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BOOK REVIEW

ISLAMIC ECONOMICS: THEORY AND PRACTICE

By Abdul Hassan and Masudul Alam Choudhury, Routledge, 2019, 332 pp., US$60.63 (pbk), ISBN: 978-1-138-36243-7

Reviewed by: Ajmal Kakar, Department of Economics and Management Sciences, International Islamic University of Malaysia, 53100 Kuala Lumpur, Malaysia (Email: a.kakarmdn@gmail.com)

Islāmic economics is a modern concept whose development began in the twenty-first century as an alternative prescription to conventional systems (Orhan 2016). According to Zaman (2021) *Islāmic* economics has its own structure and source of origin, with well-developed conceptions about the economic system. On the other hand, a number of studies argue that work is still needed on the theoretical and practical framework of *Islāmic* economics. As Kuran (2018) reveals, efforts to rebuild whole economies according to *Islāmic* precepts have failed. Aside from core moral precepts, *Islām's* primary sources do not provide a model for a 21st-century economy.

In the recent years development of *Islāmic* economics has been accelerated throughout the world. In response to the critics, this book is one of the contributions that provide a fair understanding of the theoretical and practical framework of *Islāmic* economics. This book consists of sixteen chapters.

In the first chapter, titled "How to study *Islāmic* economics as science in reference to the *Qurʾān* and the *Sunnah*" the authors generally describe the nature, epistemology and mmethodology of *Islāmic* economics in light of *Qurʾān* and *Sunnah* and describe how it differs from mainstream economics.

In the second chapter, the authors paid specific attention to the inter-relationship between economics and ethics from the *Islāmic* perspective. Ethics is a crucial component of *Islāmic* economics; it forms the system's foundation and distinguishes it from others. The ethics and morals which are considered as exogenous variables in conventional economics, are considered as endogenous variables in the case of the *Islāmic* economic system. In this system the ethical values are based on the two key texts of *Islām*, namely the *Qurʾān* and the *Sunnah*. Both represent the main pillars of *Shari'ah*. Furthermore, the authors argue that in *Islāmic* economics, behaviors and commercial transactions are inextricably linked to values and ethics, since *Islāmic* ideals are meant to guide, lead, and regulate human behavior in daily economic life and distinguish between bad and good in decision making.

Chapter three takes a comparative approach in understanding the *Islāmic* methodological worldview vis a vis western approach. In contrast to conventional mainstream economics, *Islāmic* epistemology, derived from the *Qurʾān* and *Sunnah*, as well as enlightened socio-scientific discourse, describes and embeds all world-systems, including economics, in a unique and universal methodology with substantive depth and details that cut across the most advanced nature of new scientific search, discovery, and applications.

In chapter four, the authors describe the scope of *Islāmic* economics arguing that conventional classical and neoclassical economics took around 600 years to develop as a discipline. *Islāmic* economics, on the other hand, is a relatively recent concept. After the first international conference on *Islāmic* economics in Mecca in 1983, it began to take shape. There was insufficient literature at the time to expound on the scope of *Islāmic* economics. By definition, the scope of *Islāmic* economics is wider than that of conventional economics. There is a large class of economically relevant social and moral behavior shared between firms and households. The study of consumption and investment without involving interest (*ribā'*), and looking to the poor people regardless of their race, color and religion, come under the scope of *Islāmic* economics.

The fifth chapter describes the formulation of the *Islāmic* economic model. Considering that a complete model formulation of *Islāmic* economics with consensus from all economists does not exist as in the case of mainstream conventional economic theory, *Islāmic* economics instead emphasizes a single system *Islāmic* epistemological model for unity of knowledge with an extension of *Islāmic* economic formulation to multi systems of sustainability and well-being functions. In *Islāmic* economics there cannot logically be any optimum and steady-state equilibrium point for the case of resource allocation in its continuous evolutionary learning property of unity of knowledge. Sustainability is based on the concepts of social and spiritual capital. The concepts of capital and wealth, growth, development and social choice depend upon the interactive, integrative and evolutionary (IIE) learning processes of ethico-economic choices to sustain well-being at large.

Chapter six particularly focuses on formulating the *Islāmic* economic model and *Islāmic* participatory instruments and their ethical dimensions. The authors argue that after seventy years of *Islāmic* economics and finance and thirty years since the inception of *Islāmic* banks, there is still a significant gap in authentic *Islāmic* intellection in the scholastic subject of *Islāmic* economics and finance, which has the potential to benefit the world. Yet much of the portfolio remains concentrated in cost-plus financing instrument, equity-financing, and foreign trade financing. The role of the profit-sharing financing instrument (*muḍārabah*) has declined. The accumulation of funds in equities (*mushārakah*) and mark-up financing (*murābaḥah*), and securities in the secondary financial market has caused lack of risk-diversification and production diversification in the favor of concentration in foreign trade financing of short- term funds. In the end, the efficiency ratios quoted by *Islāmic* banks fail to bring out the true status of *Islāmic* bank financing social effects.

Chapter seven discusses the theories of consumer behavior and markets in *Islāmic* economic perspectives contra mainstream economic theories. The idea of consumer preferences assumes a vastly different meaning with the rejection of the axioms of rational choice in consumer socio-economic behavior embedding moral and ethical values through the processes of interaction, integration, and evolutionary learning in unity of knowledge and its applications to real-world phenomena. In forming the *maqāṣid*- choices of *Islāmic* economics, all of the following mainstream economic assumptions are indefensible: 1) Scarcity of resource, 2) optimization and steady-state equilibrium, 3) The concept of the utility function, marginal utility, marginal rate of commodity substitution, and indifference curves, 4) Price relative of substitutes cannot be determined by marginal rate of commodity substitution in the case of continuous evolutionary learning and consequential reproduction of resources, 5) Static preferences as datum are abandoned. Instead, dynamic preferences are effective. Also, in *Islāmic* economics the demand and supply functions and trends are different.

Chapter eight explores theories of the firm in *Islāmic* economics vis a vis mainstream economics. The evaluation of the well-being function, subject to the system of circular causation relations, constitutes the actual objective criterion of the *Islāmic* firm. This approach endows the *Islāmic* firm with its institutional, organizational, and factual role in the entire *Islāmic* social economy. The impossibility of having the marginal cost and marginal productivity curves also implies that the average cost and average productivity curves cannot be used for empirical inferences. This is because of the random variations of evolutionary learning processes. Since a market consists of consumer and producer and both units in *Islāmic* economics are different from that in mainstream economics, thus the market theory and its types (monopoly, monopolistic competition and oligopoly) are also different in structure and activities.

Chapter nine gives an overview of how *Islāmic* ethical norms can be incorporated in *Islāmic* macroeconomic models. The authors explain that mainstream macroeconomics cannot be used for methodology, formalism and explanations of *Islāmic* economics. It is unfortunate that such a flawed style of formal reasoning is still being employed ineffectively in *Islāmic* economics today. The objectives of mainstream macroeconomics are reformed in *Islāmic* economics. The system argues that in the market-institutional discursive forum, any trace of marginalism and exogeneity of particular variables in macroeconomic models, as well as the associated mathematical discontinuity must be completely replaced by systemic continuity, endogeneity, and resource regeneration. Extensive complementarities between *maqāṣid*-choices in the middle of interactive, integrative, and evolutionary learning processes intra-system and inter-systems are the outcome of such interactions.

Chapter ten describes the monetary, financial and real economy issues in *Islāmic* economics. This chapter argues that with the zero-interest rate, the general-system architecture of the relationships between the central bank, commercial banks, and the actual economy must be rebuilt. Although *Islāmic* banks have pushed interest-free financing, the means for achieving this aim have not been properly defined in terms of investment, liquidity, asset value, and the *ummah's* socioeconomic growth. In *Islāmic* economics, the function of monetary system also differs from that of mainstream economics. In *Islāmic* economics, money is indeed a unit of value in exchange and it is neither a store of value nor necessarily a medium of exchange. Therefore, money does not have any market of its own.

Chapter eleven explains the Fiscal policy in *Islāmic* economics and the concept of *Zakāt*. In *Islāmic* economics, the main objectives of fiscal policy are; 1) eradicating unemployment, 2) just distribution of wealth, 3) economic stability and 4) faster economic growth. *Zakāt* is one of the main instruments of fiscal policy in an

Islāmic economy. *Zakāt* means transfer of income from the haves to the have-nots and its major objective and role is to alleviate poverty and stop accumulation of wealth in few hands. It also benefits aggregate consumption and stabilization of the economy cycle. In the very limited *Muslim* countries, *zakāt* has been administered by the state. Prominent examples are Pakistan, Malaysia, Sudan, Yemen and Saudi Arabia. The *Qurʾān* mentions eight types of expenditure of the *zakāt* fund. Six of these types are directly connected to the poor and low-income groups. Payment of *zakāt* is compulsory on capital investment in merchandise, business, hoarded money, gold, silver holdings and agricultural production. It is generally 2.5% per annum.

Chapter twelve provides an overview on the fundamentals of taxation in *Islām*. It also attempts to show the justification, objectives and the structural design of the taxation system from an *Islāmic* perspective. During the period of the first four Caliphs there was no formal taxation system except for import duty. This duty was first imposed in the reign of Caliph Umar. It was levied at the rate of 2.5 % on *Muslims*, 5% on the non-*Muslims* living in an *Islāmic* state and 10% on merchants from foreign countries. Another instance is the collection of *kharaj*. *Muslim* jurists held the view that taxes should be imposed only when *zakāt* fund could not meet the needs of the poor. Although the term 'taxes' has not been used, terms used include *duraib, wazaif, kharaj,* and *nawaib*. All these terms imply more or less the same thing as taxes. An *Islāmic* economy may use tax proceeds for any development activities but it is not allowed to make any wasteful expenditure, as *Islām* very strongly condemns extravagance and wasteful spending.

Chapter 13 explains the principles of public finance in *Islām*. This chapter deals with the nature and extent of public expenditure and public revenues in the early *Islāmic* period and in the modern-day *Islāmic* economy. *Islāmic* jurists have classified public expenditure into three categories: 1) The necessary (*daruriat*), 2) The needed (*hajiat*), 3) The commendable (*tahsaniat*). *Zakāt, Kharaj, Jizya, Ghanimah* or *khums*, *Fay,* Customs duties, taxes on mines and treasure troves were the principal sources of state spending throughout the early *Islāmic* period. However, in current *Islāmic* governments, different sources of revenue exist because some of the previously stated sources, such as *ghanimah, khums, jizya,* and *fay*, are no longer operational. There are basically two sources of revenues: internal and external. The internal sources include: *Zakāt*, Taxation, Borrowing and Human resources. While the external sources include external borrowing, foreign aid and foreign direct investment. The heads of expenditures of the modern *Islāmic* states are based on three classifications, namely, permanent expenditures (defense, law and order, justice, need fulfillment, dakwah, civil administration and social obligation), expenditure based on present circumstances (environmental protection, scientific research, capital formation and economic development, subsidies and stabilization policies) and expenditure based on people's demand.

In chapter 14, the authors explain the concept of development from the *Islāmic* perspective. This chapter addresses the availability and mobilization of both financial and human resources for the economic development of *Muslim* nations in general, as well as underdeveloped *Muslim* countries in particular. It examines deficit finance, saving, borrowing, foreign direct investment (FDI) without the use of *riba* to mobilize financial resources, as well as the importance of employment in the official and informal sectors to mobilize human resources. Financial and Human resources are two major sources for *Islāmic* economic development which can be grouped into two broad categories namely, domestic sources (voluntary savings, taxation, deficit financing and equity participation) and external sources (external borrowing, foreign direct investment and foreign aid). Development in the *Islāmic* perspective means development of human moral, spiritual and material aspects to fulfil the *maqāṣid al-sharī'ah*. Therefore, all types of resources, including financial and human resources, should be mobilized to achieve the objectives of *sharī'ah*.

Chapter fifteen elaborates on the development goals and strategies from an *Islāmic* standpoint and the importance of distributive justice in *Islām*. Some of the crucial goals of socio-economic development under an *Islāmic* system are improvement in quality of life, fulfillment of basic needs, full utilization of all resources, justice and equitable distribution, and control of inflation. These goals cannot be realized without appropriate strategies which include: emphasis on moral uplift, brotherhood of mankind, total human development, emphasis on consultation, balanced development, useful production, distribution as the basis for resource allocation, export substitution, rural development, emphasis on women and emphasis on role of the state. Distributive justice has been referred to both as one of the goals and as one of the strategies of *Islāmic* economic development. Lastly in chapter 16, the authors conclude what they have presented throughout the book.

In my perspective as a reader, this book has several strengths. First, the authors have written the book comparatively to the conventional mainstream economics in order to enable understanding of how *Islāmic* economics differs from existing conventional economics. Second, the book is written as an academic text book which will be very useful for those Universities having *Islāmic* economics as a core subject in their formal curriculum. Also, the book is very useful for lecturers, students particularly for postgraduates because it provides a comprehensive theoretical and practical understanding of *Islāmic* economics, in which some parts of the book are written at advanced level and may not be fully understandable for undergraduates. Third, the book is also useful for policymakers working in economics, finance, banking and particularly in *Islāmic* economic sectors. Fourth, the authors provide numerous proofs from the *Qurʾān*, *Hadīth* and *Muslim* jurists' views in describing every chapter of the book. Fifth, the authors describe economic notions and theories in *Islāmic* perspective with mathematical formulation, graphs and diagrams, which shows an extraordinary effort and creativity by the authors in developing new structural concepts of *Islāmic* economics. Sixth, in each chapter the authors provided a list of references, mostly by *Islāmic* scholars and writers. This will benefit students, lecturers and researchers in finding relevant sources in *Islāmic* economics and will familiarize them with many prominent *Islāmic* economists and scholars. Seventh, the authors however did not explain the three important economic questions (what, how, to whom) in *Islāmic* perspective but indirectly provided sufficient information in this regard in chapters 7, 8 and 9 and also in chapters 11, 13 and 14.

On the other hand, as a reader, I found some parts of the book written in complex style of writing which might exhaust readers. Another issue was the content duplication in some parts of the book; for example. the goals of *Islāmic* economics have been written with the same words in both chapter 14 and 15. While the book title mentions practice of *Islāmic* economics, this part was not much considered by the authors. Furthermore, as argued by Haneef and Furqani (2011), lack of methodological studies in *Islāmic* economics is one of the reasons for the dependence on the methodology of conventional economics; this book was not exempted from this issue and still some parts of the book can be found at least with conventional economic style, particularly when it comes to describing *Islāmic* economics concepts in mathematical formulation or graphical representation.

I highly recommend this book to all students, lecturers, researchers, writers and policymakers who are studying or working in the economic discipline/sector, particularly those who are wishing to further study in *Islāmic* economics and work on developing its theoretical and practical framework. I wish a prosperous and full success in life to the authors of this book. May Allāh *ʿazza wa jalla* place them under the shadow of His mercy and grant them more success to serve further for advancement of knowledge.

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