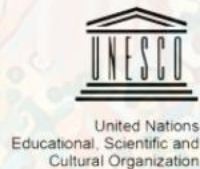


CERTIFICATE in ISLAMIC ECONOMICS AND FINANCE August 2022

Foundations of Islamic Economics, Business & Finance



Week 1

FOUNDATIONS OF ISLAMIC ECONOMICS, BUSINESS & FINANCE: **WHY IEF and WHAT IS IEF**

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Outline

1. Introduction- Why is there a need for an alternative economics and finance?
2. Why the Need for Islamic Economics and Finance
3. Worldview
4. Comparison of Worldview Elements in Islamic Economics vs. Modern Economics
5. What is Islamic Economics
6. Summary



1. Need for an Alternative Economics and Finance? Increasing and Volatile Global System

a. 1998- Asian Financial Crisis

b. 2008-09 Sub-Prime Crisis

During a briefing by academics at the London School of Economics on the turmoil on the international markets (Nov 2008) the Queen asked:

"Why did nobody notice it?"

Reasons:

- economic (artificially low %; high levels of debt....)
- Non-economic- have to do with **worldview/vision/ideology** underlying modern mainstream neoclassical economics



Commentators stated that NC economics based on problematic ‘foundations’

- The ‘**belief**’ that all was well, that our (NC) economics cannot be ‘wrong’
- The **assumption** that markets would solve everything.....
- Accepting/Recommending ‘**man’s greed**’ as a ‘good’ trait in economics and finance.....
- That it was ethically ok to **transfer risk** in order to maximise your own gains.....



2. Why the need for Islamic Economics and Finance?

Or

Why not current, conventional economics that has evolved over the last 350 years.....practiced, has brought material progress and well-being to humankind?



All economics have underlying foundations
No human endeavor is value-free

Schumpeter, Joseph in his *History of Economic Analysis* (1954)

Analytic effort is of necessity preceded by a pre-analytic cognitive act ... called Vision.

Also termed worldview or even ideology. Implication is that modern economics and finance is not 'value free'

Ultimately, our values are derived from our worldview (or ideology or vision).



Different Economics----- Natural and Legitimate
Underlying Worldviews Differ.....

1. Many of the assumptions made in economics **‘may not be true’** and are probably **‘not universal’**
2. Economists may differ in opinions because of their **differences in their sources of knowledge.**



**DOES VISION/WORLDVIEW of ISLAMIC
ECONOMICS**

DIFFER

**FROM VISION/WORLDVIEW OF MODERN
ECONOMICS?**



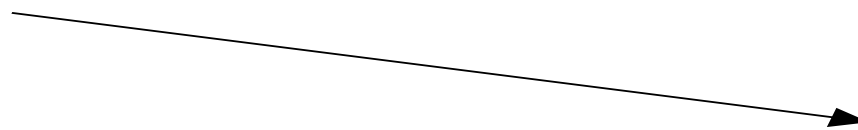
3. Worldview

- What you,
- -‘think you see’,
- - ‘understand about what you see’ and
- - ‘your judgement about what you see’
- Differences in assumptions made about man, the universe, the economic agent, the assumptions underlying economic models and theories

.....stem from one’s **worldview**



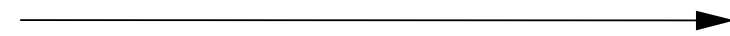
Religion



Culture



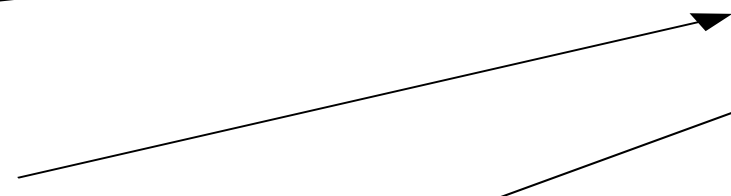
Education



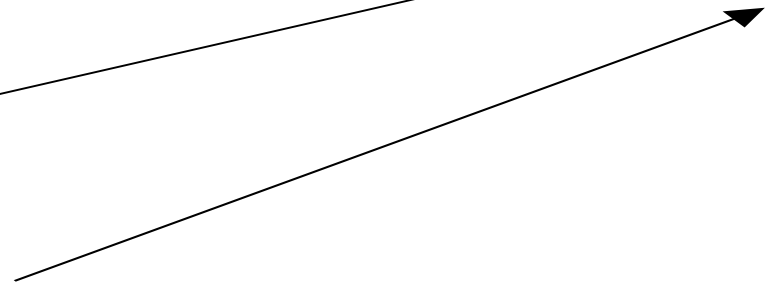
History



Geography



Technology



WORLDVIEW



Worldview

- Differences in assumptions made about man, the universe, the economic agent, the assumptions underlying economic models and theories stem from our..... **worldview.**
- More than just an interpretive lens, a worldview perspective shapes, influences, and generally directs a person's entire life.
- Because people behave as they believe, their worldviews guide the development of the **values** that inform their **decisions** and **actions.**



Worldview

The core, essence and unchanging values

All worldviews must at least include views on **Religion, God, Man, Nature, Knowledge, Aim in life**

Since we are talking about 'Islamic' economics, let's begin with RELIGION.....



4. Comparison of Elements in Worldviews

a. Religion

Islam is DEEN

M. Watt in his *What is Islam* (1979)

... **whole way of life** ... covers both the private and public/societal lives of man, it permeates the whole fabric of society, and includes theological dogma, forms of worship, political theory and a detailed code of conduct, including even matters which the European would classify as hygiene or etiquette ...



Religion in the West today (since the last 400 years.....)

- **Watt (1979)**

... means a way of spending an hour or so on on Sundays in practices which give him some support and strength in dealing with the problems of daily life, and which encourages him to be friendly towards other persons and to maintain the standards of sexual propriety; it has little or nothing to do with commerce or economics or politics or industrial relationships ... or may even look on religion as an opiate developed by exploiters of the common people in order to keep them in subjection.



b. God

Allah and Islamic Economics

- Tawhid or Unity of God expressed in Kalimah Shahadah
- Beautiful Names of God and implications for economics

Al-Razzaq (the Provider),

Malikal-Mulk (the eternal owner of Sovereignty),

Al-Muqsit (the equitable)



God and Modern Economics

- Modern Economics is a product of western Europe. As a result of the secularization process, new 'scientific' disciplines were established from the 18th Century
-
- There was no place for God/Bible in developing science.
-
- God/Bible has no role in economics as a discipline.



C. MAN

In ISLAM/Islamic Economics

- insan
- Fitrah- created good
- body and spirit- Al-Hijr : 28-29
- Given 'aql and taught all the names- Al-Baqarah: 31
- Best of creation - Al-Tin: 4
- Dual Roles of 'Abd Allah and Khalifah fi'l Ard- both together



Man in Modern Economics

- Rational economic man of modern neoclassical economics as 'representative agent'
- Self interested (selfish) maximizer of material satisfaction
- Others' welfare and environment not included in formal models in economics



Nasr (1990)

There is no more dangerous creature on earth than a khalifah Allah who no longer considers himself to be an ^Cabd Allah.



d. Nature/Universe in Islam

- creation of God for man
- Al-An'am : 95 - 103
 - Talks of vegetation and fruits, night and day, heavens and earth, human beings, rain
- material world and world of ghayb
- nature to be managed by man as trustee
- nature as a sign of God



Nature/Universe in Modern Economics

- Part of secularization process viewed the universe or natural resources as an object to be exploited according to man's wants and choices.
- For a science, only this visible world is real and relevant



e. Aim in Life in Modern Economics i.e the primary goal in modern neoclassical economics

To maximize material gain in this world.



Aim in Life in Islam

- to achieve falah (ultimate success) by performing ibadah
- In economics- develop earth to achieve God's pleasure
- requires means
 - al-nafsiyyah - iman, character
 - al-jismiyyah - health, strength, long life
 - al-khariyyah - wealth, influence, family
 - al-tawfiqiyyah - divine grace
- To attain falah we must have knowledge and action



f. Knowledge

'ilm and derivatives appear 750 times in the Qur'an

- fundamental requirement for all Muslims life-long
- Obligation (fard)
- sources of knowledge
 1. Revelation - primary source
 2. Reason - secondary source
 3. Universe - secondary source



Action

good action is ^ḥibadah

good economic action is ibadah

good action requires correct intention, correct knowledge and observance of all shari'ah requirements.



ISLAMIC WORLDVIEW \neq SECULAR WORLDVIEW

Hence, there is a basis/case for Islamic
economics.....



5. What is Economics? and Islamic Economics?

- Economics deals with production, consumption and distribution
- due to relative scarcity, we have to make choices
- must make “good” and “correct” choices
- man interacts with other human beings and nature to make these choices



Selected Definitions of Economics

Beveridge

Economics is the study of the general methods by which men cooperate to meet their material needs

Marshall

Political economy or economics is a 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 the material requisites of well being

Robbins (1931)

Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses



How man interacts is determined both by natural laws and social laws/culture in a system i.e. economic and financial systems

Social laws/culture based on the worldview of a people.....hence worldview, values of people are part of the factors that influence economic decision-making.



What is Islamic Economics?

- Part of din
- deals with production, consumption and distribution activities of man according to Islamic worldview
- make choices according to Islam
- description, analysis, prescription



Some Definitions of Islamic Economics

- Naqvi (1994: 20) defines Islamic economics as a study of the representative Muslim's behaviour in a modern Muslim society.
- Arif (1985) defines Islamic economics as the study of Muslim's behaviour who organizes
- Baqir al-Sadr (1983, vol. II, p. 6) defines Islamic economics as the way Islam prefers to follow in the pursuit of its economic life and in the solution of its practical economic problems in line with its concept of justice.
- Haneef (1994)- approach to, and process of, interpreting and solving man's economic problems based on the values, norms, laws and institutions found in, and derived from the sources of Islam /shari'ah.



Islamic Finance

to finance the economic activity in an Islamic framework, we must have institutions using instruments according to rules and regulations which are all **bound by the shari'ah**



Unique Feature of Islamic Economics and Islamic Finance.....

- A. Ultimately- IE and IF have the central position of revelation i.e. the Qur'an (and Sunnah) as the ultimate authority
- B. The Qur'an is also known as al-Furqan or the criterion to distinguish between values
- C. Shari'ah is total guidance- not limited to the law/legal aspect; for economics, ethical dimension very important.
- D. How do we use the Qur'an in the process of developing Islamic economic and finance?.....requires the correct use of 'aql.....through process of ijtihad.



Haneef (1994) IE is an

- approach to, and process of,
 - interpreting and solving man's economic problems
 - based on the values, norms, laws and institutions
 - found in, and/or derived from
 - the sources of Islam /shari'ah.
-
- most economic applications will have to be **derived**
 - to derive 'correctly' we need to **understand Islamic worldview**, especially Islamic **vision** of economics so that Islamic/Shari'ah - - Boundary of economics and finance can be determined
 - **Shari'ah must be interpreted and applied**.....brings us to the question of methodology of Islamic economics and model/theory building.....**next Topic.**



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Al-Attas, Syed Muhammad Naquib (1978)- *Islam and Secularism*, Muslim Youth Movement of Malaysia, Kuala Lumpur.

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