on them belongs to the realm of *epistemology, the theory of knowledge* which is the study of the sources, nature, and limits of knowledge. Plato's dialogue '*Theaetetos*' formulated the classical definition of knowledge as *justified true belief*. As a rationalist, he argued that such genuine knowledge i.e. belief could be obtained by reason concerning the eternal immutable realm of ideas, while we can have only opinions about the ever-changing sensible world. Aristotle claimed that scientific knowledge (Latin *scientia*) consists of necessarily true propositions about the essences of things.

Many later proponents of rationalist and empiricist epistemologies have argued that at least the best parts of human knowledge are infallibly true, incorrigible or absolutely certain: there are situations where it is impossible that the knowing subject is mistaken. The foundationalist epistemologies have claimed that no knowledge would be possible unless there were some indubitable privileged statements (such as the clear and distinct axioms of Descartes, or the reports of immediate sense experience of the positivists). In this sense, the quest for *reasoned* certainty has dominated the traditional epistemology.

However, philosophers as early as the ancient Skeptics – the school of Pyrrho of Elis and the later leaders of Plato's Academy – presented forceful arguments against the certainty and even the possibility of knowledge; they argued that our ideas may be confused and our senses may deceive us. Therefore, they recommended that the 'wise men' never assent to anything; to avoid the risk of error: it is better to withhold judgment on all issues. The disagreements about what is *justified* and *true* led most radical skeptics extend the thesis from everyday experience and science to morality and religion as well.

And when the Pyrrhonian skepticism was revived and strengthened during the Renaissance, it was often employed as a ‘war machine’ against science to restore faith. Fallibilism as an epistemological program was born as a middle way between dogmatism and skepticism. The Stoic philosophers argued that a man cannot act unless he *believes* something. Thus, beliefs, however formed, became a recognized source of knowledge and this opened the door for recognition of revelation relevant for the seeking of knowledge.

In Islam God alone is the source of all true knowledge.<sup>2</sup> He ‘releases’ it to those who seek and toil to learn bit by bit so that pride may not overtake human beings. If the objective of economics is to find the truth i.e. economic truth, then such truth cannot be found with reason alone; that is without guidance being sought from God’s Final Revelation – the Holy Qur’an and the Purified Sunnah. Otherwise, what we regard to know for certain as true or false in economics is frivolous. What someone may regard as true could look false to some one else i.e. it would all depend on our point of view for there is no ‘objective world out there’ nor is there really some ‘objective science’ that could be corroborated and universally agreed upon by all economists. That’s why innumerable questions in the field of economics remain unsettled, even unanswered.

## Theory vs Reality

In Secular economics, there has mostly been a preoccupation with explaining reality and predicting human behavior on the basis of hard external facts that it takes as equivalent to *the* truth. But what is reality or an objective fact in the parlance of the secularists? To be sure, no fact can exist without reference to a prior scheme of thought. This scheme may emanate from a belief system of one’s religion or the other or from what is already recognized as accumulated stock of knowledge, or from what people have experienced. Thus, what we call objective reality or fact has no independent existence external to a prior thought process. Such thought process could be barren without factual knowledge, but facts in the absence of such process are simply meaningless.

To illustrate, let us take a tiny black spot at the cheek of a beautiful girl. What is the objective *fact* about it? A chemist might say that it is a clotted amalgam of some superfluous matter in the blood. A physicist may



attribute it to the activation of some electrons, a businessman may see money in it for the girl if she becomes a more valued model because of it, for a poet it could be an inspiration to write better poetry, and a mystic may see all God's glory in it! Then, what is the *fact* about the mole? Facts are invisible unless one has a prism to look at them. Theories without facts may be barren but facts without theories are meaningless.

## Rationality: Secular vs Islamic

Leave it at that and turn to the modern view of rationality. Conventional economic theory has evolved on the assumption that people are *always* rational. In reality, they are not.<sup>3</sup> At the same time, they are not totally devoid of rationality. In other words, their behavior is not random. If economists could try harder to recognize that people try to be rational, but in certain, often predictable, ways fail to be, the Islamic conception of rationality (*reason plus sapience*) could provide a much better foundation for economics. There is a relationship, not antagonism, between reason and revelation. For, unlike rationalism, Islam does not see Nature as a material physical object for human exploitation and use but accords it a further and deeper significance.

Iqbal, the philosopher poet, said in one of his couplets "*In the wonderland of knowledge you do not find the manifestation of the secret of life and death so evident in just the petal of a flower*". The same idea was expressed in the couplet of an earlier poet, Sheikh Saadi in Persian when he said that the leaves of green trees are each a book in the eyes of the wise showing the magic of His Grace and Greatness. The Holy Qur'an upholds Nature – the entire universe – as an open book which man is exhorted to read, understand and interpret to seek knowledge. Islam does not see Nature only as a source of usable materials ready for human enjoyment. "*It is bestowed with a cosmic relevance and must be revered for containing symbolic evidence of God's existence and His supremacy over everything else.*" (Al Attas 1993, p. 35).

True, many influential ideas of the past (and the present) had their roots in 'rational' scientific discoveries, 'man-made' institutional arrangements, and in the relations between different economic groups and their conflicting interests but they all suffer from a crucial sense of

incompleteness unless their roots are traced back to natural phenomena. For example, today's conflict between development and the environment is the direct consequence of the failure of mankind to read the *Book of Nature* and ignore its demands. The delicate interplay, in fact conflict, between the economic conditions and economic theorizing based on reason alone is found to have a direct impact on secular economics.

Let us reiterate that Islamic economics is not averse to reason. In fact, the Qur'an uses reason to make *Men of Wisdom (Owli-'al-Baa'b)* understand God and His Creation. Also, it exhorts them to ponder for understanding the Divine injunctions i.e. the rationality and the wisdom underlying them. But man need not understand or comprehend everything. That is not the objective of Islamic science; which is the reverse in secular science. For reason has an exalted place in the Islamic scheme of things for the generation of knowledge so long as it does not collide with the basic elements of the Faith. Apart from the issue of demarcating the spheres of reason and revelation in searching for and enhancing knowledge, the *Shari'ah* does endorse that knowledge is the carrier of reality, and also attempts to define it.

Thus, in methodology of economics we have to integrate and unify together the three broad sources of knowledge: *Reality, Reason* and *Revelation (what I like to call as the three R's and have placed them in the order of their superiority)*: First comes the filter of *Revelation*, then the filter of *Reason* and lastly that of *Reality*. These three facets are interrelated and should invariably underpin any future discussion on methodological issues in economics – secular or Islamic.

Attempts at the integration of the *three Rs* brought in fallibilism as a term meaning to deceive, or to err, that is in either case a departure from truth. Charles Peirce<sup>4</sup> introduced the term in the 1890s to express the epistemological doctrine that 'people cannot attain absolute certainty concerning questions of fact. Later Karl Popper used it in connection with his scientific methodology. Because of this uncertainty problem, man needed guidance to tell him what to do and what not to do during his time spent on earth. Secular economics sought the refuge in doubt, presumption, and falsification for such guidance.

However, reliance on presumptions cannot be the case with Islamic Economics for three reasons. First, the distinction between methodology of

economics and the subject of economics, though blurred in secular dispensation, is all the more indistinct in the case of Islamic writings. We shall see that the relationship between *Usul fiqh* and *fiqh* is not entirely unidirectional. Second, Islam is a way of life and its economics is not based on any ‘theory’ *per se*. Unlike secular economics, there is not much scope for constructing postulates or inventing doctrines. Hasan has aptly observed: “*Islamic economics does not rise from the shadows of doubts and presumption on the wings of human reason to take any direction the pilot chooses; it springs from the fountainhead of Revelation – the epitome of truth for the believers – and remains anchored to it*” (Hasan 1998, p. 20). Reason is blocked as and when it violates Revelation. Only whatever is in line with Revelation can be retained. Third, principles emanating from the *Shari’ah* must guide practice, not the other way around, albeit some exceptions are allowed. There is greater burden on reality for conforming to the *Shari’ah* principles. This is one reason why Islamic economists use the terms economics, economic system and economy interchangeably.

## The Affinity

However, there is an interesting affinity between the methodological stances of the two disciplines. Recall that the secular methodology insists on the ‘unity of sciences’ i.e. some sort of a natural law must be guiding not only the physical but also the social sciences as well. In a subtle way Islam endorses this view. The Qur’an time and again draws our attention to the laws of nature God has subjected physical things to observe; even vegetation and animals have such laws to regulate their behavior. But human beings are different from all other creation: man has been granted the special discretion of *free will*. Unlike physical or inanimate objects, vegetation, insects and animals’ regulatory laws for human-beings are not intrinsic to them. Instead, they have been provided with such a law: it is enshrined in the *Shari’ah* and is in harmony with human nature.

In fact, Islam takes the entire universe, including the Earth – men and Nature – as one *unit* whose components are all subject to the same general law – the epitome of His Truth – that it’s Creator has ordained. Nature has but to submit intrinsically to this law. No disruption or deviation

can ever touch its operation or obedience without God's Will (Qur'an 7:54). However, unlike Nature, man is not obliged to obey the same sort of natural law. To man God handed down the *Shari'ah* as an integral part of the same scheme. But unlike the physical objects, he granted him *discretion* to follow or not to follow the law. This is the essence of what we call the free will God has granted to man. The West used this discretion to belittle and distort faith; they depend on reason alone in social sphere also. This led to much of the current confusion and chaos in history and in modern society.

For the believers, on the other hand, man is on trial; if he follows the law he will be rewarded but if he violates it he shall be punished (Qur'an 2: 38-39; 21:10-20). Thus seen, the secular 'unity of science' theorem is consistent with the norm and intent of the *Shari'ah*. If man follows the Word of God his life would remain in harmony with his own nature and with the rest of the universe. If he does not, he would seldom find peace within, and might spread corruption on himself, fellow men and outside on the earth. This applies both to individuals, societies, and to nations. In sum, secularists see the 'unity of sciences – physical and social – in human reasoning alone, while Islam regards *Shari'ah* as the counterpart of 'physical laws' for regulating human conduct to retain that unity.

### Impact of Usul-ul-Fiqh<sup>5</sup>

Even as the primary emphasis in Islam is on making reality fall in line with the *Usul* (the fundamentals) there can at times be cases where reality enshrined in practice may be adopted for formulating the *Usul*. Modern dynamic Islamic societies are for that reason making ever increasing use, perhaps overuse, of the generic Islamic *Usul of facility*, especially in the realm of finance even to the neglect of the *sa'ad-al-zharaie* principle. From the classical interpretations of the Islamic law Sadr (1983) provides an apt illustration of framing Islamic *Usul* concerning the using of land and its ownership: land belongs to one who enlivens it i.e. the actual cultivator; if he cannot use it, he must give it for use to a Muslim brother preferably free of cost, albeit there *is* provision for charging rent.

Finally, one more issue in the reason-revelation debate requires clarification. Rationality in Islam is the sum of both reason and sapience;

rationality and reason are not coterminous as in mainstream economics. But over-stretching the distinction may be perilous.<sup>6</sup> In the dynamic uncertain world pure reason can rarely lead to correct conclusions. There always is a margin of doubt. Doubts require conscious use of some critical method for scientific thinking as criticism alone can help detect mistakes, if any, in the argument. This raises a sensitive question: what portion of revelation can be opened, if at all, to rational argument, to what extent, and by whom? Again, overdoing the relationship may open the door for critic to attack Islamic principles from the other side of the fence. Inattention to these points has led to much confusion and infirmity in the methodological writings on Islamic economics.

Over the past two hundred years the discussion concerning the revelation-reason relationship in the context of understanding the truth the *Shari'ah* contained and for applying it to real world situations has tended to swing from one extreme position to another: reason was either shunned almost completely from promoting the understanding of the faith or nothing was thought explicable save in terms of reason. The two streams of thought ran parallel, sometimes counter, to one another during the Islamic revivalist movement, albeit overlaps in the views of individuals in the two streams have not been entirely absent.

Orthodoxy allowed only a very restrictive flexibility in the interpretation of *Shari'ah* or its application. More recent advocates for the approach include men of such eminence as Abul Ala Maududi, Hasan al Banna, Sayyid Qutb and in some measure Al Attas. The common point in their writings was a scathing criticism of modern philosophy, political setups, economic structures, social traditions, and role of science in human life. According to Moussalli (1990), philosophically they rejected the claim that man possesses the truth or that there is no truth. Politically, they rejected the notion that authority belongs to people. In the field of economics they do not accept that societies are mere market places where desires of any and all sorts are met. In sum, they preach Islam that codifies a way of life and thought for the believers and argue that the code has relatively little flexibility. Islam envisages the establishment of societies that rest on virtue, justice and freedom. This is what its content and thrust ideally require.

They argued that man's nature – his instinct or intuition or *irfan* – is the recipient of revelation and is therefore the true and exclusive repository

of moral principles, not his mind. Man cannot arrive at them through reason. Revelation to them is axiomatic requiring no logical proof. Reason they insist is powerless to comprehend revelation. In other words, the question primarily is not that, as Qutb puts it, what the Qur'an has said and taught but why the Qur'an and to a lesser extent, the Hadith are accepted as the source of politics, law, economics, and for that matter, all aspects of life (Moussali, 1990).

Modern Islamic scholars on the other hand tend to see revelation almost always in the ambit of reason. They include such well-known names as Jamal-al Din Al-Afghani, Muhammad Abduh, Amir Ali, Ali Shariati, and Al-Farooqi and others. They differ on many issues but depict a 'remarkable attitudinal affinity'. Rationalism was maturing in Europe during their era in the wake of the industrial revolution, and the idea that Islam allowed scientific inquiry was being questioned as Islam was dubbed as a religion of miracles and superstitions.

The modernists attempted to respond and in the process provided some readjustments. They provided allegorical interpretations even to those Islamic beliefs that reason was powerless to explain. These, for example, included the life beyond grave, paradise and hell, the account of *miraj* or the ascension of the Prophet (peace and blessings of God be upon him) from earth to God. Cases can be multiplied. Presumably in doing so they went too far. Their claims cannot be verified and tend to become heretical. Secular methodology uses verification criterion to exclude metaphysics from scientific discussions. Hasan (1998) summarizes it as follows:

“Property ownership constitutes a right restrained by responsibility. Financial arrangements have to shun all forms and shades of interest [(usury)]. Business transactions must remain free of *gharar* (indeterminacy). Market cannot be an instrument of any sort of exploitation. Profit carries a wider meaning than in customary accounting. Establishing social balance, equity, and reciprocal responsibility is a fiscal policy imperative. Basic needs fulfillment is a growth priority. Social gain has preference over private benefit, cooperation over competition. And there are no barriers to the Islamic state's intervention in economic matters if unavoidable for promoting the Shari'ah objectives. The Islamic approach to economics is holistic, and it centers on its all pervading concept of *Amanah*”.<sup>7</sup>

## Falsification and Islam

We saw that in secular economics falsificationism is often preached but almost never practiced and normative principles which cannot be observed even with the best of intentions are considered plainly useless and/or misleading. However, in Islamic economics falsificationism is always practiced as ordained in the *dos* and *don'ts* contained in the *Shari'ah* [note the fundamental statement of the Testimony – the Shahadah: *LA ILAHA (falsificationism at work) ILLA ALLAH (Verificationism at work) Muhammad Rasoulu Allah* (to follow and to believe in the prophet and his teachings through the Purified Sunnah). In a nutshell, true knowledge is based on revelation with the assistance of guided reason, which both direct that all types of worship (*ibadaat*) are forbidden except what has been ordained by the *Shari'ah* and also that all types of economic transactions (*muamalat*) are permissible except what has been disallowed by the *Shari'ah*.

Thus, it is these epistemological differences that provided the Islamic and secular versions of economics with divergent value frames, different meanings of basic concepts, and distinctive behavioral rules and the procedures for formulating theories and seek their verification. They condition the nature, scope, methods, and behavioral norms of the two disciplines of economics, secular and Islamic.

If economists could recognize that people try to be rational, but in certain, often predictable, ways fail to be so, the Islamic conception of rationality (*reason plus sapience*) could provide a much better foundation for economics. There is a relationship, not antagonism, between reason and revelation. For, unlike rationalism, Islam does not see nature as a material physical object for human exploitation and use but accords it a further and deeper significance.

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science. For reason has an exalted place in the Islamic scheme of things for the generation of knowledge so long as it does not collide with the basic elements of the Faith. Apart from the issue of demarcating the spheres of reason and revelation in searching for and enhancing knowledge, *Shari'ah* does endorse that knowledge is the carrier of reality, and also attempts to define it.

Thus, in methodology of economics we have to integrate and unify together the three facets of knowledge: *Reality*, *Reason* and *Revelation* (what I like to coin as the three R's which I deliberately place them in the order of their superiority): First comes the filter of *Revelation*, then the filter of *Reason* and lastly that of *Reality*. These three facets are interrelated and should invariably underpin any future discussion on methodological issues in economics – secular or Islamic. From here, we see that *Reason* has two faces: one face resting on *faith* (*sapience* or *irfani*) while the other face of *reason* has none.

## Conclusion

We have dealt with the roles of reason and revelation in obtaining and promoting knowledge and also showed how the two impact the explanation of reality concerning economic matters. The chapter also examined the limitations Islam imposes on the use of pure reason in making economic decisions. We argued that the distinction between reason and revelation is of a Western import; Muslims do not make such a distinction or an issue out of it. So it seems 'reason' has two faces: one with faith and the other without.

## Notes

- <sup>1</sup> The power to reason is part of wisdom Allah SWT bestowed on man, sapience being the other part. Revelation (the Qur'an) states this position in most unmistakable terms. Thus, we do not subscribe to the view – though some scholars may have it – that revelation is the primary and reason the secondary source of knowledge from Islamic viewpoint. The discussion below makes our position clearer.



- <sup>2</sup> Based on our faith, all other knowledge not compatible with Islam is simply untrue and is nothing more than the whisperings from the Unguided Human Self or the Devil or both.
- <sup>3</sup> The folly of this assumption is no better explained anywhere than in the famous essay of A. K. Sen “Rational Fools” reproduced in several works. See, for example, Hahn and Hollis (1979) Chapter VI, pp. 87-109.
- <sup>4</sup> Charles Sanders Peirce (1839-1914) was the founder of American pragmatism (later called by Peirce “pragmaticism”), an extender of the Scotistic theory of signs (called by Peirce “semeiotic”), an extraordinarily prolific logician and mathematician, and a developer of an evolutionary, psycho-physically monistic metaphysical system.
- <sup>5</sup> *Usul-al-fiqh* are principles that help establish and interpret the *fiqhi* rules and positions. Methodology of Islamic economics has to work within the confines of these rules: application of these rules to secular positions leads to the establishment and certification of Islamic norms and principles in the area. There is no dearth of literature on both *usul* and *fiqh* in various languages of the world. Hashim Kamali (1994) is one leading example providing *fiqhi* modifications to some secular practices in the area of finance. Such is not the objective of this work. For one thing, I am no expert in matters of *usul* or *fiqh*; for another, it is not an imperative for the present work. For these reasons I did not make the discussion of *fiqh* or *usul-al-fiqh* one of the ingredients of my research proposal presented to the university and approved by them. However, I shall touch upon juristic positions later in Chapter 6 of the work in discussing the question of methods.
- <sup>6</sup> For an interesting discussion on the point see Hasan (1998, pp. 13-15).
- <sup>7</sup> We find probably one of the best elaborations of this important Islamic concept in Hasan (1988), Section II, pp 41- 45. According to him, Amanah underlines Islam’s entire socio-economic philosophy and encompasses its programme right through from the individual to the state. In the field of economics it seeks to convert the material ambitions of man into the means of attaining spiritual heights i.e. his ultimate goal.

# CHAPTER

# 5

## Values and Economics

*But seek, with that (wealth) which Allah has bestowed on you, the home of the Hereafter; and forget not your portion of lawful enjoyment in this world; and do good as Allah has been good to you, and seek not mischief in the land. Verily, Allah likes not the Mufsidun (corrupters). Surat Al-Qasas (Verse 77).*

### Introduction

Values <sup>1</sup> refer to norms individuals or societies hold, implicitly or explicitly, for observance to operate in the various spheres of economic life. Having values is inescapable in any sort of economic inquiry – Islamic or secular. Not economics alone, no branch of knowledge, natural sciences included, is entirely value-free. For, the claim of being value-neutral itself walks wearing the garb of a value. The claim that economics is value free got hold on mainstream thought under the influence of the Vienna Circle. The lurking desire in the heart of economists to acquire the exalted stature and recognition the “scientists” enjoyed in society and the compulsions of distancing from the discriminating property rights that favored the Church until the Protestant revolt made economists raise a ‘Unity of Science’ edifice on the sands of value-neutrality.

For being a science, economics must be concerned like, physical sciences, only with observation and factual analyses to uncover uniformities in human behavior that could then be paraded as having the status of scientific laws independent of time and space. A leading example of converting values into scientific value-neutral principles is the theoretical façade raised for freedom of trade. Vincent de Gournay, a product inspector in France during the Physiocratic era (1750-1770), is credited to have first uttered the famous phrase “*laissez faire, laissez passer*” in effect meaning freedom of business enterprise at home and freedom of trade abroad.<sup>2</sup> The inspector could never imagine that his words were going to lay the foundation of an economic system that would dominate economic thought and policy through the centuries. Adam Smith and Ricardo endorsed it as a universal principle that would benefit all. The principle continued on its triumphant march unchallenged, save temporarily by Friedrich List (1789 – 1846) in Germany.<sup>3</sup> The current idea of globalization has its roots in the history of free trade gospel; it is being marketed around by the same sort of vendors as in the past to the disadvantage of the poor of the world.<sup>4</sup> Examples of the sort can be multiplied infinitely.

It was the Vienna Circle that enlivened the value-neutrality theme in economics on the eve of the nineteen-thirty’s Depression. Their ideas found articulation in the work of Lionel Robbins – a rebel student of Alfred Marshall – in his cogent and tightly argued essay: *The Nature and Significance of Economic Science* (1931). He declared that ‘economics was neutral between the ends’ (p. 34) and thus heralded the resurfacing of ‘positivism’ in a big way.

The word of Robbins spread in no time and found unflinching proponents all over the Western world. In the United States of America, Milton Friedman seized upon that heritage<sup>5</sup> and sought to preserve it with great scholarship and dexterity. But a non-fact cannot survive for long. It has already been showing signs of dissolving into the new currents of thought, in the West itself, if the recent views on philosophical issues in economics are any guide.

## Values: Secular vs Islamic

Leading economists of today like Myrdle, Arrow, Solow and Sen – as also the philosophers of economics – now admit *en mass* that value neutrality, especially in social sciences like economics, is not a defensible claim. For, not to have values is in itself a value (Arrow and Hahn 1971). Nevertheless, the issue is now being put across differently: the question is what are considered as the ‘right’ values and how these values are being or can be selected, modified or replaced in each case – secular and Islamic. What are the criteria used for value selection? Who has the authority in value selection and what role, if any, could the State play in this respect? What are the limits to value choice and the extent of flexibility allowed? How can we base economics on Islamic values and what are the necessary conditions to be fulfilled?

Such questions are briefly dealt with in Hasan (1995 Section 4). His essential point is that value selection in secular societies is the function of democratic process and is infinitely flexible depending on the majority view. Consultation or *Shura* is its counterpart in Islam but the flexibility is limited to what the *Shari’ah* can allow. However, one must point out clearly that the set of *permissions* is much wider than the set of *restrictions* under the Islamic economic framework. In essence, the considerations for *Akhirah* are the overriding element regulating human economic behavior while the emphases on *Dunya* appear to be the deciding factor in secular economics.

More importantly, selection of values under the Islamic worldview is never left to human choice for the followers of the Right Path. For expository purposes, take the central economic problem of scarcity<sup>6</sup> and the celebrated definition of economics by Lionel Robbins that the economic problem is a problem of choice.<sup>7</sup> Why is there a problem of choice? Because Man’s wants are ‘unlimited’ and the resources at his disposal at any given time and place are relatively ‘limited’ or ‘scarce’ and these resources have alternative uses. Wants as such stare all of us in the face and are the springhead of economic activity and progress. Nature, according to Robbins, is niggardly, and has not given men enough resources to satisfy their continual urge of satisfying wants. However, in the literature

on Islamic economics, presence of resource scarcity is not explicitly acknowledged (please see n. 99).

More importantly, indulging in material pursuits in Islam though allowed is not an end in itself; it is but means for a much nobler end – the solace in the *Al-Akhira*. Although a believer consumes, produces, and involves himself in economic exchange, his intentions are not just to satisfy his immediate wants but also to please Allah first and foremost as His ‘slave’ (*Abd*) on earth. He has rights and obligations vis-à-vis the society that he lives in. A complete economic framework is prescribed by the *Shari’ah* wherein the state has an active role to play, where private property is respected provided all the dues are observed, and where sharing is a pre-requisite for growth.

In short, values in Islamic economics are bound by the precepts of the *Shari’ah*, and consequently, Muslim economists cannot go out of their way to give a ‘scientific rationale’ or endorse a specific ‘economic relation’ which is not in accordance with the divine precepts. In essence, there seems to be a call for a marriage, or at least a much closer cohabitation between ‘positive economics’ and ‘normative economics’ as far as the methodology of Islamic economics is concerned. Based on this approach, Islamic economics becomes, in a way, the art of overseeing the development of secular economics in a special way: it shall invariably have a methodological position or stance on all the theoretical and applied aspects of the subject.

There are indeed three ways in which ethics enter economics. First, economists have ethical values that help shape the way they apply economics in the ordinary business of life. This builds into the core of economic theory or a viewpoint as to how the economy does work and how it should work. Second, economic actors (consumers, workers, business owners) have ethical values that help them shape their economic behavior. Third, economic institutions and policies affect people in different ways and thus ethical valuations, in addition to economic evaluations, are always significant.

The issue of ethical value judgments in economics is as old as, if not older than, the position of John Neville Keynes who divided economics into three areas: positive (economic theory), normative (welfare economics) and practical (economic policy). The first deals with ‘what

is', the second with 'what ought to be', and the third with how to get from the one to the other (Hausman, p.180). Although the majority of economists admit that ethical values permeate welfare economics and economic policy, they proceed with some confidence in the belief that their work in pure and applied economic theory is ethically neutral. Methodologists studying this question are more cautious.

In recent years there has been a flurry of literature calling into question the scientific character of economics, more so of its Islamic counterpart. Part of that literature deals explicitly with the impact of ethical norms and value judgments on economics as a science: value neutrality versus value permeation. There are two pervasive tenets of the value neutrality argument. The first is a reliance on the human guillotine which categorically separates fact ('what is') from value ('what ought to be'); the second basic tenet strongly supports the first by claiming that, since we have objective access to the empirical world through our senses and experience, scientists need not concern themselves with 'what ought to be'. This second tenet is the crucial point and the one that critics have sought to undermine.

One of the recent criticisms of the value neutrality thesis, Kuhnian in character, is convincing for many. Kuhn's rejection of the second tenet – that we have objective access to the empirical world through our sense experience – is important for those opposed to the value neutrality position. He argues that the empirical world can be known only through the filter of a theory; thus facts are theory-laden. A major argument of those who build on Kuhn's approach runs as follows: a worldview greatly influences the scientific paradigm out of which one works; value judgments are closely associated with the worldview; theories must remain coherent with the worldview; facts themselves are theory-laden; therefore the whole scientific venture is permeated by value judgments from the start (Kuhn 1970, p. 37).

The worldview or *Weltanschauung* shapes the interests of the scientists and helps determine the questions they ask, the problems they consider important, the answers they deem acceptable, the axioms of the theory, their choice of the 'relevant facts', the hypotheses they propose to account for facts, the criteria they use to assess the fruitfulness of competing theories, the language they use to formulate the results and so

on.. All such choice decisions have value underpinnings. The ambit of the worldview is indeed wide and pervasive.

It is thus argued that the paradigm or research program of any scientific community is circumscribed by boundaries laid out in a worldview which, while possibly objective at the level of individuals, remains empirically non-testable, or metaphysical, as Boland (1982) and others say. In mainstream economics the facade of value-neutrality stands, but the pillars that support it seem to be crumbling. Blaug (1997) concedes that both 'factual', and 'moral' arguments rest 'at bottom' on certain definite techniques of persuasion, which in turn depend for their effectiveness on shared values of one kind or another'.<sup>8</sup>

## Pursuit of Self-interest

Economists have of long been examining the implications of one of Adam Smith's key insights that the pursuit of self-interest leads to the common good if there is sufficient competition and if most people in society have internalized the general moral law as a guide for their behavior. Smith believed most people, most of the time, did act within the guidelines such moral law provides and those who did not could be dealt with by the policing power of the state. One result of this way of thinking was the recognition that (a) people act on the basis of inherent moral values as well as self-interest and (b) the economy always needs that ethical behavior to be efficient.<sup>9</sup>

In an experiment wallets containing cash and other items were left in the streets of New York. Nearly half were returned to their owners, despite the trouble and expense of doing so to their discoverers.<sup>10</sup> The effort expended and apparently unselfish behavior demonstrated by those who mined the lost goods may, as Hausman and McPherson assert, reflect a manifest commitment to societal norms over egoistic desires. Many other researchers have found the phenomenon as true.

It is not solely for the sake of accuracy that economists should pay attention to evidence that many actions are guided by concerns not solely for the self but also because there are real economic consequences. Pursuit of self-interest in a competitive environment is not sufficient to yield common good. Pushed to its logical extreme, individual self-interest

suggests that it would really be in the interest of an individual to evade the rules by which other players are guided. Indeed, these days there is more competition to kill competition until the result is emergence of monopoly elements, weak or strong. Under conditions of interdependence and imperfect information, rational self-interest quietly leads to socially irrational results unless that self-interest is constrained by an idealized moral code.

A classic example is that of an employer and a worker, where each of them suspects that the other cannot be trusted to honor the explicit or implicit contract between them. The employer tends to think that the worker will take too many coffee breaks, spend too much time in talking with other workers and generally work less than the employer thinks he should. The worker, on the other hand, might think that the employer will try to speed up the pace of work, fire her unjustly if given the chance and would invariably behave arbitrarily. If this happens the workers tend to shirk and the employer to increase supervision to stop the shirking. If the worker supervises herself, production costs would be lower. This distrust between employer and worker reduces efficiency.

What constrains individuals from seeking solely their own interest? One answer is that our tendency to maximize our material welfare at the expense of others is inhibited by a deep set of moral values. There are a number of approaches used to represent formally the 'ideal' between moral values and the standard utility framework of economic theory. We must distinguish between altruistic desires and moral norms, the former being more readily incorporated into an individual's utility function. The latter might better be modeled as metapreferences or conceived of as constraints on maximization. There are difficulties with each of these approaches, which leave the subject unsettled.

One approach to formally incorporating moral values into economic models is to treat them as preferences comparable to preferences for goods and services. An individual's compliance with a moral norm generates a sense of satisfaction adding to the agent's welfare. Concurrently, defying a norm held as important creates disutility for the individual. This formulation appears more appropriate in modeling altruistic behavior, such as purchasing a gift for one's child, than it does for an ethical norm like honesty or a commitment like performing a duty.



Amartya Sen (1979) has proposed an approach in which rational individuals would have both metapreferences and ordinary preferences. Moral values regarding fairness, liberty and honesty, among others, make up the metapreference function and it in turn shapes the ordering of ordinary preferences. So, for example, a person who has a strong preference for consuming grapes still does not buy any because of a commitment to justice for farm workers who might otherwise remain deprived of a share. This approach is also helpful in capturing in formal terms the internal conflict surrounding such personal choices as whether or not to smoke. An individual may simultaneously desire a cigarette (ordinary preference) and desire not to smoke (metapreference) in the first place or to save others of the harmful effects of inhaling the smoke he would release into the atmosphere.

Rather than conceiving of ethical values as preferences included among others in a standard utility function, or as metapreferences guiding the preference rankings of common goods, norms might also be seen as constraints on choices. As in a budget constraint, norms could be seen as externally imposing (presumably from the conscience or superego) limits on available choices. However, unlike their fiscal counterpart, norms may be violated; therefore the limits they impose are not rigid. Also, the attempt to distinguish norms as constraints from norms as preferences is often a muddy task.

## Welfare Norm

In measuring economic success by a policy's ability to satisfy individual consumers' preferences, several important issues must be dealt with. Welfare economics plays down issues of distribution to varying degrees, depending on the proposed criteria for policy making. Sometimes it is argued that only those policy changes should be made that represent Pareto improvements.

However, the Pareto rule is of limited use for policy evaluation since interpersonal comparisons of utility are ruled out. The only thing that can be said is that a policy which benefits someone without hurting anyone is an unambiguous gain for society. Because this type of policy is almost never

possible, economists have been forced to fall back on the concept of *potential* Pareto improvements, for instance, in cost-benefit analysis.

This is where winners gain more than losers lose and therefore potentially both are able to make compensation so that no one loses. Compensation schemes are very difficult to design, however, because it is so hard to identify the winners and the losers. If the winners do not compensate the losers then interpersonal comparisons of utility would have been made violating the foundational position of welfare economics.

Economists look at the economy as instrumental for obtaining other goods, such as utility. For example, one can evaluate the desirability of free market arrangements by examining the impact on the utility of individual agents. The market itself, in this view, has no intrinsic judge or disvalue, but in some cases this may be an erroneous assumption. There may be cases in which agents have a preference not just for certain commodities but also over whether those commodities are provided by a market or by some other means. The supply of blood is one example.

Another problem of individual preference satisfaction is seen where preferences are in time based on error. Desires can spring from erroneous belief, a sense of resignation that leads to the repression of actual needs, or a lack of information. Economists attempt to come to grips with only the last of these. They claim that it is paternalistic to argue that people make wrong choices. However, they are beginning to understand that the appeal in individual preferences has its limits. It begs the question of how these preferences are named and it also sidesteps the reality that preferences are dependent on unreliable beliefs.

The nineteenth-century conception of ideology as an interpretive frame, dependent on the individual's or group's social position in relation to the 'objective' social relations, is embedded in a theory of consciousness, encompassing epistemology, ethics and aesthetics. With the rise of science in the twentieth century, the issue of ideological bias became focused on the epistemological aspect, and 'the ideological' became associated with anything that was not scientific or objective. This shifted the focus to the question of 'value-leadenness'; that is, the degree to which the very concepts and categories of social analysis are imbued with beliefs and norms, despite a veneer of objectivity. In fact, there is no way of studying social reality other than from the viewpoint of human ideals'.

A ‘disinterested social science’ has never existed and, for logical reasons, cannot exist. The value connotation of our main concepts represents our interest in a matter, gives direction to our thoughts and significance to our inferences. The recognition that our very concepts are value-loaded implies that they cannot be identified except in terms of political valuations.

Schumpeter (1954) makes distinction between ‘vision’ and ‘analysis’ boldly and cleverly circumventing the Myrdal critique. Vision is defined as the prior beliefs and worldviews that necessarily precede and imbue all economic analysis – what Schumpeter describes as the ‘pre-analytic cognitive act’. Analysis is the working out of the systematic aspects of vision-imbued posits. According to Schumpeter, ‘*Analytic work begins with material provided by our vision of things, and this vision is ideological almost by definition.*’ But, while vision precedes analysis, Schumpeter argued that it is possible to separate the two and thus to focus exclusively on the analysis. Not only is purely analytical progress possible, but also such progress is the very essence of science. As economics moved from its Marshallian to its Samuelsonian mode in the 1950s and 1960s, analysis so dominated the field that vision seemed to have disappeared entirely. The technique of constrained optimization came not only to define the proper scope of economics, but also to offer ‘a unifying principle’ for the whole of economies. The concern with ideological bias was reduced to the much milder and cleaner problem of distinguishing between positive and normative analysis.

Despite the enormous advances in economic analysis since the 1950s, the discipline has not successfully immunized itself against the critique of ideological bias, even as the Schumpeterian distinction between vision and analysis has remained in use. Maurice Dobb (1937) criticizes efforts to separate the two in the study of the history of economic ideas. Robert Heilbroner (1973) asserts that economic thought is firmly rooted in vision, and thus is ‘ideological’ (that is value-laden) by nature. He writes, ‘*All systems of thought that describe or examine societies must contain their political character, knowingly and explicitly, or unknowingly and in disguise.*’ But Heilbroner does not draw the usual negative conclusion from this state of affairs. To the contrary, he argues (similar to the later writings of Myrdal) that it is vision – including its

value-laden aspect – that provides much of the creative impetus for understanding social life. Consequently, vision should be the subject of open debate.

It is not the presence, but the persistent denial of vision that robs economics of social validity and that leaves contemporary economics so limited as a tool for understanding social life. To go one step further, one can claim that value-explicit behavior that Islamic economists strongly advocate is more ‘objective’ than that which claims to be ‘value-free’.

People may believe that a new steel mill will not damage the health of the environment but if they are mistaken should their preferences on price-profit signals still guide policy? Finally, there is a gap between what I prefer and what I actually do. I prefer not to smoke but my addiction leads me to buy cigarettes anyway. The question must be dealt with: should individually and socially undesirable preferences guide policy decisions? This will always be with us as an issue of value selection. Islam has guided us in this respect, and the literature is rich on what policy one should choose in economics. For example the Islamic *fiqhi* rules of (i) ‘*la darar wa la dirar*’ or that (ii) ‘*dar-ul-mafasid muqaddam ala talab al-masalih*’ or (iii) ‘*yutahammal aldarar alkhas li-raf aldarar al-aam*’ are indeed central to the foundations of value selection in Islamic economics.

## Conclusion

We have argued above that social systems and, therefore, academic disciplines are invariably value based. The basis emanates from the collective vision of the society that is always susceptible to changes at the margins in response to social dynamism characterizing human life. The claim of value neutrality is not entirely true even in the case of the physical sciences. It is agonizing that most Islamic economists just accepted without discretion on the issue what comes from the West.<sup>11</sup> They innocuously continued to maintain as late as 1990s that mainstream economics was value-neutral, while Islamic economics was not.<sup>12</sup> They did not raise even an eye brow on the value-free claim of secular economics until criticism and eventual abandonment of it came from within the mainstream discipline itself. Bulk of the arguments on the point in

Islamic economics is borrowed – not always elegantly – from the mainstream sources.

It is now agreed that economics – secular or Islamic – is not devoid of values. The point is what values both cherish, how are they decided, and how flexible could the changes be made. Based on the different value-frames indicated above, we turn now to discuss the procedures for erecting theories and their verification in the two disciplines. We shall also see that there are important differences that condition the nature and scope of falsificationism and/or verificationism. It is not total deduction or total induction, but a balanced mix of the two.

In this chapter we examined the nature and role of values in economics and compared the different ways of their determination. Contrary to earlier claims, it is now well recognized that secular economics is not entirely value free. In this context, we discussed the notion of the ‘*unity of science*’. The chapter also explained the Islamic notions of ‘*halal*’ and ‘*haram*’ and shows that the two *inter alia* constitute the essential point of departures in Islamic knowledge from its secular counterpart.

For example the Islamic *fiqhi* rules of (i) ‘*la darar wa la dirar*’ or that (ii) ‘*dar-ul-mafasid muqaddam ala talab al-masalih*’ or (iii) ‘*yutahammal al-darar alkhas li-rafi’ al-darar al-aam*’ are central to the foundations of value selection in Islamic economics.

Selected value in both systems – secular and Islamic – affect the choice of methods economists use to formulate and verify economic theories. For, theories are abstractions from reality and invariably rest on certain assumptions expressive of the values the system cherishes. As such, a discussion of methods economics uses follows

## Notes

- <sup>1</sup> Individual value-judgments are required to conform to some common standard of ethical and moral values, which in turn is dependent on the worldview held by a society. No one claims that the values held by any individual affect the overall values endorsed by a society. Important here are the norms adhered to by the society as a whole.
- <sup>2</sup> See Oser and Blanchfield: *Evolution of Economic Thought*, (1990 p. 30).

- <sup>3</sup> His seminal work on the subject advocating temporary protection for upcoming industries under certain circumstances *The National System of Political Economy* was published in 1841 in German language in 1909 and has since seen a number of reprints.
- <sup>4</sup> See Hasan (2003) for how the free trade doctrine now walks in the garb of globalization.
- <sup>5</sup> For example, to Friedman (1953, p. 4) economics was “independent of any particular ethical or normative judgment”. Colander (1992, p. 113) writes that the notion of *wertfreiheit* had become an integral and agreed part of economics. As such, it became the primary aim of economists to describe and analyze what ‘is’ to predict what might happen. They could not question what is or say what ought to be.
- <sup>6</sup> This concept is hardly acknowledged in the literature on Islamic economics. But one has to always remember that Islamic economics did not originate as an independent setting; which is similar to the origination of the Vienna Circle. Thus, the confusion about economic scarcity should not have taken place if Muslim writers understood that our first early father, Adam (peace be upon him), was bestowed with Heaven where he could wish for any thing at no pain or cost. The price for not resisting coming near the Tree, brought the fate of Man to Earth – where man no longer can afford that type of luxury and can no longer have any thing that he wished for for free. A new cost is also involved (in terms of human toil) when Man was not used to when he was in his original place in Heaven. Hence there is a corresponding cost to every want. Unlike in Heaven, all wants at whatever level were met at a zero cost. So scarcity, although is a relative concept, becomes a function of the stock of knowledge available to Man at different periods of time (how to catch more fish, hunt better, etc.). But the stock of that knowledge is limited at any given point in time, and is given by Allah Subhanahu Wat’aala to whom He wishes. Therefore, the concept of economic efficiency is a must as we must all attempt to make the best out of what we have.
- <sup>7</sup> However, under the Islamic worldview, men are not free to do whatever they like with their wealth or to choose ‘goods’ from whatever they wished for (the recurring verses in the Holy Qur’an on the story of the prophet *Shu’aib* (peace upon him) with his people is a most revealing passage as far as the unfounded economic concept of “laissez-faire” is concerned. I have not come across any economic literature that mentions this critical point. The holy verse is quoted at the top of Chapter I above.
- <sup>8</sup> See Blaug, Mark, *The Methodology of Economics or How Economists Explain*, Cambridge University Press, 1997, p. xviii.

- <sup>9</sup> For an interesting discussion on the nature of the postulate see also Hasan (2002, pp. 99-100).
- <sup>10</sup> Hausman and McPherson in Hausman (ed. 1994, p. 254).
- <sup>11</sup> To verify how early – much before Islamic economics appeared on the scene – not a few mainstream economists had seriously been inquiring if economics was indeed value free? See, for example in Redman “A short history of Ought Problem”, (1991, 181-183). See also. Hausman (1984, 210-211), Roy (1989, 18-21, 66-67, 107-108, and 10-111).
- <sup>12</sup> See, for example, the review of Chapra’s book *Islam and Economic Development* by Hasan (1995, 59-60 Section 4, Value Selection: Secular versus Islamic).

## CHAPTER



### The Question of Methods

*And there is not a thing, but with Us are the stores thereof. And We send it not down except in a known measure. Surat Al-Hijr (Verse 21).*

#### Introduction

No work on methodology of economics can be taken as complete without a discussion of the *methods* economists use for formulating their theories. The great battle on the subject in the history of economic thought has centered on the use of induction and deduction that we discuss at some length in Section 6.5 below. Other methods are essentially their variants or combinations used e.g. for verifying or falsifying economic hypotheses. Let us stress that it is rather naïve to believe that the controversy deduction versus induction has entirely vanished though it has long been regarded “as a mere wasteland of economic literature”.<sup>1</sup> Likewise, not all have agreed to the present all pervading and ever increasing use of mathematics in inductive studies. The sort of methods economists choose to use in economics is not a matter that ends just at the choice stage; for, the selection may affect the scheme of inquiry, its conclusions, and more importantly, the policy implications of the research.



In fact, of the many ways to characterize the field of economic *methodology* one is to view it as the study of *methods*: the practical techniques employed by successful economists to perform their routine professional work. This sort of methodology is rightly characterized as a lower case methodology.<sup>2</sup> Interestingly, the bulk of the writings on methodological issues in the case of Islamic economics tend to fall in this category. It is not our intention here to indulge in a review of the debate on methods or their place or relevance in a discussion on the methodology of economics. We wish to look at the issue with reference to the stated objectives and scope of economic studies. We may start with a brief account of the state of affairs in mainstream economics, and shall examine how far and in what way the secular approach is relevant for and acceptable to Islamic economics before we conclude the Chapter.

It is now well recognized that no knowledge can exist without having a minimal of a belief system as its base. Such beliefs constitute the basic assumptions underlying the structure, called the ‘hard core’ of a discipline – secular or Islamic – not available for rejection or modification. The core is “*protected from falsification by a protective belt of auxiliary hypotheses, initial conditions, etc*” (Chalmers, 1982, 80).

However, to characterize the problem, an appropriate scientific method has to *justify* the beliefs. The two most influential of beliefs the history of the philosophy of science in the secular tradition records are *empiricism* (where the senses serve as main foundations) and *rationalism* (where reason serves as the main foundation). However, religion – Islam ideally – provides a much firmer justification for beliefs. For, Islamic *Revelation* calls for *extensive* use of *both* ‘sense’ and ‘reason’ in formulating, explaining and understanding what may be called the ‘reality out there’.

## Methods Controversy

Until quite recently, empiricism had constituted the epistemological backdrop for most of the mainstream philosophy of science, and the wrestling with the tensions between empiricism and the practice of economic science has been one of the main concerns in the field of economic methodology. The people who have traditionally claimed to be most knowledgeable about knowledge<sup>3</sup> seem currently in disarray on almost every substantive issue;

they can no longer provide (even if they ever did) a reliable tool for discussing the relationship between economics and scientific method. The relationship is confused and murky; for, economics always has ideological underpinnings, its laws fall in a different category than those of the physical sciences.<sup>4</sup>

The state of affairs is very much in agreement with the position taken by Thomas Kuhn in his famous *'The Structure of Scientific Revolutions'*. What are the frontiers of deductive logic in establishing economic theories? What role does induction and quantitative analysis play in science in general? What about the increasing use of mathematics in economics? Is it an analytical tool or is it just a cloak? Are there general economic laws or should the search for general laws be called off altogether?<sup>5</sup> Where do we start from: Do we start from theory or from data? And where do we go from there? Can testability be an acceptable or necessary condition in Islamic economics as it is considered to be so in secular economics?

John Stuart Mill's (1843) account is a clear statement of the classical empiricist view: "human nature is as much a subject of science as any other natural phenomenon. The study of human nature, it is true, cannot form one of the exact sciences, such as astronomy." The study of human nature is thus to be classed as one of the Non-exact sciences, similar to the science of tides. David Hume (1894) goes even further: "If we take in our hand any volume (book); of divinity or school metaphysics, for instance; let us ask, does it contain any experimental reasoning concerning quantity or number? No. Does it contain any experimental reasoning concerning matter of fact and existence? No. Commit it to the flames: for it can contain nothing but sophistry and illusion".<sup>6</sup>

Furthermore, Ludwig Von Mises (1960) observes that "economics is a set of logical deductions about 'what is' in the sense that the images it constructs must be relevant to the social facts one aims to describe. Hence, economics should always be value-free. Ideology on the other hand, goes beyond the study of things as they are, it is about the 'ought', i.e. about the ultimate ends which man should aim at in his earthly concerns". He finally claims that in all its branches economics "is a priori, not empirical. Like logic and mathematics, it is not derived from experience; it is as it were the logic of action and deeds".<sup>7</sup>

According to him, ideology can also be distinguished from the broader concept of a *worldview*, which is "*an interpretation of all things, and as*

*a precept for action, an opinion concerning the best means for removing uneasiness as much as possible... Religion, metaphysics, and philosophy aim at providing a worldview. They interpret the universe and they advise men how to act*". Therefore, a positive empirical science cannot tell anyone what he should do but rather what he can do and under certain circumstances what he wished to do. The latter brings us directly to the essence of methods adopted under the title 'positive' economics.

In his *Methodology of Positive Economics*, Milton Friedman (1953) concludes: "Economics as a positive science is a body of tentatively accepted generalizations about economic phenomenon that can be used to predict the consequences of changes in circumstances".<sup>8</sup> Does or can Islamic economics wear the same jacket? Certainly it cannot. Why, we shall soon see.

## Physical Sciences Analogy

Methodologists have often found social sciences, including economics, problematic because of their relationship to experiment. Their worry is that experiment is sometimes thought of as an integral nature of scientific inquiry, but experiment, especially controlled, i.e. repeatable laboratory experiment, has been almost non-existent in social sciences. It might be argued that there were sub disciplines of physics that are similarly impoverished; astrophysics and biology come to mind as fields in which scientists hungry for data must often wait for Nature's oration.

But this argument involves a gross exaggeration. Many of the phenomena studied astrophysics and seismology are independently confirmed on a different scale in laboratories. Many celestial objects of interest are constantly emitting radiation, while seismologists have been known to use explosives to generate data.

However, this is no analogy for economics or other social sciences, especially for such theories as historical materialism where the whole thing can happen only once, so to speak, even as there is a growing literature that reports on the quite new practice of laboratory experimentation in economics. Some of this work attempts to study the behavior of individual losses to lotteries, or two-person bargaining situations in simple Game Theory. Probably the most well developed experimental paradigms deal instead

with market behavior. These experiments place experimental subjects at computer terminals where the subjects make entries that are to be interpreted as buying and selling. Each subject thus interacts with the terminal and never face-to-face with the other agents in the market. But an enormous obstacle to investigating the market behavior of economic agents in this way is: do the subjects behave as economic agents alone?

The interpretation of this physical science approach leads to two variants that may be called weak and strong versions of fallibilism. According to weak fallibilism, all human knowledge is hypothetical or uncertain. There is no absolute certainty or infallibility even in our most reliable beliefs. There is always a risk or a possibility that we are mistaken and, therefore, any scientific proposition whatsoever is always liable to be refuted and dropped at a short notice (this is similar in statistics as the well known Type-I and Type-II errors). However, this does not preclude our having most likely actually attained truth in numberless cases, although we can never be absolutely certain of doing so in any special cases. Weak fallibilism thus differs from skepticism, since it admits that our knowledge claims are but essentially probability estimates in the face of uncertainty.

Weak fallibilism is the background philosophy of many of the contemporary methodological programs, such as subjective Bayesianism, inductive logic, the hypothetico-deductive conception of science and statistical inference. Strong fallibilism asserts that human knowledge is liable to error in the strict sense that even our best claims could be false. Human errors are actual, not only possible, as in weak fallibilism. This idea has its roots in the idealist metaphysics and theology: as famous Cardinal Cusanus said in the fifteenth century, “*God is infinite, and finite human knowledge can only approximate Him as a regular polygon approximates a circle*”, Bynum and Browne (1981).<sup>9</sup>

A similar view was supported in the tradition of Hegelian dialectics, with doctrines about ‘degrees of truth’ and ‘degrees of reality’. In modern science, Robert Boyle in the seventeenth century compared the search for the truth with the mathematical method of finding the roots of equations through false guesses. Later a similar comparison was made with the *iterative methods*, which approach the true solution indefinitely or asymptotically without ever reaching it.

It is possible, and some have attempted, to combine these metaphysical and methodological ideas in a pragmatic theory of truth and reality, where truth may be defined as the opinion which is but to be ultimately agreed to by all who investigate it. Such a theory would set the ultimate limit of endless inquiry within the scientific community using the scientific method. Scientific claims are not only uncertain, absolute exactitude and absolute universality are also unattainable. Strong fallibilism thus urges that all of our scientific claims are, strictly speaking, false.

However, in Islamic methodology of economics the issue can easily be resolved and the demarcation between Truth and Falsehood in the realm of economics could also be known: *through consulting those who are knowledgeable whenever one is having any doubt.*

As scientific theories are intentionally based on idealizations and simplifications, they are in many cases even known to be false. Therefore, science is not concerned with belief, since the probability of having theories is zero. Strong fallibilism still differs from skepticism, since it takes it to be possible that the results of science make progress towards the truth as an asymptotic limit. Popper's falsificationism shares many elements with strong fallibilism: The defining character of scientific statements is their falsifiability.

As indicated earlier, the conventional scientist should follow the method of 'conjectures and refutations' by proposing bold hypotheses and putting them to severe tests. A hypothesis that survives a test is thereby corroborated – and worthy of further tests – until it is proved false by observational evidence. The growth of scientific knowledge thus follows the pattern of Darwinian evolution. Popper rejects the idea that scientific hypotheses could ever be shown to be true or even probable. Instead, theories are more or less truth like, and scientific progress means increasing truth likeness; that is, better correspondence with reality. Popper's proposed concept of truth likeness measures the distance of a theory from the whole truth and thus combines the goals of truth and information without excluding the possibility of true theories. Fallibilism, therefore, unlike in Islam, denies that there is a steady rock bottom of human knowledge.

## Mathematics and Economics

Often logic and mathematics are accepted as exceptions to the principle of fallibility, since their truths are regarded as conceptual or analytic and, hence, *a priori* and certain. In this sense, it is possible to restrict fallibilism to empirical knowledge and maintain infallibilism for hermetical knowledge. The recent flurry of empiricist and quasi-empiricist views of mathematics is based on the assumption that mathematical statements are factual and empirical. The statement is perhaps stretchy. It could be correct only if the condition that mathematics is presented in theoretical terms capable of explaining some phenomenon or aspects of the physical reality. It has been convincingly shown that induction and analogy, albeit powerful tools of discovery, could not yet produce conclusive proofs or evidence for some well-known mathematical theorems. The use and failure of computers to verify the steps of mathematical logic in some cases – e.g. the four color theorem – implies that the conception of a proof can involve fallible arguments.

Therefore the problem of induction is ‘solved’ by denying either the possibility of inductively inferring general ‘laws’ from a collection of single observations (as claimed by traditional naive empiricism) or the prospect of finding a satisfactory solution to the problem of confirmation (as maintained by logical empiricists) and by showing that the only meaningful use of single observations is that of considering them as possible cases of falsification of a theory or of a ‘conjecture’.

Therefore, the falsifiability of a theory is taken as the main necessary condition for appraising theories against empirical evidence. In other words, falsifiability constitutes the true criterion of demarcation of ‘scientific’ propositions. The importance Popper attributed to this demarcation criterion can be seen in several passages of his intellectual autobiography, where we are told, among other things, that since the early 1920s Popper developed his own ideas ‘about the demarcation between scientific theories (like Einstein’s) and pseudoscientific theories (like Marx’s, Freud’s and Adler’s), having been *‘shocked by the fact that the Marxists (whose central claim was that they were social scientists) and the psychoanalysts of all schools were able to interpret any conceivable event as a verification of their theories’*.<sup>10</sup>

All this, however, would not suffice in itself to explain why a substantial portion of the literature on economic methodology of the last two decades has been concerned with proving the adequacy of falsificationism with respect to a number of issues, raising many highly controversial and still unsolved questions.<sup>11</sup>

Despite efforts over the decades economic methodologists have not been able to resolve such matters. The failures may be summarized as under:

- (1) Falsificationism – the methodology of bold conjectures and severe tests – is often preached in economics but it is almost never practiced. Empirical research has largely resorted to the confirmation of existing theories, as this is easier, not much to falsify them. Much of the empirical research is often found as though rediscovering the wheel.
- (2) Though ‘hard cores’ and ‘positive heuristics’ abound, ‘novel facts’ as defined by the Lakatosian School have been few and far between in the history of economic thought.
- (3) The complexity of economic phenomena and questions about the empirical basis of the discipline make empirical testing an extremely complex affair. *“Therefore, the idea of a single scientific method has been displaced in economics”*.<sup>12</sup>
- (4) If the hypothesis, for example, that a market consisting of economic agents in specified conditions will be in equilibrium according to some piece of theory, it is necessary that the agents behave to the theory’s description of them. Only in this way can a theory’s implications for agents be tested. The obstacle is removed by putting in place a schedule of incentives for subjects that ‘induces’ a required utility function. For example a consumer will behave ‘as if’ he were maximizing the utility function.

The experiments conducted in the physical mold defy the above observations presumably because they are designed so as to produce results that confirm the standard economic theory. Often embarrassing anomalies come to the fore; for example, equilibrium is sometimes reached more quickly when information is less perfect. Unemployment remains sticky despite continued inflation. Since these experiments use subjects performing artificially constructed tasks, they are simulations. They do not directly

create the phenomena the scientist is interested in studying. This means that very interesting methodological questions remain to be answered before we can be confident that the simulations are realistic enough to count as experimentally confirming existing theories or as providing a source of phenomena for new ones

Induction as such is a mode of inference, which has a central place in the methodology of the empirical sciences. It is weaker than logical deduction, since it is not necessarily truth-preserving. But it is also applicative or knowledge-increasing, since the content of its conclusion is not explicitly or implicitly present in the premises. Thus induction may allow secular economists to expand the domain of their rationally warranted or probable beliefs.

David Hume in his *Enquiry Concerning Human Understanding* (1748) raised serious doubts about the possibility of justifying induction. He argued that all of our beliefs, which go beyond the immediately certain domain of our knowledge about our present sensations, are in some way based upon inductive inference. These beliefs are reliable only if the world is uniform, that is, the future resembles the past. But this principle of the uniformity of nature is itself a general statement, which can be justified only by induction. However, he held that there are no necessary connections between causes and effects in nature: induction is only a habit of our mind that expects regular successions between ideas. Not a few have responded to Hume's challenge but it would be an uncalled for digression here to indulge in the debate.

Karl Popper's falsificationism accepts Hume's message that induction is impossible. His approach to theory construction would exclude induction from economic methodology. The rival view contends that induction plays an important role in economics in the testing of theoretical hypotheses, in making economic predictions and in describing the behavior of rational agents making decisions under uncertainty and risk. The debate is still inconclusive and we desist going further into its details.

## Induction and Deduction

Deductive inference is characterized by the condition that the conclusion is a logical consequence of the premises: whenever the premises are true, the



conclusion must be true as well. Aristotle presented the first formal system of deductive logic in his theory of syllogistic. He required that the theorems of special sciences be demonstrated by deductive syllogisms, but he realized that the first premises or axioms cannot be established in this way.

The process of reaching these general axioms he called *epagoge*. This term was translated as induction by the Latin commentators. The standard (but nowadays not unchallenged) interpretation has assumed that Aristotle had two conceptions of induction. First, an intuitive induction, a universal generalization is grasped through a psychological process involving the perception of some particular instances of the generalization. Second, incomplete induction, a generalization is obtained by enumerating all of its instances. The latter idea is preserved in the term 'mathematical induction', which refers to a demonstrative method of proving arithmetical generalizations for all natural numbers.

In the contrast, inductive generalization is taken to proceed from an incomplete part to the whole, from a finite sample to a population. For example, all of the ravens observed until now have been black, hence all ravens are black. Statistical generalization goes from a sample to a statistical statement about a population. For example, 10 per cent in a random sample of the citizens of Kuala Lumpur are left-handed; hence 10 per cent of all Malaysians are left-handed. Singular inductive inference proceeds from a sample to a new individual from the population. For example, all of the swans observed so far have been white; hence also the next swan to be examined will be white.

Enumerative induction is fallible, since it is possible that the conclusion is false even when the premises are true. The classical example illustrating this was the discovery of black swans in Australia. If this contrast to truth-preserving deduction is taken as the characteristic of induction, the scope of inductive inference includes also the argument that what is sometimes called 'statistical deduction', which applies to an inference from a statistical statement about a population to an individual or a sample. For example, 80 per cent of the Malaysians are Muslims; hence probably a randomly selected Malaysian will be a Muslim. In the context of statistical prediction and explanation, this mode of argument is also called direct inference.

Indeed, on the practical front the conflict between induction and deduction was long found worthless as Alfred Marshall in his *Principles*

had rightly observed: Induction and deduction are both needed for scientific thought as the right and left foot are both needed for walking. Today it is accepted that induction and deduction can and are both used in the same inquiry at different stages. What is logical facts in *Reality* must support and what statistical inquiries assert must meet the test of *Revelation* first as well as *Reason*.

## Islamic Economics: The Question of Methods

The question of methods is also complicated in the case of Islamic economics. The complication arises from the fact that while secular economics has economies operating in compliance with its *hard core* and generate data that can be used for testing in turn the validity or otherwise of its theories, here theory and reality stare each other in the face. Such is not the case with Islamic economics. Its theoretical structure solely rests on *fiqh* and *usul*. It could not so far give rise to an operating economy except to some extent in the financial sector Muslim economies are run along the western economic concepts and policy frames. The data they generate is simply unsuitable to establish or verify Islamic ‘theories’. The touchstone of their validity or otherwise is *fiqh* alone not the observed behavior of the present day Muslim societies.

It is, therefore, valid to say, as we have done, that Islamic economics is in a measure generated through the application of Islamic *fiqh*<sup>13</sup> to the prevalent secular theoretical structures to separate the permissible from the non-permissible, *as well as to ascertain the position of the Shari’ah on economic acts and current business events*. One important difference here is that under Islamic economics performance of economic activities has much more weight than the predictions of such activities. By analyzing the current economic problems facing the *Ummah*, then the position of the *Shari’ah* can be inferred on what most suitable economic policy to take to achieve *falah*. Thus, performance assessment of economic variables has precedence over the prediction of such economic variables – the main motive behind secular economics.

Under the circumstance it becomes imperative to bring in a minimal of *fiqh* and *usul* while discussing the methodological issues for Islamic economics. This is testified by the fact that in Islamic finance at least

the Gresham's law seems operative: Jurists are fast driving out economists from the top managerial outlets in Islamic economics, finance especially.

### *Fiqh as Methodology*

The essence of fiqh discussions has always been theological; it is only of late that jurists tend to focus attention on economic matters in two directions. Since most of them are not well-versed in economics they test at the mainstream concepts on the juristic touchstone for pronouncing judgment on their efficacy for Islamic economics. Since jurisprudence is for most part micro in character they miss at times the macro implications of their opinion. The form of permission need not always remain in line with the spirit or soul of the permission when applied *en mass*. In many cases jurists, when faced with modern concepts and policy compulsions, tend to grant secular positions under the *facility principle*. One example is the extensive use of deferred obligation instruments in Islamic banking and finance. On the other side is the issue whether fiat money is to be allowed to continue as a medium of exchange. The writings advocating for the revival of commodity money in the form of gold dinar and silver dirham have kicked up much dust in recent years. The debate remains inconclusive and the early elation seems to be dying out.

We also feel that there has at times been misuse of the principle, and in general an over use. There have been cases where a valid permission has tended to become illegal in aggregative application. A glaring example is the permission of marking up prices as compensation for the facility or service provided. This has obviously been overdone, for example in Islamic financing attracting the other fiqh norm of *saad-al dharai* meant for closing the avenues for circumventing the law.<sup>14</sup> Examples of unrestrained buying and selling in joint stock companies' market shares only for the sake of pure market speculation and not for real property ownership for production growth and exchange are also abound.

A second route is taken by economists turned *fuqaha*. They have modified numerous mainstream concepts, theories, and models to make them look Islamic including: wants, utility, efficiency, entrepreneurship, marginal productivity, scarcity and so on. More confusion than light has

been generated in the process. We shall take up this issue for discussion in the following Chapter 7.

## Concluding Remarks

Under the step-by-step approach to the *Islamization of knowledge* in economics, we largely remain in the mainstream groove. As such both induction and deduction are employed as tools of inquiry and analysis. In fact all secular methods are allowed for use in Islamic economics with few reservations provided the assumptions underlying them are not in conflict with the basic tenets of the *Shari'ah*. However, the increasing use of mathematical symbols, functions and models should presumably be eschewed. We have indicated the limitations of using mathematics in mainstream economics itself. The scope of using mathematical techniques based largely on unquantifiable notions is all the more limited.

We addressed in this chapter the issue of *methods*, especially the use of the experimental approach and empirical testing, statistical and econometric analysis and drawing inferences in economics. We support the position that quantitative studies are to be invariably guided by theory and that they may most aptly be described as mere exploration for its verification rather than installation. In almost all cases, the theory exists before the statistical investigation is made; it is no better derived from the statistical methods or techniques of investigations than reason.

We are now in a position to look at the nature and significance of economics based on secular and Islamic ideologies, visions, value frames, concepts, behavioral rules, and the procedures for constructing theories and their verification.

## Notes

- <sup>1</sup> See Landreth and Colander (1994, sere .326-7). But they believe that the controversy might have helped the economists to recognize that the theory and history, deduction and induction, abstract model building and statistical data gathering are not mutually exclusive within their discipline.
- <sup>2</sup> McCloskey, D. N., *The Rhetoric of Economics*, Journal of Economic Literature, Vol. 21, p. 490.

- <sup>3</sup> For that reason Islamic scholars never claim to know anything in absolute terms and invariably finish their statements or contributions made to human knowledge with the famous qualification, “*Allahu A’alam*” or ‘God Knows Better’.
- <sup>4</sup> For an interesting discussion on the point see Robert M. Solow “Science and ideology” in Hausman (1994) Chapter 12, pp. 224-238.
- <sup>5</sup> And we shall examine what role mainstream methods can play in Islamic economics.
- <sup>6</sup> See David Hume (1749), *An Inquiry Concerning Human Understanding*, sections 4 and 12 Hume’s Enquiries, Oxford (1894) pp 25ff. and 164ff, in *Questions of Inquiry*, Oxford University Press (1982).
- <sup>7</sup> Ludwig Von Mises (1960).
- <sup>8</sup> Milton Friedman, *The Methodology of Positive Economics* (Philosophy And Economic Theory, Oxford University Press (1953) edited by F. Hahn and M. Hollis).
- <sup>9</sup> This similar to Heisenberg’s Uncertainty Principle or the famous cat of Schrödinger in Physics, see *The Arrow of Time* by Peter Coveney & Roger Highfield (1991).
- <sup>10</sup> Popper, Karl., *The Logic of Scientific Discovery*, 2nd edition, New York, Basic Books, 1968.
- <sup>11</sup> Space constraints prevent even a brief survey here of all the issues at stake in that debate, but compare what we have covered so far with, for instance, the harsh dismissal in Hausman, 1988, or the passionate defense in Blaug, 1994, or the variously dubitative conclusions in Backhouse, 1994; Caldwell, 1991; Hands, 1970; de Marchi, 1988.
- <sup>12</sup> Hands, D.W., *Reflection Without Rules*, Cambridge University Press, 2001, p. 401.
- <sup>13</sup> Although there a number of *fiqhi* schools, however, these schools do not differ on the epistemological aspects as the differences are not in the root but in the branches. More so we adhere to the *fiqh* of *Alsunnah wa-ljama’a* as it aims to consolidate the most appropriate position out of the respected traditional schools.
- <sup>14</sup> For details of the principle see Kamali (1999), pp. 310-320.

# CHAPTER



## Economics: Its Nature and Significance

*And the heaven: He has raised it high, and He has set up the Balance. In order that you may not transgress (due) balance. And observe the weight with equity and do not make the balance deficient. Surat Ar-Rahman (Verses 7-9).*

### Introduction

Having discussed the various methodological issues involved in a comparative vein what can we say in conclusion about the nature of Islamic economics i.e. about its definition, subject matter, principles, scope, and method in the light of the foregoing discussion on methodological issues? An answer to this question has to be sought in the light of the *step-by-step* approach we have preferred for developing Islamic economics. This approach does not permit us to take our eyes away even momentarily from the developments that are changing the shape and content of secular economics. To be explicit, the contours of Islamic economics will, for a considerable time to come, largely overlap those of secular economics. And in a subtle way, Islamic economics has an ‘*over-powering*’ quality from a methodological perspective. We have, therefore, to see its stance at every turn to state our

position on each issue always conscious that we do not in any way cross beyond what the *Shari'ah* would permit. With these basics in mind we may begin with a few clarifications.

We may begin by asking why we should try to define Islamic economics i.e. with what objective in mind. The purpose of defining any subject is to inform readers about the objectives it intend to serve, to hint at its subject matter and to indicate the boundaries of its reach. The definition of a subject determines, in a broad way, its content and scope: its underlying norms and aspirations. It may be stated that a subject does not remain static for the obvious reason that social existence is dynamic. The definition, scope, subject matter, methods of investigation, and policy thrust of a subject perpetually remain in a melting pot. We have seen that from the worldview position, Islamic economics remains overwhelmingly linked (i.e. interested and very much concerned) but not rooted to secular tradition. As such, an instructive and useful course would presumably be to examine the evolution process of the mainstream economics and identify the points of departure for Islamic economics.

## Social Dynamics and Changing Import of Economics

The first comprehensive and systematic treatise that laid the foundation of secular economics was that of Adam Smith: *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). That the work is being published and read even after more than two hundred years after it appeared on the scene speaks of its significance and vitality. Smith believed in the private ownership of property, freedom of enterprise, and regarded the pursuit of self-interest as the prime mover of economic activity. He in fact was builder of the capitalist system and believed that the system could work smoothly with competition as its regulatory force maintaining harmony between private profit and social good. To him, the *invisible hand* of pursuing self-interest could ensure growth with equity in the society.

### Science of Wealth

Great scientific inventions were taking place around Smith and industrial revolution was knocking at the doors of England. The scenario found

expression in his optimism and naturalism<sup>1</sup>: a characteristic of the *Wealth of Nations*. However, Adam Smith never gave approval to what merchants did or could do to exploit the society. He warned against the dangers of monopoly power and allowed monopolies only in some restricted area of public utilities. Ethical considerations amply dot his work; after all he was also the author of *The Theory of Moral Sentiments* (1859).

However, the influence of the Church on the economic life of people had not yet waned; men of letters like Ruskin and Carlyle labeled Smith's economics as a 'dismal science' preaching rank materialism: urging people to the worship of wealth. Economists attempted many explanations of the subject and economics at one stage seemed to have strangled itself with definitions. It was so until Alfred Marshall injected fresh air to ease the suffocation when his *Principles* (1920)<sup>2</sup> opened with the opinion:

“Political economy or economics is the study of mankind in the ordinary business of life. It examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being.”

### From Wealth to Human Well-being

Even as Marshall was not historically the first to provide a view of economics unfocussed on wealth, it was he in our view that shifted the emphasis of the subject from wealth to human welfare in a noticeable way. His definition implied that the subject studies human behavior in the *ordinary* business of life, not the behavior of some imaginary 'economic man' invariably possessed with the thought of wealth alone. Human welfare and its promotion was its central concern; wealth was only a means, not an end in itself. This view of economics got currency, and the issue of its definition seemed to have settled. However, it was sooner than later that the economists started expressing dissatisfaction as they saw economics remaining still wedded to the acquisition of wealth i.e. the material requisites of well-being. To us, such a view was uncalled for.

### Criticism: Vague and Classificatory

However, a more damaging attack on Marshall came from Lionel Robbins in his small but influential work: *An Essay on the Nature and Significance*



of *Economic Science* (1935). He characterized Marshall's definition of economics as *classificatory* that sought to divide human activities into two categories: economic and non-economic. Such classification was difficult to make and maintain. A. C. Pigou agreed that one could pass from one end (economic) of the scale to the other (non-economic) without crossing a ditch or climbing a fence.

Even when one uses the measuring rod of money to make the distinction, problems abound.<sup>3</sup>

Another difficulty Robbins thought was the concept of well-being. The feeling of well-being in a person cannot be quantified and does not depend on his economic achievements alone. Such an infirm and subjective concept could not form the goal of a science that economics was. So, Robbins put forth an *analytical* definition of economics; he saw an economic aspect in every human action provided it emerged due to some basic facts of human existence on the globe. Human wants are unlimited; the resources to meet these wants, time included, are scarce and have alternative uses. Based on these facets of human life he defined economics thus:

“Economics is the science that studies human behavior as a relationship between ends and scarce means that have alternative uses”.

### Positivist Stance

This definition implied that in view of the multiplicity of human wants and scarcity of resources, each with a variety of uses, man faces the problem of what to do and what not to do so as to maximize his satisfaction out of the means at his disposal. He had to *choose* between alternative courses of action. Thus, said Robbins, wherever there is a problem of choice there is an economic problem. In his opinion whether the ends (goals) were good or bad, noble or ignoble is none of the business of an economist to inquire. As a science *economics is neutral towards the ends: Value judgments lie beyond its scope.*

The announcement echoed the positivist sentiment of the Vienna Circle intellectuals: it forced economics into its real ‘scientific’ station. The proponents would not brook the injecting of dichotomous element – positive and normative – in the subject to disturb the ‘*unity of science*’ syndrome

they had so dexterously nursed. Economists have since made efforts to maintain their positivist stance *albeit* it is of late showing signs of dissolving into the currents of heterodoxy.

### Islamic Viewpoint

Islamic economists found the positivist view of economics unacceptable, and for two reasons. First, Robbins unwittingly thought that scarcity of resources was a manifestation of *nature's niggardliness*; it had not provided us enough to meet all of our wants; there were only twenty four hours in a day, he exclaimed. Attributing scarcity to the niggardliness of nature was irrelevant to his argument; the fact that it existed was enough to carry him through.

In any case, the formulation prompted Islamic economists to regard it as a negation of, rather attack on, God's benevolence, a part of the Islamic belief system. So, not a few of them decried the notion of scarcity in secular economics even at the highest levels of scholarship (Yousri 2004). We shall come back to this issue a little later in the discussion.

The second difficulty was that the secular view of economics cared only for the mundane aspect of human existence to the exclusion of its spiritual, the more important, aspect. Islam insists on an intimate relationship between the two. For example, Hasan (1988, p. 41) writes:

“The concept of Amanah is fundamental to Islam...It seeks to convert the material ambitions of man into the means of attaining spiritual heights i.e. his ultimate goal. ....Amanah underlies Islam's entire socio-economic philosophy.”

Based on these two points and some other Islamic restrictions, scholars attempted to define Islamic economics in a number of ways over the past two decades or so. Chapra (1996, pp. 33-34) has reproduced without comments some of the main definitions from their original sources. We reproduce these definitions below for ready reference:

- *Islamic economics is the knowledge and application of injunction and rules of the Shari'ah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society. Hasauzzaman, 1984.*

- *Islamic economics is a social science which studies the economic problems of a people imbued with the values of Islam. Mannan 1986.*
- *Islamic economics is a systematic effort to try to understand the economic problem and man's behavior in relation to that problem from an Islamic perspective. Khurshid Ahmad 1992.*
- *Islamic economics is the Muslim thinkers' response to the economic challenges of their times. In this endeavor they were aided by the Qur'an and the Sunnah as well as by reason and experience. M. N. Siddiqi, 1992.*
- *Islamic economics aims at the study of human falah (well-being) achieved by organizing the resources of the earth on the basis of cooperation and participation. Akram Khan, 1994.*
- *Islamic economics is the representative Muslim's behavior in a typical Muslim society. Syed Nawab Haider Naqvi, 1994.*

One common feature of these definitions is that they all endorse the *step-by-step* approach for Islamization of the disciplines. But beyond that even a cursory look at them is sufficient to convince anyone that they are quite confusing, in some cases even misleading. They either focus on the objectives of Islamic economics without hinting at the means to achieve them, or say that it deals with economic problem in an Islamic way without spelling out the problem, its cause or remedy; or they project a cosmopolitan view as to how resources ought to be used taking the world as one unit.

Some recent additions have sought to ameliorate the situation. For example, Chapra (1996) defines Islamic economics “*as that branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances*” (p. 33).

The definition does recognize the importance of scarcity of resources for Islamic economics but that apart, it poses a few difficulties. The author leaves the ingredients of his formulation mostly unexplained. One does not know, for example, what human well-being here means; is it the same as in Marshall, or as in mainstream welfare economics? What is included in resources, both stocks and flows – natural or man-made? Likewise, where one would draw the line beyond which individual liberties shall be deemed

as being *unduly* curbed, and who will decide the issue? Also, will an economy run on Islamic principles face the indicated *imbalances*? If yes, who will curb them - the in-built systemic safeguards or state intervention? The definition leaves not a few strings dangling in the air.

Hasan in 1996 and 1998 presented two alternatives that are very similar to one another. We quote him from his later writing:

“To formalize matters, we may define Islamic economics as that part of Islam’s social doctrine that deals with the problems of choice in the face of uncertainty and resource scarcity so as to promote *falah* in a holistic framework.” (1998)

Hasan *ipso facto* endorses the secular definition of economics emanating from Robbins adding to it Islamic constraints such as fixing the object of economic activity as the promotion of *falah* in the widest Islamic sense, and encompassing social life in its entirety. It also has an interdisciplinary flavor and falls in line with the *step-by-step* approach to the task of Islamizing knowledge.

Yousri (2004, p. 5) defines the subject as under:

“Islamic economics is the science that searches in how available economic resources, endowed by Allah, can best be used for the production of maximum possible output of relatively scarce Halal goods and services, that are needed for the community now and in the future and their just distribution, within the framework of Shari’ah and its intent.”

Yousri (2004) highlights the importance of relative scarcity for the discipline and distinguishes between the *provision* of resources by nature, and their *availability* to mankind as in Hasan (1996).<sup>4</sup> Another aspect is its endorsement that maximization need not always be an unwelcome notion. However, once scarcity of resources is accepted the volume of goods and services they could produce would automatically be scarce in relation to unlimited human wants. So to bring in derived scarcity into the picture looks redundant and confusing. Likewise if the economy is Islamic it is not supposed to produce non-halal goods. However, it is well to bring in the issue of intergeneration distributional equity into the picture.

The definitions of economics – secular and Islamic – discussed above show that the position remain unsettled especially, in the area of Islamic

economics: it still is unclear to many as to what the subject really stands for. However, the literature does provide enough insights into its temper and direction to identify the points of its affinity with and departure from the mainstream discipline. It seems appropriate perhaps necessary to preface the discussion on these matters with addressing the question if economics were a science and if yes in what way? The inquiry would help us understand later the nature, method, and significance of Islamic economics.<sup>5</sup>

## Economics is a Science?

Yousri (2004) has discussed the issue at some length. He begins with making a distinction between knowledge and science. To him, science simply is refined common sense. Knowledge comprises of all that accumulates in a field as generic information plus accurate facts based on physical sense, material observations, philosophical contemplation or those resulting from ‘organized intellectual effort’. Only this plus part of knowledge is science. Paraphrasing Yousri, science is knowledge that has been scrutinized and improved through conscious intellectual effort. Such effort produces habits of mind, attitudes of thinking, and methods or techniques to unearth inferential facts that would otherwise be beyond the reach of thought and practice of every day life.

On the above stated criterion Islamic economics is a science like its secular counterpart. It emerged as a formal academic discipline during the last quarter of the preceding century. Two of its distinctive characteristics are: first it is an expression of the revival of an important Islamic heritage and second, it is reflective of Muslims’ aspiration to understand and analyze their economic problems in the modern context and derive their solutions within the framework of the fundamentals of their religion. Its theoretical structure is being raised on two pillars: Islamic jurisprudence where it is and would remain rooted and absorption of the developments in mainstream economics within the confines of the *Shari’ah*.

It is in this sense that we regard methodology of Islamic economics as the application of juristic principles and ethical norms to the mainstream dispensation. Even so, its development need not be seen the grafting of the *Shari’ah* on the secular trunk if we take a long run view of the matter.<sup>6</sup>

Even secular economics, J. S. Mill thought, was only part of a much larger study of humankind. He, therefore, developed his economic analysis on a much broader level than did Ricardo. The full title of Mill's major work is *Principles of Political Economy with Some of Their Applications to Social Philosophy*.<sup>7</sup> Likewise, J. B. Clark in his *Distribution of Wealth* provides an extensive support to perfectly competitive markets as they would tend to ensure the achieving of an ethical norm i.e. an equitable distribution of income as his marginal productivity theory, he claimed, convincingly demonstrated.<sup>8</sup>

Thus, it is clear that mainstream economics negates the opinion which not a few Islamic economists have held and preached – the subject is just a positive science devoid of values and neutral towards the ends. Some are grossly confused and express conflicting opinion on the point. The misunderstanding has created much confusion in understanding the nature and scope of secular economics and its ramifications for the Islamic discipline.<sup>9</sup>

Chapra (1996) highlights the contradictory positions taken on the point in secular economics.<sup>10</sup> He begins with the view that secular economics has both the positive and the normative aspects (p.13), refers then to Robbins and Friedman who argued that it is entirely neutral towards the ends, and one cannot pass any judgment on what is or suggest what ought to be except as a possibility (p.16). Further down (pp. 8-19) he shows growth, equity, full employment, and stability as normative goals that secular economists relentlessly projects and support. However, beyond that he leaves the discussion open ended.

Adam Smith did postulate that competition in the market would lead to harmony between individual and social interest but to continue insisting that secular economics still holds that as valid is perhaps untenable.<sup>11</sup> The emergence of the theories of imperfect competition during the 1930s, the enactment of anti trust laws and policies in various countries, and above all the recognition of markets' failure to take notice of externalities like social costs in the pricing of commodities that became the basis of a fast expanding discipline – environmental economics – *all belie the charge that secular economists still believe in the harmony of individual and social interests.*

The paradigm of the subject has undergone a great metamorphosis during the past hundred years or so. In their criticism of secular economics, many of the Islamic writers still tend to reside not beyond the nineteenth century version and vision of the subject. Let us be explicit that in the context of a 'step by step' approach to the process of Islamizing knowledge, Islamic economics, like its secular counterpart, is both a positive science and a normative science, as well as an art. Let us elaborate on this point a little.

## Nature of Islamic Economics

Presumably, the most important distinctions the history of economic thought records are the ones between *positive economics*, *normative economics*, and *the art of economics*. Positive economics deals with the forces that regulate the economy. It raises such questions as how the economy works, what factors determine the distribution of wealth, and so on. The sole purpose of asking such questions is to obtain insights into the actual working of the economy to make predictions about the behavior of variables in the future. Here normative judgments should enter into the analysis as little as possible; we are essentially concerned with knowing what is. In contrast, normative economics is suggestive; it explicitly concerns with what ought to be. It is the philosophical branch of economics that integrates it with ethics.<sup>12</sup>

The art of economics entails the questions of policy. It relates *positive* insight into the working of the economy to *normative* goals. It asks questions such as: If these we decide to be the normative goals of the economy, and if this is the way the economy works, then how can we best achieve these goals? For example, if the fast rate of economic growth is accentuating income inequalities in the economy that is not thought to be in social interest, what policies are required to reduce the pace of growth?

Thus, the three aspects of economics – positive, normative, and art – are of little value in isolation of one another: they constitute an integrated whole; to emphasize one at the cost of the other is futile. We don't see any reason why Islamic economics should concentrate on normative goals to the exclusion of how the economy is in fact working. It is the failure to understand this simple and basic fact that has often led Islamic economists

into rhetoric and a self-righteous mode. Mere criticism of secular economics is a waste of time and energy promoting negative attitudes, unless we can demonstrate in practice how Islamic goals can be achieved.

Nevertheless, secular economics has developed abundant *heuristic* concepts (Hasan 2002) such as utility, firm, entrepreneur, rational conduct, perfect competition, and so on which are nothing more than ideals or values. Indeed, it has reached the stage of diminishing returns (Redman (1989): much light as could ever be shone on the inexhaustibly complex behavior of economic actors has by now been cast, and it seems futile to hope for more. So, we essentially are now confined to the issue of economic policies – what is to be done to bring economic behavior to the right value system? These systems we have seen are much different in the secular and Islamic parts of economics both in their determining processes and contents.

## Position on Methods and Methodology

Secular economics is fast resurrecting its political overtones. The connection between politics and economics that was snapped after Marshall is being restored. The name *political* economy is gaining currency once again. The linkage is especially appropriate for Islamic economics. Islam is a way of life, dynamic, good and practical. If this view were acceptable not a few positions some Islamic economists like Chapra and Naqvi take on methodology in their writings are inexplicable, if not untenable.

For example, one comes across a detailed and vigorous discussion in Chapra (1996) attempting to attribute almost identical claims to Islamic economics as are the hallmarks of secular economics in the field of methodology. Influenced by the rhetoric of Feyerabend (1975) ‘*anything goes*’ and the support Caldwell (1982) provide him, Chapra unwittingly endorses methodological pluralism for Islamic economics (p. 37). He writes:

“If the furthering of human well-being, rather than just explaining, predicting or persuading, is accepted as the goal of Islamic economics then its task being much greater and harder than conventional economics, its methodology also have to be fit for the task. It may then be futile to look for a single method for accepting and rejecting hypotheses. Methodological pluralism may perhaps be most suitable,



and this is probably the method which seems to have been preferred by Muslim scholars in the past. (pp. 37-38).<sup>13</sup>

The above statement implies the same misunderstanding as pointed out above that secular economics is devoid of any normative aspect and has no concern for human well-being. The fact is that no economics – secular or Islamic – is or can be ignorant of human welfare. The difference between the two is in their conception of welfare and the means to achieve it. The Islamic view of welfare in contrast to its secular counterpart includes the satisfaction not only of the material but also of the spiritual needs of man and *inter alia* exhorts him to use his material possessions for the fulfillment of the latter<sup>14</sup>.

Again, Siddiqi's viewpoint<sup>15</sup>, which Chapra cites in support of his position, is oblivious to the fact that the Islamic 'tradition' he refers to belongs to an era which is almost a century behind when the *formalization* of even secular economics took place to make it a distinct academic discipline towards the close of the nineteenth century.<sup>16</sup> In any case, no economist would treat Islamic economics today in the informal vein as did "the Muslim scholars in the past" who had no conscious discretion in the matter, least in the field of economics. And finally, who in secular economics is any more insisting on the use of "a single method for accepting or rejecting a hypothesis"? The discipline has long accorded recognition to pluralism in *method use*.

Chapra (1996) strikes a parallel between the methodologies of secular and Islamic versions of economics. He approves the processes of secular dispensation to uphold or reject hypotheses in Islamic economics with the proviso "*to see whether it fits within the logical structure of the Islamic paradigm which is defined by the Qur'an and the Sunnah*" leaving scope for *Ijtihad*. In his usual sermonic style, he rather exhorts the Islamic economists not to shy away from such testing (p. 38). He quotes Naqvi to emphasize that the Islamic economists "should be ready to subject their theories to the toughest tests, and to discard 'old' theories once sufficient evidence *a priori* or empirical, becomes available. The aim should be scientific progress in Islamic economics" (p. 39).

Testing of hypotheses against facts, says Chapra, would help establish useful theories to realize the *maqasid*, and would establish the separate identity of Islamic economics. For, testing of hypotheses, even when derived

from the *Shari'ah*, has been an integral part of the Islamic tradition (p. 40). He supports empiricism as testing would not be possible without adequate historical and statistical data on all relevant variables as well as appropriate techniques. In fact, the Qur'an and the *Sunnah* are both claimed to have specified some of the major variables on which the well-being or misery of mankind depends (p. 39).

Now, one finds the generalizations stated without providing elaboration, illustrations; or documentation. Hence, they carry little conviction. One may want to know, what theories, for example, could be established to serve *Maqasid* singly or collectively? Or what *hypotheses* were ever drawn from the Qur'an and the *Sunnah*, for subsequent verification or rejection? How were these tested to establish a *methodological* tradition in the past? Likewise, how can one distinguish between 'historical' and 'statistical' data as in time series analyses all data we use are historical. Expressions like 'Relevant variables' and 'appropriate techniques' are vague not specific. A variable is defined as measurement of a phenomenon that can assume specific numerical values over time or space. *In this sense*, one wonders what major variables' the Holy Qur'an and the Purified *Sunnah* provide. Or, should we take *examples* drawn from history as the *variables*?

### Maqasid and Methods

We have seen that economics is meaningless unless it is geared to the achievements of certain social objectives. – Promotion of growth, employment, distributive justice, stability plus amelioration of poverty, and environmental care are largely common to all economic endeavors: secular or Islamic. The systemic differences unfold themselves in defining their range and content, priority ordering, fulfillment targets, and strategies for their achievement. In secular economics these issues are decided purely through social consensus which may change over time and space without limits. In Islamic economics such consensus must observe *Shari'ah* restrictions and cannot violate its foundational objectives or popularly known as *Maqasid – al-Shari'ah*.

These *Maqasid* have thoroughly been explained and debated in classical *fiqh* and many writings on Islamic economics sketch them. We do not need a full scale discussion on them here.<sup>17</sup> Suffice to say that they

include for protection life, religion, progeny, reason and property of Muslims and serve as a broad preamble for Islamic jurisprudence. Achieving the goals of an Islamic economy stated earlier can be shown to present an integrated scheme for addressing the *Maqasid*.

Siddiqi (2004, pp. 3-6), for example, has made some important contributions to the discussion of relationship between *Maqasid*, *Shari'ah* and *Islamic economics*. The main point he makes are put briefly as under.

1. Those who attempted to complement the fiqh approach via the maqasid to promote economic development in modern circumstances generally failed, because they could not accommodate in their agenda the ground realities. Fiqh constrained their plans.
2. Those who made recourse to Maqasid got trapped into the classical treatment of the subject. It was a remarkable intellectual achievement and paved the way for fresh interpretation of the injunctions. i.e. opened the door for ijihad. However, despite scholarly merits, it was but a fruit 5<sup>th</sup> and 8<sup>th</sup> centuries. To expect that it could serve with the same efficacy under six more centuries was to expect too much.
3. Maqasid could not be confined to protecting and preserving what people had or to keeping them from harms way. They must extend to include broader measures for positive benefits like promotion of welfare, justice and equity in social order.
4. Finally there was need to distinguish between the objectives of Islam as a way of life and the objectives of Islamic Law. The former involves aspects of personality and society that the latter does not cover. One can better understand the challenges of the modern era and face them through a vision of Islam as a way of life.

Siddiqi then deals with the ways of making *maqasid* to be understood such as to serve the purposes of making sense of the Islamic law and allowing fresh *ijihad*. In brief this is possible if we concentrate on understanding the Qur'an, especially on its Makkan chapters. The economic content of these chapters contains enough, he claims, to help us achieve the objectives of providing sustenance for all, dignity, security, justice and equity, freedom of choice, moderation and balance, and reduction in distributional inequalities.<sup>18</sup>

Islamic economists including Siddiqi invariably suggest construction of Islamic economic theories, especially imbued with realism. We are, therefore, prompted to ask a more fundamental question *does the Shari'ah really believes in theorizing, hypothesis construction, or spelling out doctrines* as the above statements of Chapra, among others, clearly imply? Not a few would disagree with the proposition raising doubts even about their Islamicity. Once we insist taking Islam as a way of life, *theorizing per se* would have no legs to stand on.

The Qur'an in our view establishes no theories, erects no hypotheses, and promotes no *ideology* in the strict sense of the term. It spells out a *belief system*, provides logical justification for its contents and implications, and narrates illustrative parables from the past – not data – to drive home its point. Qur'anic verses are not open to *verification*, let alone to *falsification* in the sense ascribed by the philosophers of science. Allah's challenge to the non-believers to produce just one verse comparable to His revelation does not symbolize the process of *falsification* as a methodological tool. This is not to deny the wide spread use of deduction or induction as a *historical fact* in early Muslim writings. Indeed, Hasan (1998) rightly observes:

“In fact, the scientific method which is the dynamic spirit of modern Europe's industrial culture is a distorted borrowing from Islam: it originated in the universities of Muslim Spain and the East: ‘distorted’ because the Islamic method never imposed self-interest as an exclusive limitation on rationality. It does recognize the link between them, but commitment to faith (Qur'an 30:30) overrides reason if they conflict. (p. 22).

A word about the ‘unity of science’ theorem of the Vienna Circle would be in place before we close this Chapter. While this theorem seems to be disintegrating of late in the secular economic writings<sup>19</sup> it, interestingly, remains intact in the case of Islamic economics. The reason is that Islam, unlike its secularism, takes the entire universe that includes man and nature, as one unit whose components are all subject to the same general law as its Creator has ordained. Nature is given no option but to submit to this law; no disruption or distraction can touch it without Allah's Will (Qur'an 7:54). However, unlike Nature, man is not obliged to follow any universal law. He is bestowed with the *Shari'ah* with discretion in its observance. The West

used this discretion to ignore, rather defy, faith; it chose to rely on human reasoning alone in social disciplines as well oblivious to the fact social interactions are clearly different objects for study from the growth of vegetation or the motion of matter and the future positions of the planets.

In contrast, for the believers, the *Shari'ah* is part of the same General Law ordained by the Creator that governs the entire universe including the physical and biological existence of man. Believers are convinced that if man follows the Law, life would remain in harmony with their own nature and with the rest of the universe. If man does not follow the Law he would be seldom at peace with himself and would spread corruption (*fasad*) in the land of Allah.

Truth is indivisible in Islam. *Shari'ah* alone contains the absolute inviolable truth that man could ever know (Qur'an 10:108; 69:51). Had truth been in accord with human desire, the heaven and the earth and all things therein would have been in confusion and corruption (Qur'an 23:7). We are talking of the Law; everything in existence either follows it or is punished by it (Qur'an: 10:108; 69:51). Thus seen, the 'unity of science' theorem remains intact in the *Shari'ah* ambit whether we are dealing with natural or social phenomena.

*Islamic economics* will, therefore, continue to be with us as a discourse in the *methodology of economics*: the do's and the don'ts as derived from the teachings of Islam. Only until our *mass* behavior conforms to the stipulated Islamic norms will we ever understand the consequences from following or not following in the steps decreed by Islam: rewards and/or punishments in the *dunya* and in the *Akhirah*. Similarly, the subject of Islamic economics will always overwhelm secular economics from a methodological perspective; since it will always have a position on secular economics; on its theories and on its policies and also on all global economic issues.

## Conclusion

We have argued that the significance of an academic discipline lies in its ability to address societal goals and in harmonizing with them with social dynamics. Its definition scope and nature do and must change to encompass new realities. Flexibility in these matters operates around a hard core that

remains intact. The two disciplines of economics – secular and Islamic – have some affinity on the points. Both have positive, normative, and applied aspects. Both also endorse the ‘unity of science’ theorem. Nevertheless, the points of divergence are many and more significant, especially with reference to the incorporation of ethical and moral values in theory and practice of the subject.

Islamic economics is still in the early stages of development; it remains more visionary than operational, and has various sorts of deficiencies to be made up. Nevertheless, in the short span of its existence it has proved its significance in many ways, more so on at least two fronts.

To paraphrase Siddiqi 2004, Islamic economics has done a great service in providing for interest free finance to Muslims and also attracting others to the benefits of the system. Furthermore, it has provided the unique service of weaning Muslims masses away from the lure of different sorts of secular economic systems – capitalism and socialism – and restore in their elite the confidence that their economic problems could be solved within the framework of Islamic teachings). But the world is dynamic and every age brings new challenges for mankind. With these two achievements to our credit we can proceed with confidence to meet the unresolved problems of poverty, inequality, and political handicaps to earn our rightful place in the international community, insha’ Allah.

Chapter Seven discussed the nature and scope of economics under secular and Islamic dispensations in the light of the different worldviews associated by each discipline. Islamic economics is essentially a normative science with some identifiable positivist elements. Furthermore, Islam being a way of living, it has an art aspect also.

## Notes

- <sup>1</sup> He thought that the wealth of nations is essentially a function of the spontaneous growth and expansion of such institutions as division of labor, evolution of money and finance, and accumulation of capital that the pursuit of self-interest – a natural human instinct – promoted in free competitive markets.
- <sup>2</sup> The last edition (Eighth) of the *Principles* appeared in 1920. As book moved from one to another edition Marshall made certain changes in the earlier versions but the opening passage remained intact.

- <sup>3</sup> It is widely admitted that Marshall's hand-picked successor at Cambridge, A. C. Pigou, produced a form of welfare economics that largely recapitulated Sidgwick's contributions (see Backhouse, 2004).
- <sup>4</sup> Presumably Hasan (1996) was the first to put the issue precisely in its correct perspective and seems to have influenced in some measure the revision of opinion in Islamic economic writings. His important contribution deserves a fuller mention. He wrote:

The Qur'an informs us that God has stocked the Earth (and heavens) with his inexhaustible treasures to provide sustenance for all His creatures. But to draw from this, as Akram and others do, the inference that scarcity becomes non-existent for economics, secular or Islamic, is rather eristic, to put it mildly. The catch is in the failure to realize that the fact of *existence* of ample resources for human beings and others at all points in time and space is one thing, while their *availability* to individuals or groups at a given hour and location is quite another. It is not the existence per se, but the state of their availability that lends meaning to the idea of scarcity as a cornerstone stone of economics. The availability of resources is an increasing function of knowledge – knowledge of their existence, of the ways to extract or obtain them, of their uses and of their costs. The history of the march of human civilization is the history of human conquest of nature. It is the history, in essence, of pushing outward relentlessly the frontiers of scarcity through unceasing inventions and innovations in science, technology, and societal management.

Scarcity, as explained above, is a part of divine scheme to spur humanity into action and to test people thereby; for the Qur'an not only talks of God's bountiful resources but also informs us that He alone is the source of knowledge and that He gives it to those who seek only bit by bit, lest they become proud and arrogant. The proposition that scarcity of resources is just a human made phenomenon must be taken with a grain of salt. To regard scarcity as a mere disturbance factor in the 'natural state of adequacy ....is neither correct nor necessary....Thus, resources remain limited because of the inadequacy of human knowledge despite God's benevolence. Presumably, one can visualize Islamic economics as a study of human behavior concerning the use of scarce resources for satisfying multifarious wants in such a way as would maximize *falah*.

- <sup>5</sup> This is so because science as it stands today is devoid of *Revelation*. As a result, when we call a discipline *scientific* we must always remember the nature and origin of *science*. In a recent Round Table discussion in IRTI (June 2004) on ways to reinvigorate, expand and diversify Islamic economics this was one of the main issues considered by the scholars.
- <sup>6</sup> Recall that earlier we defined the Islamic Worldview in such a broad way as to encompass also definitions and/or positions taken under the secular worldview i.e. to be aware and to avoid all the footsteps of *Satan*. So, in a subtle way, Islamic economics can also be viewed as encompassing secular economics.
- <sup>7</sup> This work served as the main text book of economics in the West until Alfred Marshall's *Principles* replaced it after 1890. It is interesting to note that Marshall opens his broad definition of economics discussed earlier with the words "Political economy or economics is the study of mankind...". This probably could be taken as the bridge the subject crossed after which it was called only economics. Marshall's use of both the terms in the same breath reflects some of the methodological issues of his times. The use of the term Political economy was more common then. The implication was that economics and politics were related and that economics, as a discipline in social sciences, was intimately connected to normative judgments. (See Landreth and Colander, 1994 p. 287).
- <sup>8</sup> One comes across a telling remark in Hasan (2002, p.104) on this ethical claim of the theory. He writes: "that the theory is misleading if not erroneous on its own terms. Payments based on marginal productivity need not be "just" on the basis of contribution. For, it is not the contribution of a factor but its scarcity relative to other factors that determines both its marginal product and reward".
- <sup>9</sup> Despite the wide use of Pareto optimality by the economists A. K. Sen (1982) has elegantly shown that it does not provide a value-free welfare economics. It assumes that if a move makes everyone better off, society would be better off. This would probably be a value judgment many may find unobjectionable, yet it is a value judgment in any case. Even if one accepts Pareto optimality being free of normative content, it does not provide much help in policy-making. Most real world political actions are likely to hurt some people to help others, even if marginally. See also Landreth and Colander (1994) p. 445 *passim*.
- <sup>10</sup> Here we are referring to his 1996 work for two reasons: First we know the position of the author on the subject updated unto that year, and secondly we are not aware if he has changed his position on the subject in his later writings.
- <sup>11</sup> Even Smith was not unaware of the possibilities of self-interest giving rise to greed, and markets becoming imperfect. He cautioned against the evils monopoly power and allowed their regulated existence only where social interest so demanded.



- <sup>12</sup> Long back J. N. Keynes who was particularly interested in methodological issues clearly identified in his book *The Scope and Method of Political Economy* published in 1891, three distinct branches of economics: positive economics comprising the scientific branch of economics; normative economics that considered what the goals of society ought to be; and an art of economics that related to the insights of the positive science branch to the goals determined in the normative branch, and the art branch teaches us what policies could achieve the normative goals of the economy.
- <sup>13</sup> This is confusion par excellence. Endorsing multiplicity of methods for economic investigations is one thing, advocating for pluralism in *methodology is quite another*.
- <sup>14</sup> On this see Hasan 1988, p. 41 1995, pp. 84-85, and November, 1998 p. 118.
- <sup>15</sup> “Islamic tradition in economics has been free of formalism, focusing on meaning and purpose with a flexible methodology”. ( Siddiqi 1988, p. 155). See n. 47 on p. 38 in Chapra, 1996.
- <sup>16</sup> It is interesting to find that this reality has eventually dawned on the great scholar of Islamic economics. Siddiqi (2004) has recently revised his position on the approach to Islamic economics, and on matters like the maximization hypothesis that he now accepts with modification. The impact of Hasan (1992, 1998, and 2002) on the revision is unmistakable. It is a laudable change.
- <sup>17</sup> Volumes have been written (and will be written) by eminent *fiqh* scholars like Al-Ghazali, Al-Shatibi, and Qardawi. Many Islamic economists including Siddiqi, Chapra, and Kahf referred to them in their writing. But there is a difference in the approach and explanations of the two groups. The first discusses *maqasid* on a philosophical and religious plane covering all aspects of life, while the second focuses on a linkage between them and economic aspects of human existence. So, we do not come across a full blown discussion of *maqasid* and their ramifications for leading an Islamic way of life. In this context the present work falls in the latter category.
- <sup>18</sup> Siddiqi (2004) is a well-knit and adequately documented piece. It shows a freshness in his ideas: a break from the past having some new and seminal ideas. My only lament is that the author forgot to acknowledge his debts to his contemporaries which are not meager. Also his constructive remarks on best practices should be given serious thought:-

“Observe reality as it is, do not let ideals lead you into optical illusion of seeing what is not there. Also, do not let yesterday’s observation become the last word regarding tomorrow’s possibilities. Make reality your starting point in your march towards ideal, do not make on it demands it can hardly

fulfill here and now [e.g. change leaders (M. Anwar), all Muslim countries cooperate (M.A. Miyan)]. Also Mapping out the entire landscape is not necessary for the journey. You learn by doing. The important thing is to be clear about what you want to do. Do not expect from moral orientation more than it has normally delivered in the past, go to history. Lessons of history are not only in success stories, the golden interludes. Failures teach you how to avoid them. Focus on the individual: motivate him spiritually, enable him skill wise, enrich him resource-wise, empower him by providing opportunity. In the new global economy such individuals create their own jobs and improve their environment. They make whatever they carry – culture religion, dress, food habits tolerable, some times even loveable, to others. Statism has failed. Accept this. Excepting the bare minimum of power ordained by Qur'an and Sunnah, reduce government and leave it to individuals through *Shura* – democratic process to assign to it what they think fit, when they choose, where they like. Also it is not wise to make a change of government in Muslim countries the precondition to an “agenda for change”. If you can not change it, ignore it. Global confrontation is counter productive. Do not initiate it. Even if the “West” imposes, avoid it. In the global economy of the future there is no East no West. It is trade, interdependence, and the mixed metropolis, a metropolis teeming with people from four corners of the world, professing all kinds of faith, treasuring diverse heritages, etc. The craving for a de novo discipline of Islamic economics is ill conceived. No such thing is possible. The key to Islamic economics lies in positioning the Islamic vision in place of the Anglo Saxon economic vision. But the Islamic economic vision has to be universal and contemporary not chauvinistic and medieval. As we move in that direction we may be pleased to discover we have good company from amongst modern economists in the West and East. The search for a more humane political economy is now universal. The challenge is, who leads the way. And, lastly, be practical. Apply what you have, now. Do not wait for refinement and perfection. Apply where you can, do not wait for power”. Siddiqi (1994).

- <sup>19</sup> Inter disciplinary writings tend to multiply on various economic topics in economics, and the subject is increasingly assuming political overtones. Both tend to curtail the positivist dominance of the discipline. The disintegration “stems from the partial and distorted worldview the West chooses to hail as ‘scientific’” Hasan (1998, p. 22).

## CHAPTER



### Concluding Remarks

*And We have sent down to you (O Muhammad ﷺ) the Book (this Qur'an) in truth, confirming the Scripture that came before it and Muhaymin over it (the old Scriptures). So judge among them by what Allah has revealed, and follow not their vain desires, diverging away from the truth that has come to you. To each among you we have prescribed a law and a clear way. If Allâh had willed, He would have made you one nation, but that (He) may test you in what He has given you; so compete in good deeds. The return of you (all) is to Allâh; then He will inform you about that in which you used to differ. Surat Al-Maidah (Verse 48).*

### Introduction

Even as we have provided a summary of each chapter towards its close, we put here in summary the main points to present an overall integrated picture. In addition a few other remarks have also been added to elaborate or supplement what has been said in the foregoing pages.

We have indicated that the principal end of Islamic economics is to develop a society that has an economic order capable of achieving *falah* i.e. well-being *both* in this world and in the *hereafter*. This is possible if the

discipline cares not only about material but also for the spiritual and moral aspects of human existence. In this sense, Islamic economics is to grow into a much broader discipline as compared to secular economics. We have argued that we cannot have a puritan approach for raising the facade of Islamic economics for a variety of reasons, and have to adopt a 'step by step approach' i.e. accepting what is valid in secular economics from the *Shari'ah* viewpoint and rejecting or modifying, if possible, what is not. Islamic economics will continue to oversee what goes on in the field of secular economics, and will attempt to provide formal positions from the *Shari'ah* viewpoint on economic issues that confront us now or in future. In this context, Islamic economics at the philosophical plane unmistakably 'envelops' secular economics and would in principle be larger in range and content when it gains maturity.

It is in this context that we see the methodology of Islamic economics largely consisting of the application of the *Shari'ah* onto secular economics or onto the behavior of economic agents in the real world. The approach is now being accepted as valid by a revisionist trend pacing up in the Islamic economics circles<sup>1</sup>. The process was started, among others, by Professor Zubair Hasan in his evaluative writings during and after the 1990s. There is a perceptible impact of his critical views and appraisals on the recent writings in the area. He has recently given a concrete shape illustrative of the step by step approach to expand Islamic economics (Hasan 2006).

We have also demonstrated that the methodology of secular economics is in a state of flux, and is more so in the case of Islamic economics as some Muslim economists could not grasp the true nature of their discipline which, first and foremost, is a discourse in *methodology*. The differences between the secular and the Islamic positions primarily emerge because of the underlying worldview differences, the concept of rationality, the ordering in the doctrine-reality sequence, the selection of values, and the role of faith in science and so on. The problems of interpretation and *ijtihad* are equally complicated. Nevertheless, Islamic economics has made creditable achievements in the field of Islamic finance on a broad spectrum and has also awakened the Muslims to the potentialities of their faith to resolve their problems; including the critical ones falling in the field of economics. The current state of the subject from a methodological perspective vis-à-vis secular economics briefly seems to be as under:

## In Summary

The issues concerning science are of epistemic import and are largely dealt within what is called the *Methodology* of a subject i.e. economics. For us, methodology of economics looks at the discipline of economics from outside the discipline with a view to evaluating its performance even as there is intimate interaction between the two. Furthermore, methodology is both a *descriptive* as well as a *prescriptive* discipline. It explains what economists are doing, how well they are doing it, and suggests what they should be doing in view of *a priori* objectives.

Some of the important issues we have dealt with in the area were: the purpose of economic inquiry, the sources of knowledge relevant to it, the subject matter and the scope of its inquiry, the limits to the application of knowledge, and the decisions about the appropriate structure for erecting economic theories and/or testing econometric models.<sup>2</sup>

Much confusion and controversy in the methodology of economics essentially center on the efficacy of criteria, rules, and procedures it uses for evaluating the performance of the discipline.<sup>3</sup> We also observed that it is not only in the case of secular economics, the treatment of the subject of methodology is in a state of flux in *Islamic economics* as well. In fact, until today there has hardly been a common view or a clear understanding among the Muslim scholars as to whether Islamic economics has a separate existence i.e. if the subject really is independent of mainstream economics. We have tried to show that it is both, epistemologically ‘linked’ and ‘independent’ from secular economics in a very subtle way. Furthermore, in Islamic institutions the world over, curricula and teaching programs are mostly dominated – out of necessity – by courses structures and reading materials appropriate for Western social setting and values designed as they are on the assumption of an impersonal market environment. The *Islamization of Knowledge* process has, in economics, adopted what one may call a step-by-step approach. This de facto means that there has not been an attempt to replace the mainstream concepts and theories *completely* with the pure Islamic ones but modify and integrate them with what Islam would allow.<sup>4</sup> Part of the confusion on the methodological issues in Islamic economics can presumably be attributed to this sort of gradual and graded approach.

Again we have also demonstrated in the discussion of the issues and from a methodological perspective that the subject under the name ‘*Islamic economics*’ is presently no more than the result of applying the Islamic rules and injunctions, i.e. *Islamic fiqh*, to *secular economics*: Islamic economics is not yet, contrary to what some scholars would want us to believe, a discipline that *replaces* secular economics. To reiterate, a cursory look at the curricula, course structures, and reading materials being used in modern Islamic educational institutions is enough to convince one of the validity of the statement. If this approach to develop Islamic economics continues – which it seems difficult to abandon – it would be impossible to declare the ‘independence of the subject/discipline’ from its secular counterpart in decades ahead. Of course, the compulsions of this approach would put the nature and scope of Islamic economics in a different perspective.

We also saw that it is with reference to the specified issues<sup>5</sup> focused on in the indicated objectives in Chapter 1 of the work that provided the Islamic and the secular versions of economics their divergent ideological bases, value frames, meanings of basic concepts, behavioral rules, and the procedures for erecting theories and installing their verification procedures. These differences also condition the nature and scope of the two methodologies and economic disciplines. We further addressed in the process of elaboration and clarification some sub-goals as well with reference to these differences; especially their implications for matters concerning human rationality, social values, analytical methods. One important result in the distinction between emphases on methods among the two disciplines is that under Islamic economics the final performance of the actual economic activities/agents is given more weight than the predictions of the future values of these economic activities.<sup>6</sup>

Our ultimate goal for the study of economic methodology provided a comparative analysis, and it is quite helpful to reiterate that the research in the field of economic methodology has only become more widespread and rewarding essentially during the last two decades because of the stupendous difficulties economies the world over have of late been facing and the growing wedge between economic theory and practice. So, many issues will still remain unsettled and controversial.

The present study was important for a variety of reasons both theoretical and applied. To some of these we have already alluded to above. In addition, one finds that the interest of the scholars, and the policy makers in other disciplines, especially in the areas of political science, sociology, psychology, and anthropology is fast growing in the subject, and the economists' attempt to make them believe that the economic approach is the only fruitful approach to the study of human behavior in their respective fields as well: economics is the model that *all* social scientists must follow. This makes methodological questions relating to economics significant for other disciplines as well, and has provoked controversy and debate on methodological issues at the inter-disciplinary level.

The present work also provided more clarifications on various issues that should strengthen the debate and the link between the comparative studies of the two methodological positions in the area. In the process, the study illuminated some dark spots in the secular methodological discourse. On a more important side, we identified the issues, assessed positions and illuminated them in the area of Islamic methodology; especially in a comparative framework. The accomplishment of this task was not easy, in fact challenging as well. But it perhaps is imperative for the very survival and purposeful growth of Islamic economics.

Since the field of Islamic economics is still in its infancy, a comparative exploration of the two methodologies has also proved rewarding; since the really enlightening literature on the subject is scanty. The present undertaking may also help future research in this new and important field. Also, the work is likely to provide some help and guidelines for the future teaching of Islamic economics.

In this context, we have also identified the common ground between the secular and the Islamic economic disciplines: for example how would the concepts of scarcity, rationality or maximization differ in theory and application in the two cases. Furthermore, this work is intended to benefit in some measure the general readership as well. It includes both those with a research interest in economic methodology, and those interested to learning the basics in the field. The study may also be of benefit to the students and teachers of economics with an epistemological bent of mind. As such, the subject of methodology could as it should become an integral part of any university level teaching program in economics; as it would be

helpful for the students to know the foundations on which their knowledge of economics is based.

Therefore, methodology, as alluded to earlier, is a subset of epistemology or the theory of knowledge. The theory seeks to explain the origin of knowledge, and its sources, the methods of acquiring it, its classification rules, and verification procedures.<sup>7</sup> Methodology is contextual in nature, and can better be understood with reference to a particular branch of knowledge, for example economics. It is concerned not only with the question of admissibility of sources of knowledge but also about their authenticity.

It was also difficult task to cover the entire range of methodological issues discussed and debated in the literature over the centuries in the span of the work. We confined ourselves to the more recent developments after the resurgence of the subject though compulsions of providing connecting links may take us at times far back into the past. We also saw that methodology of mainstream economics is a vast and controversial subject but more than that it is fuzzy and marred with a high degree of confusion.<sup>8</sup> The source of confusion is, in our view, what Joan Robinson calls the ideological underpinning that economics has always had. This is the ideology of nationalism and economists take it so. For this reason the positions they take in principle differ and clash over time and space.<sup>9</sup> We often base our discussion on much taken for granted notions without noticing it. As such, we limited our discussion to some broad developments in the area highlighting mainly those that are potentially related to or could have relevance for constructing guideposts for methodology comparisons between the two disciplines of economics – secular and Islamic.

The main question relevant to our discussion was the inquiry whether reality adjusts to doctrine or the doctrine conforms to the reality or one finds a mutual interaction between the two. Also, we discussed whether prediction should be the hallmark of theory in a social science as is currently believed in economics or the tractability of events, their analysis, and prescription are more important. For its importance, allow me to reiterate as under:

- (1) Economics developed as a means to justify the pursuit of national interests which were much diverse, often opposed to one another. Its principles provided a cover or justification to what was happening on the ground. Methodological concerns appeared much later on the scene,



and were mostly influenced by what course or *glide* economics had already taken.

- (2) The essential reason accounting for the lack of uniformity in national interests was presumably the diverse positions of various countries on the time scale of scientific, technological and economic progress with England leading the queue. The primary task of economists, therefore, became to justify the achievements of their industry and country and to promote their continuation, even at the cost of others, in the garb of *principles* they insisted were, as opposed to those of others, *universal*. Philosophers of economics as well as economists of different shades were to come up with methodological evaluation and erection of investigation rules supportive of national interests.<sup>10</sup> Sub-divisions tended to emerge even in the same tribe of economists to defend conflicting interests within nations. In the area of economics this made economic doctrine *subservient* to reality.
- (3) However, the directional contrast in the doctrine-reality linkage alone does not provide much of justification for proceeding with the present research; there are a number of other equally important reasons. Simultaneous with the maturing of the philosophical field, there appeared several altogether new approaches to various topics in methodology of economics, both secular and Islamic. These new approaches challenged the form of theory appraisal – methodologists’ chief preoccupation during the recent decades.

The above points show why the subject of methodology has remained in a state of flux. However, its broad overall contours are quite clear: to reiterate, there is no break from *positivism* though normative aspects are now accommodated, the power to predict remains the main criterion for a good economic theory, and the belief in the unity of scientific laws – natural and economic – still lingers in the literature. In fact, a sort of reinforcement movement for *positivism* got underway with the appearance on the scene of Milton Friedman’s famous essay: ‘*The Methodology of Positive Economics*’ in 1953. We have discussed its details earlier. In recent writings, he has been refuted with greater force on the issue of value judgments. They are in-built in the assumptions and policy prescriptions in secular economic theory, so much so that not to have a value is in itself a value.

Finally, in secular economics ‘*Self-interest*’ is regarded as the main force regulating the behavior of economic agents. Islam is not opposed to the pursuit of self-interest but does not consider it as the main, let alone the sole motivation like secular economics: its focus is *commitment* to God’s Will expressed in His revelation – the Qur’an – and the word and deeds of His last prophet (SAW). I would like to say if we can coin such a term that it is “*God’s-Interest*” that should be the sole consideration that must guide all human decisions not only economic. Under Islamic economics we strive to ensure that all our acts are in accordance with what God would like (*Ma Youhibbuhu-Allah*) them to be and that we equally strive to abstain from those acts which God Dislikes (*Ma Yakrahuhu-Allah*).

## Future Requirements

Future progress in Islamic economics requires that governments of the Muslim countries work in unison to promote the cause of Islamic economics in a more concerted way, especially through shaping policies commensurate with Islamic economic norms. We have seen that secular economics integrates theory with practice. In the field of Islamic economics the two continue to run on parallel rails. The need to integrate the two can hardly be emphasized. This should cover all economic spheres, not remaining essentially confined, as at present, merely to the sphere of Islamic banking and finance.

For achieving the ultimate objectives of an Islamic economic system, Muslims’ commitment to practice Islam in ordinary business of life is essential. The spheres of social life other than economic should not be left to operate under the secular dispensation indefinitely. The circumstantial compulsion of a step-by-step approach need not become an excuse for delays.

We have also shown that Islamic economics can be free and independent from secular economics from a methodological angle. To reiterate, in a subtle way, Islamic economics ‘encompasses’ secular economics as it never allows men to go after it: Islam warns believers not to walk in the tracks of Satan. Islamic economics has its own ‘scientific’ and ‘theoretical’ foundations and logical constructs based on the *Shari’ah*.

Therefore there is room for presumption that *Islamic economics* will eventually be able to achieve an independent status given the new perspective alluded to above as this thesis is but a humble effort “to embark on ... a [grand] discovery” to quote Hasan (1998).

Furthermore, an ‘*Islamic Economist*’, in our opinion, possesses a multi-dimensional personality: he must reach a high standard in several different directions and must be able to integrate the *Shari’ah* into a bigger social picture. He must be a historian, statesman, and philosopher, sociologist and mathematician all rolled into one. He must understand symbols and speak in words. He must contemplate the particular and speak of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. He must above all be a disciplined upholder of the Faith.

The secular worldview – as conditioned by material scientific explanations – has been the major influence governing the course economic thinking has taken since the early eighteenth century. The three famous (or infamous) economic paradigms of Smith, Marx and Keynes were all devoid and independent of Revelation.<sup>11</sup> Secular economics became increasingly more concerned with establishing theories based on reason, logic, and empirical verifications. The intellectuals of the Vienna Circle set out to define what science is and what it is not, belittling spiritual, moral, and social aspects of life and emphasizing only its ‘positive’ objective elements. Even in discourses on methodology and the selection of certain methods for economic analysis, the tools of mathematical inquiry, statistical inference and econometric explorations were carried thus far that we find them debasing useful original thinking. But the tide has turned. Islamic economists are now trying to make inroads into secular fortress using ethical and moral armaments.

In this, Islamic economists can take advantages of some developments critical of secular economics and its methodology and loosening interconnection of the two, more so by demonstrating that there are general but important economic truths independent of space and time.<sup>12</sup> In fact, as we have shown earlier in Chapter 2, the whole philosophy of science is now in disrepute for it hardly has any legs to stand on. Islamic economics should demonstrate the objectivity of the discipline by showing

that if consumers and producers do not follow the prescribed universal ideals then no sustainable human development can ever be achieved.

From the Islamic point of view, one uncalled for secular presupposition in approach to economics is the so-called ‘split’ between regarding what can be seen and measured as objective, and what cannot be so measured e.g. color as subjective (see Al-Ansari)<sup>13</sup>. With such division, any higher levels import of beauty and harmony in nature as signs of God were reduced to the level of “subjective” and “unscientific.” Accordingly, spiritual values lost their objective meaning, and were reduced to the subjective realm of tastes – a serious simplification in secular thought and practice.

An order or system devoid of spiritual values, therefore, became a possibility for man as the harmonious laws of nature were no longer known to be the laws of God operating on a particular level of reality, and economics could become a “separate split” science. Despite the fact that Newton’s “billiard ball atomism,” implies such split, it has been refuted by quantum mechanics as philosophical presupposition<sup>14</sup>. But “*good physics is now refuting bad philosophy,*” as the philosopher and scientist Wolfgang Smith (2003) points out. He demonstrates that the reduction of quality to quantity does not even apply to the natural physical world, let alone to the human spiritual realm.<sup>15</sup> Obviously, this has tremendous implications for the debate between Islamic and conventional (neoclassical) economics. Smith clarifies his solution to the paradoxes that the new physics poses for the understanding of the natural world in his seminal book *The Quantum Enigma: Finding the Hidden Key*, which Seyyed Hossein Nasr hails “*as one of the most important books written in recent decades on the metaphysical interpretation of modern physics.*”<sup>16</sup> One of the central distinctions that Smith makes is between the “corporeal” world of perceived qualities that we experience every day and the “physical” world of measured or measurable quantities that occupies physicists.

Contrary to the prevailing secular worldview, Smith demonstrates “*why the corporeal can never be reduced to the physical and therefore the absurdity of all scientific reductionism.*”<sup>17</sup> This has devastating implications for secular economic theory or the so-called “positive economics”. It implies that a multi-utility relation is based on objective qualitative differences in the corporeal realm, and that a mono-utility function erroneously reduces the corporeal to the physical. In fact, economics imported

this analytical tool from the secular approach to physics. In short, Smith's argument entails a refutation of the entire orientation of modern economic thought. Because his argument also reveals the wisdom of the pre-modern sciences of nature in dealing with the corporeal realm, his argument helps to clarify the intimate (but currently neglected) connections between nature, the environment, man and his psyche (روح), the market, government and society which is a basic and fundamental concern of Islamic economics as, unlike secular economics, it takes a *multi-disciplinary* approach toward life and the development of scientific knowledge. This also demonstrates that recovering the Islamic economic intellect depends on recovering the Islamic intellectual heritage as a whole, which poses both problems and possibilities. We therefore recommend that future research work to focus on recovering the Islamic economic heritage. What is the 'Islamic economic heritage'? Why does it need 'recovering'? What problems prevent its recovery? How might these problems be addressed? These questions important as they may be are beyond the scope of this research and require a team of experts to embark on such a noble project.

In brief, since Islam is a complete way of life, Islamic economics provides solutions from a *methodological* perspective to man's basic economic problem. Moderation in consumption and the ultimate reward for giving is more than for taking. Fighting poverty must be a policy priority. Trade in Islam is a noble profession. The assurances that income/wealth is not only spent on *halal* items but most importantly is earned from *halal* channels is a *microeconomic* imperative. At the *macroeconomic* level the stability of the economy, full-employment and the equitable distribution of income should not be glossed over. Overall economic cooperation and integration of Muslim economies is a necessary growth prerequisite with a view to increasing dependence on each others. Production under Islamic economics should be focused more on the intention to perfect the quality of all manufactured outputs of goods and services. Production of any *haram* items is not allowed. Finally, economics is not an end in Islam but a means to achieving *Maqasid al-Shariah* not only for the individual 'economic man' but more so for the 'group or community' at large.

## Notes

- <sup>1</sup> As mentioned earlier, the initial ‘all or nothing’ attitude to the Islamization of knowledge is vividly being diluted. An increasing number of journal articles and books on Islamic economics are today talking of looking at mainstream positions from an Islamic perspective rather than presenting pure Islamic models as alternatives. The approaches, methods, and procedures are all under ‘revision’.
- <sup>2</sup> The ‘Introduction’ in Hausman (1994) provides a good account of the goals of science, nature of scientific explanations, theories and the assumptions they rest on, (pp.10-24).
- <sup>3</sup> Hasan, Zubair., *Islamization of Knowledge in Economics: Issues and Agenda*, IIUM Journal of Economics and Management, Volume 6 No. 2, 1998. p. 16.
- <sup>4</sup> Here we are not concerned with the much wider debate on Islamization of knowledge including the efficacy of the term itself, the underlying principles and procedures, and comparative schools of thought – irrespective of academic disciplines. A large body of literature already exists on the subject for the one interested in that part of the story. We are in a much narrower and operational groove the subject of economics as currently being taught in our educational institutions. In this narrower ambit there is a good discussion on the meaning and rationale of a step-by-step approach vis-à-vis the puritan all-or-nothing approach in Hasan (1998 and 2001). For discussion on a wider plane one may refer to, for example, Abu Sulayman (1989) among others.
- <sup>5</sup> These issues have been identified on the basis of their discussion in various works on the methodology of economics in both secular and Islamic literature: no one source lists them all.
- <sup>6</sup> This marked distinction in methods is my own opinion as I did not come across it anywhere in the literature- secular or Islamic.
- <sup>7</sup> The origin of knowledge lies in beliefs, however formed, and among its sources (see Fox (1997, pp. 423-43) include reason or introspection, human observation of the external world, tradition, history and so on. We shall return to a more dated discussion on epistemology in Chapter 4.
- <sup>8</sup> Blaug (1992) sees modern economics in a state of crisis (pp. 237-241) and identifies theory – measurement interface, falsificationism, and applied econometrics as the primary areas of controversy and debate, (pp. 241- 246).
- <sup>9</sup> See Joan Robinson (1962. Chapter 6). She traces back the development of economics over the centuries being shaped primarily by the national considerations. Since interests of various nations usually differ – often clash – the space-time compulsions made economists give the cloak of theory to make

national interests look universal. The commitment gave rise to confusion and controversy not for theoretical structure of the subject and its content but also its methodological criteria, rules, and procedures. She argues that even Marxism or utilitarianism are not cosmopolitan in substance.

<sup>10</sup> The history of economic thought right from the Mercantilists to the present euphoria for globalization bears ample testimony to this observation. One can find an interesting substantiation of the point in Joan Robinson (1962) Chapter 6 entitled: What are the rules of the game? She does not grant independence of time and space even to Marxism or welfare economics and candidly brings out the partisan nature of the major schools of thought and their proponents. Hasan (2002) provides a classic example of national interests dominating theory formulation in the area of international trade based on List's National System of Economy in the 19th century Germany.

<sup>11</sup> In fact, we note that these three paradigms under secular economic thought: (1) the Smithsonian natural order, (2) the Marxist conflict of class struggle and (3) the Keynesian rectification of capitalism are all quite distinguishable from each other. And all of them (in the beginning) claimed to have scientific and positive status. However, in current times, all of them have been partially rejected even under secular economics. And Positivism no longer claims a perfectly value-free outlook, as everyone accepts that secular economics cannot be completely value-free since secularism is a value by itself.

<sup>12</sup> I have tried throughout the course of my research to come up with basic economic truths or principles in Islam, and I have found seven of them and will summarize them here as example: (1) Secular economics upholds the golden motto "*there is no such thing as a free lunch*"; however, it overlooks the most important fact that stairs all of us in the eyes which is that the whole universe (all factor inputs including Man), are nothing more than a 'free lunch'. (2) *More is Better* (see footnote 85 above) is not always true in Islamic economics (I.E) provided it does not violate *Akhira* since the economic man is not different from the human (*Insan*) described in the Holy Qur'an. (3) Freedom to Choose is not an absolute dogma in I.E. since the Qura'n was first in destroying the notion of *laissez-faire* more than 1400 years ago as narrated by the story of the people of the *Prophet Shu'aib* (peace be upon him). (4) There is unity in all sciences as manifested in the universal scale/balance. (5) Factor productivity must be balanced with money velocity or the demand for money (*Al-maa'al*) and the demand for labor (*Al-Banoon*) must be ensured to move together in harmony, and (6) Only make improvements on the current state of affairs by avoiding corruption (*fasad*) in all of its ramifications, and finally (7) Give away what you are looking for

and you shall get what you want (spend in the cause of Allah and Allah will spend on you).

- <sup>13</sup> “In the Cartesian tenet which affirms that the perceptual object is private or merely subjective, the idea of bifurcation goes hand-in-hand with the assumption that the external world is characterized exclusively by quantities and mathematical structure. According to this view, all qualities (such as color) exist only in the mind of the percipient.” Wolfgang Smith, *The Quantum Enigma: Finding the Hidden Key* (Peru, Illinois: Sherwood Sugden & Co., 1995), p. 137.
- <sup>14</sup> For an excellent treatment of these issues, see for instance Wolfgang Smith, *Cosmos and Transcendence: Breaking Through the Barrier of Scientific Belief* (Peru, Illinois: Sherwood Sugden & Co., 1984), chapters 1 and 2.
- <sup>15</sup> See Wolfgang Smith’s remarkable series of books *Cosmos and Transcendence*, *The Quantum Enigma*, and *The Wisdom of Ancient Cosmology: Contemporary Science in Light of Tradition* (Herndon: Foundation for Traditional Studies, 2003).
- <sup>16</sup> Seyyed Hossein Nasr, “Perennial Ontology and Quantum Mechanics: A Review Essay of Wolfgang Smith’s *The Quantum Enigma: Finding the Hidden Key*,” *Sophia*, Summer 1997, p. 158.
- <sup>17</sup> *Ibid*, p. 141.



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