

Islamic Economics Research Series, King Abdulaziz University - 1

TEACHING ECONOMICS IN ISLAMIC PERSPECTIVE

Muhammad Nejatullah Siddiqi

*Professor in Economics, Centre for Research in Islamic Economics,
King Abdulaziz University, Jeddah
Saudi Arabia*

**Scientific Publishing Centre
King Abdulaziz University
P.O. Box 1540, Jeddah 21441
Saudi Arabia**

© King Abdulaziz University 1417 A.H. (1996 A.D.)

All rights reserved. No part of this work covered by the copyrights hereon may be reproduced or copied in any form or by any means – graphic, electronic, or mechanical, including photocopying, recording, taping, or information storage and retrieval systems – without written permission of the publisher.

1st Edition 1417 A.H. (1996 A.D.)

King Fahd National Library Cataloging-in-Publication Data

Siddiqi, Muhammad Nejatullah

Teaching economics in islamic perspective - Jeddah

... p.; ... cm. - (Islamic economics research series, 1)

ISBN : 9960-06-070-5

ISSN : 1319-5476

I- Economics - Religious aspects - Islam - Study and teaching

I- Title II- Series

330.121 dc

3318/16

Legal Deposit no. 3318/16

ISBN : 9960-06-070-5

ISSN : 1319-5476

FOREWORD

Literature on Islamic economics is, by now, quite voluminous. Nevertheless, very little is written on the subject of "how to teach economics from Islamic viewpoint". Despite the apparent need such an undertaking is not readily available. The present work by Prof. M.N. Siddiqi addresses that particular need.

This book is quite unique. On the one hand it is written by an author and teacher whose experience in Islamic economics is unparalleled. Prof. Siddiqi is a laureate of King Faisal Prize for his pioneering work on the subject. On the other hand, the Centre adopted a different procedure in refereeing the content of this book. Rather than sending it to two referees, as is the case with Center's other publications, we involved a large number of experts, the majority of whom are practitioners of teaching of economics. Reading all the comments and modifying the chapters in accordance with suggestions was not an easy job. We, therefore, thank Prof. Siddiqi for his patience and dedication.

Only those who attempted to teach Islamic economics in a conventional setting, or tried to introduce Islamic ideas into a standard curriculum of economics, would know the pain they have to go through to do justice to their subject. It is because of this we wanted to reap the benefit of these experts to make sure this volume addresses the needs of the students of Islamic economics. In recognition to their contribution their names are listed in this book. Certainly this is not going to be our last word on teaching economics from an Islamic perspective. But it is one step in the long road to Islamization of knowledge.

Dr. Mohamed A Elgari
Director

PREFACE

It has been an honour for the King Abdulaziz University to establish a centre for research in Islamic economics. This came in pursuance to the recommendations of the First International Conference on Islamic Economics, called upon by King Abdulaziz University and held at Makkah al Mukarramah in 1396 H. (1976). It was attended by a large number of economists, *Shari'ah* scholars and educationists from all over the world of Islam. One of the objectives of the Centre has been the promotion of teaching of Islamic economics at the Universities. Since its establishment in 1397 H. (1977) the Centre has been serving this objective through its publications and seminars. I am pleased to note that a major project of the Centre is now reaching maturity through the publication of *Teaching Economics in Islamic Perspective*. The very fact that the project has taken more than ten years and involved many distinguished scholars speaks volumes about the Centre's dedication to its task. I am sure this publication will be widely welcomed in academic circles and generate constructive discussion on the subject.

I congratulate the scholars working at the Centre for Research in Islamic Economics. As one who has had a long association with the Centre's administration I feel proud at its performance. I also appreciate the singular contribution the author, Professor Siddiqi, has made to the success of the Centre.

May Allah help us all in serving His cause and His people and accept our modest endeavours.

Dr. Ghazi O. Madani
President

Teaching Economics in Islamic Perspective

MUHAMMAD NEJATULLAH SIDDIQI

*Professor in Economics, Centre for Research in Islamic Economics
King Abdulaziz University, Jeddah
Saudi Arabia*

Abstract. There is a need for introducing Islamic ideas and values in the teaching of Economics. Behavioral assumptions of conventional economics do not all apply to behaviour required of Muslims by their religion. Assuming average level of compliance with Islamic injunctions, some care for others is germane to religious attitude. This has important implications for Microeconomics. In Macroeconomics, guidelines are provided for teachers analyzing the impact on the economy of Islamic behaviour in consumption and production and of Islamic policies. Public expenditure in an Islamic economy, an Islamic evaluation of contemporary taxes and significance of *zakat* are discussed in the context of teaching Public Finance. International economic relations and issues in development economics are discussed in the Third World perspective within the framework of Islam. The issue of free trade versus protection, issues relating to financing development and potential of Islamic modes of finance are examined. Teachers are advised to provide a critique of interest based banking, and to present Islamic banking as an alternative likely to ensure greater stability, efficiency and fairness.

The book is addressed to teachers and provides a list of books on Islamic economics as well as on conventional economics for their benefit.

Introduction

Teaching of economics in Muslim countries and communities does not reflect the values and goals people cherish. Economics evolved in Europe a couple of centuries ago. It was a Europe which had distanced itself from religion for some unfortunate reasons into which we need not go here. To make the insularity doubly secure economics also distanced itself from ethics. Mainstream American and European formulations of economics continue to be dominated by this trend.

Any economics that ignores religion and morality can hardly suit the Muslim peoples. It can not correctly analyse their behaviour to the extent behaviour is influenced by religion and moral values. Nor can it come up with policy prescriptions with some chance of success as they would contain little that could motivate and move the Muslim peoples.

Efforts to introduce Islamic ideas and values into economics are now more than two decades old. The Centre for Research in Islamic Economics at King Abdulaziz University, where I am working, has played a leading role in this regard. The six essays included in this volume were written over the period 1983 to 1993. What distinguishes them from some other efforts is their coverage and approach. They take modern economics courses as they are taught in the universities, subject them to a critical review and supplement them with relevant Islamic ideas and values.

The broad methodology has been to envision economic agents

under the influence of Islam to a reasonable degree. They neither ignore all dos and do-nots of their religion nor observe all of them meticulously. Even though the total population of Muslims includes men and women at either ends of the spectrum, most of them do not belong to the extremely bad or ideally good kind. It is a universe almost normally distributed with the bell of the curve swinging left and right over time. While its shape calls for realism, its movement gives hope to reformers and social workers who would rather see it tilt to the right.

There is much more to religion than dos and do-nots. *Tawheed*, the Islamic world view, or vision, is prior to and higher than the injunctions to be followed. Life as a test, accountability to God, the life after death . . . these ideas set a perspective for behaviour and policy. From *Tawheed* follows what is required of the individuals in their relationship with God, the environment and with all other human beings. A translation of the vision into specifics in concrete situations is always problematic. But it is, nevertheless, destined to exercise a deeper influence than particular injunctions. The injunctions are finite. The vision is capable of infinite extensions.

The injunctions of Islam related to economics belong to three different categories. There are specific rules e.g. prohibition of interest, obligation to pay *Zakat*, etc. There are ethical teachings related to truthfulness, honesty, fairness, caring for others, not doing harm to others, etc. These two are primarily addressed to the individuals. The third category comprises goals to be achieved or states of the world to be arranged which by their very nature require social action. Among these goals are removal of poverty, lessening of disparities, administration of justice, etc.

All three are part of the religion of Islam. They influence behaviour and policy. Most of them most of the times require some

interpretation and designing. This introduces plurality. Islam as understood by men and women at different times and places accommodates a variety of interpretations and designing, at the conceptual and social policy level respectively.

Our basic point of departure from conventional (neoclassical) analysis relates to the maximization hypothesis: that every economic agent seeks to maximize his or her economic gain (utility, satisfaction, monetary profits). As extended by Public Choice School the same applies to men and women in politics. Every one, every where, all the time seeks to maximize private benefit in a cool calculated manner. Emotions, tradition, morality, religion . . . all are forsaken. Self-interest reigns supreme.

There is a sizeable literature on the scientific limitations of such a hypothesis. The maximization hypothesis is not very helpful in understanding the economy, any economy. But it is entirely unacceptable as an aid to the understanding of an Islamic economy, any Islamic economy. Even some understanding of Islam and some compliance with its teachings is sufficient to create a society which defies the maximization hypothesis. Some thing else is needed.

The other significant departure relates to the economic role of the state. Of course there is nothing original about asserting that the state has a role in the economy. The important thing is its rationale and scope. I think the Islamic position is unique. It emphasises ethical conduct and social concern on behalf of economic agents as the way to minimizing state intervention in the economy. This insight is not shared by any school of conventional economics.

By the courtesy of the Centre I have had the privilege of getting comments from a good number of scholars. Their names are given in the alphabetically arranged list following this introduction. I am

gratefull to all of them. The essays as they appear in this volume bear many imprints of their comments. But many may still find statements to which they would not subscribe. So I alone bear the responsibility of opinions expressed in this volume.

A list of books and articles appears as an Appendix. This is *not* a bibliography of works I consulted in writing these essays. That is hardly relevant to the users of this book. The list comprises references which can help the user to understand the text or get the details on theories and policies mentioned in these essays. For the sake of convenience Islamic economic literature is listed separately (in A) from modern economic literature (in B).

The volume is primarily addressed to teachers. It is neither a source book on economic teachings of Islam nor a work on contemporary Islamic economic practices. It is intended to assist those teachers who, convinced of the relevance of religion and morality to economic behaviour and policy, wish to handle their subject matter in Islamic perspective.

Acknowledgements

Following is a list of scholars whose comments, mostly written but in a few cases oral, have contributed to the formulation of ideas expressed in this volume. It is arranged in order of alphabets of the first names.

- | | |
|-----------------------------|---|
| Abbas Mirakhor, | Executive Director,
Interanational Monetary Fund. |
| Abdul Azeem Islahi, | Associate Professor of Economics,
Aligharh Muslim University. |
| Abdul Fattah A.R.A. Majeed, | Assistant Professor of Economics
Imam Saud Islamic University, Abha. |
| Abdul Hadi Najjar, | Professor of Law,
University of Mansura, Egypt. |
| Abdul Hameed al Junaid, | Associate Professor of Economics.
International Islamic University,
Malaysia. |
| Abdul Kadir M. Attia, | Associate Professor of Economics,
King Saud University, Qaseem. |

- Abdullah b. Abdullah al Bishr,** Assistant Professor of Economics,
King Fahd University, Dammam.
- Abdur Raheem Şa'ati,** Assistant Professor of Economics,
King Abdulaziz University, Jeddah.
- Abdur Rahman Yusri Ahmad,** Professor of Economics,
Alexandria University, Egypt.
- Abedin A. Salama,** Economist, Former Vice President,
Faisal Islamic Bank of Sudan,
Khartoum.
- Abubaker O. Metwally,** Professor of Economics,
Ain Shams University, Cairo.
- Abul Hasan M. Sadeq,** Associate Professor of Economics,
International Islamic University,
Malaysia.
- Adil Hasheesh,** Professor of Economics,
University of Cairo.
- Ahmad Fuad Darwesh,** Economist, Jeddah.
- Ahmad Saieed Bamakhrama,** Associate Professor of Economics,
King Abdulaziz University, Jeddah.
- A.H. Nagadi,** Assistant Professor of Economics,
King Abdulaziz University, Jeddah.
- Ali Faraj Darrat,** Professor of Economics and Finance,
Louisiana Tech University, U.S.A.

Acknowledgements

- Ali Hafiz Mansour,** Professor of Economics,
University of Cairo.
- Amir Kia,** Economist, Ontario, Canada.
- Asad Zaman,** Associate Professor of Economics,
Columbia University in the City of
New York.
- Ausaf Ahmad,** Research Officer, Islamic Research
and Training Institute,
Islamic Development Bank, Jeddah.
- Bandar H. Hajjar,** Assistant Professor of Economics,
King Abdulaziz University, Jeddah.
- Darwesh Siddique Jastaniyah,** Assistant Professor of Economics,
Centre for Research in Islamic
Economics,
King Abdulaziz University, Jeddah.
- Dieter Weiss,** Professor of Economics,
Free University, Berlin.
- Erfan Shafai,** Professor of Economics,
Kuwait University.
- Fayez I. al Habeeb,** Professor of Economics,
King Saud University, Riyadh.
- Fazlur Rahman Faridi,** Economist, scholar.
Editor, Journal of Objective Studies,
Aligarh.

- Ghazi Obaid Madani,** Professor of Business Administration and Rector, King Abdulaziz University, Jeddah.
- Hamid A. Daraz,** Professor of Economics, Alexandria University, Egypt.
- Hossein Askari,** Professor of Business Administration, George Washington University, U.S.A.
- Ibrahim Fahd al Ghufaili,** Associate Professor of Public Administration, King Abdulaziz University, Jeddah.
- Iraj Toutounchian,** Professor of Economics, Azzahra University, Tehran.
- Jafar Abbas Haji,** Associate Professor of Economics, Kuwait Univesity.
- Javed Akbar Ansari,** Chief Economist, Industrial Development Bank, Karachi.
- John R. Presley,** Professor of Economics, Loughborough University of Technology, U.K.
- (Late) Khaleeq Ahmad Naqvi,** Professor, Delhi School of Economics.

Acknowledgements

Khalid Kutbi,	Assistant Professor of Economics, King Abdulaziz University, Jeddah.
Khursheed Ahmad,	Chairman, Institute of Policy Studies, Islamabad.
(Late) Mahmood Abu Saud,	Economist, central banker, author and scholar.
Mahmood Osaimi,	Assistant Professor of Economics, King Abdulaziz University, Jeddah.
Medhat Hasanain,	Professor of Economics, Banking and Finance, The American University in Cairo.
Mohammad Abdul Mannan,	Research Officer, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.
Mohammad Abdul Monim Afar,	Professor of Economics, Ummul Qura University, Makkah Mukarrama.
Mohammad Akram Khan	Chief Accounts Officer, Ministry of Foreign Affairs, Government of Pakistan, Islamabad.
Mohammad Ali Elgari,	Associate Professor of Economics, King Abdulaziz University, Jeddah.

- Mohammad Anas Zarqa, Professor of Economics,
Centre for Research in Islamic
Economics,
King Abdulaziz University, Jeddah.
- Mohammad Ariff, Professor of Economics,
University of Malaya, Kuala Lumpur.
- Mohammed Asad al Ras, Assistant Professor of Economics,
King Saud University, Riyadh.
- Mohammad Fahim Khan, Research Officer, Islamic Research
and Training Institute,
Islamic Development Bank, Jeddah.
- Mohammad Hamid Abdullah, Professor of Economics,
King Saud University, Riyadh.
- Mohammad Hashim Awad, Professor of Economics,
University of Khartoum.
- Mohammad Ishaq Nadri, Professor of Economics,
University of New York.
- Mohammad Muslim
al Raddadi, Associate Professor of Economics,
King Abdulaziz University, Jeddah.
- Mohammad Raquibuzzaman, Professor of Finance,
Ithaca College, New York.
- Mohammad Saqr, Professor of Economics,
University of Jordan, Amman.

Acknowledgements

- Mohammad Sultan Abu Ali,** Professor of Economics,
Zagazeeg University, Cairo.
- Mohammed Umar Chapra,** Economic Advisor, Saudi Arabian
Monetary Agency, Riyadh.
- Mohammed Umar Zubair,** Professor of Economics,
Centre for Research in Islamic
Economics,
King Abdulaziz University, Jeddah.
- Mohsin S. Khan,** Director of Research,
International Monetary Fund.
- Monzer Kahf,** Research Officer, Islamic Research
and Training Institute,
Islamic Development Bank, Jeddah.
- Mukhtar M. Ballool,** Associate Professor of Economics,
King Saud University, Riyadh.
- Munawar Iqbal,** Research Officer, Islamic Research
and Training Institute,
Islamic Development Bank, Jeddah.
- Muqbil Zukair,** Assistant Professor of Economics,
King Abdulaziz University, Jeddah.
- Nadeemul Haq,** Economist,
Development Research
Department, World Bank.

Omar Zuhair Hafiz,	Deputy Director, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.
Qassim M. Hamouri,	Associate Professor of Economics, Yermouk University, Jordan.
Rabi' M. al Rooby,	Professor of Economics, Cairo.
Rafic Yunus al Misri,	Assistant Professor of Economics, Centre for Research in Islamic Economics, King Abdulaziz University, Jeddah.
Rauf Azhar,	Formerly Associate Professor of Economics, International Islamic University, Islamabad.
Rodney Wilson,	Professor of Economics, University of Durham, U.K.
Saleh al Marzooqi,	Associate Professor of Economics, Ummul Qura University, Makkah Mukarrama.
Saied Sad al Maratan,	Associate Professor of Economics, King Saud University, Riyadh.
Shamsher Ali,	(Retired) Professor of Economics, Wollengong, Australia.

Acknowledgements

- | | |
|------------------------------------|---|
| Shawqi Ahmad Dunya, | Associate Professor of Economics,
Ummul Qura University,
Makkah Mukarrama. |
| Seif el Din Tag el Din
Ibrahim, | Research Officer,
Islamic Banking Division,
National Commercial Bank, Jeddah. |
| Seif Mahyub al Asali, | Assistant Professor of Economics,
University of Sana, Yemen. |
| Syed Mohammad
Ghazanfar, | Professor of Economics,
University of Idaho, U.S.A. |
| Syed Nawab Haider
Naqvi, | Director, Pakistan Institute of
Development Economics, Islamabad. |
| Syed Vali Raza Nasr, | Assistant Professor of Political
Science,
University of San Diego, U.S.A. |
| Tahir Beg, | Assistant Professor of Economics,
International Islamic University,
Malaysia. |
| Volker Nienhaus, | Professor of Economics,
Ruhr University, Bochum, Germany. |
| Wadi' A. Kabli, | Associate Professor of Economics,
King Abdulaziz University, Jeddah. |
| Yusuf al Zamil, | Assistant Professor of Economics,
King Saud University, Riyadh |

CONTENTS

	Page No.
Foreword	v
Preface	vii
Abstract	ix
Introduction	xi
Acknowledgements	xv
Chapter One Microeconomics	1
Chapter Two Macroeconomics	41
Chapter Three Public Finance	73
Chapter Four International Economics	125
Chapter Five Development Economics	159
Chapter Six Money and Banking	195
References	217
Appendix	219
A. Reading List of Islamic Economics	221
B. Reading List of Economics	231
Arabic Abstract	244

"restatements of Islamic economic teachings", using "modern economic jargon". (What most of the knowledge content in the body of Islamic economics amounts to according to economist Muhammad Akram Khan)[36]. an ideology. "a revolutionary ideology" to change "the corrupt reality into a pure one", and "not a science of political economy" or "an objective analysis of existing reality".Â Zaman(2015) [39] argues that confusion regarding appropriate definition of Islamic Economics have arose because of attempts to mix Western Economics concepts with Islamic ideals, when the two are diametrically opposed to each other in many dimensions. Islamic teachings strongly stress the observance of ethical and moral code in human behaviour. Moral principles and codes of ethics are repeatedly stressed throughout the Holy Qurân™an. Besides, there are numerous teachings of the Prophet (sws) which cover the area of moral and ethical values and principles. Ye are the best of peoples evolved for mankind enjoining what is right forbidding what is wrong and believing in Allah. [Surah Al-Imran 3:110].Â We will try to highlight various inputs for the corporate governance from the Islamic ethics perspective. Let us see some of the differences at the way corporate governance system looks like comparing the western and the Islamic system. Western Business.