



DIVERGENCE BETWEEN ASPIRATIONS AND REALITIES OF ISLAMIC ECONOMICS: A POLITICAL ECONOMY APPROACH TO BRIDGING THE DIVIDE

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ABSTRACT

Early writings in Islamic economics depicted a grand and, some would say, utopian image of the type of societal development that would result from implementing Islamic social and economic theory. However, despite the emergence of Islamic economics in a modern sense in the 1960s, we now find that the only manifestation that represents an Islamic alternative to mainstream neo-classical development is the Islamic banking and finance industry (IBF). However, the developments in the IBF industry indicate that it has converged towards conventional finance. Consequently, it has failed to fulfil the institutional and policy aspirations of Islamic economic system. This paper, thus, attempts to identify how such divergence has taken place, presents a conceptual model of development in Islam that goes beyond mere economics and *fiqh* considerations and suggests a political economy approach to demonstrate that the foundational axioms in fact rely wholly on major institutional implementation. It also identifies the pre-requisites for achieving this that includes political vision, will and leadership.

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1. INTRODUCTION

The founding fathers of Islamic economics wrote extensively of the potential for Islam to provide an alternative way to development, which was both ethical and socio-economic, being based on moral and welfare principles. Justice, social equity, brotherhood, charity and co-operation were cited as the means of uplifting society, which the Islamic system aimed at.

The only manifestation or product of this Islamic economic ‘theory’ in recent times, has been the Islamic banking and finance (IBF) industry, which, unfortunately has not realized the goals and aspirations put forward by the pioneers in the 1960s and early 1970s. Rather, the IBF industry seems to have grown as part of the conventional financial sector in the global capitalist economy. Considering the extensive growth in IBF in the last thirty years, it is sad that this growth has not touched the lives of ordinary Muslims in the streets of the Muslim world beyond the Gulf region. This departure from the ideals of Islamic economics, thus, has drawn criticisms from many in the field and indeed “a distinctive feature of recent discussions on Islamic banking has been the growing wedge between its conventional theory and current practice,” (Hasan, 2005).

This paper attempts to re-visit, via a return to the epistemological and ontological sources of Islam, both the aspirations and the criticisms against the realities in attempt to understand where it all went wrong. Hence, a re-appraisal of the Islamic development model is proposed and it is demonstrated that the interactive and dynamic nature of this model essentially requires it to be re-considered within the wider scope of a political economy rather than in the narrow spheres of economics or *fiqh* (jurisprudence). It is essential to note here that the word *fiqh* in Arabic has a literal meaning of “deep and broad understanding”, however for the purpose of this paper we use it according to its definition by the *fuqahā’* (jurists) in which it represents only the codified body of Islamic laws or *ahkām*. This paper asserts that piecemeal solutions, as in the case of Islamic banking, will not be able to provide a solution to the development needs of Muslim societies and communities. In other words, a reductionist approach that relegates the aspirations of Islamic economics to establish an ethical and moral economy to one that merely prohibits *ribā* (understood as interest) and the establishment of Islamic financial institutions within the given capitalist value system, would not yield the noble goals aspired to.

2. THE FOUNDATIONAL AXIOMS OF ISLAMIC ECONOMICS REVISITED

Early writings in the modern sense depicted Islamic economics as a grand and, some would say, utopian image of the type of societal development that would result from implementing Islamic social and economic theory. Towards this end broad foundational axioms such as *tawhīd*, *‘adl*, *ihsān*, and *tazkiyyah* were listed, and methods including *zakāh* and *ribā*-free trade were presented as the framework of the system. Much of the literature of Islamic economics, then as now, was taken up with presenting these foundational concepts of Islam along with locating their epistemological references in the *Qur’ān* and *Sunnah*.

The discipline of Islamic economics relies wholly on these philosophical foundations derived from Islam, which distinguish it from those of secular and materialistic based systems such as capitalism and socialism. Islamic economists have always devoted most of their energies to enumerating and elucidating these axioms in an attempt to distinguish the aims and justifications of Islamic economics as a valid alternative. Although the writings on this subject are wide ranging and numerous, much literature in the field simply duplicates and repeats similar information and hence for a concise list of these axioms we may refer to the early works.

Mohammed Baqir al-Sadr in his book *Iqtisādunā* (1961) and Syed Abul A’la Mawdudi in numerous works (1946; 1970; 1960a; 1960b) were amongst the earliest writers in Islamic economics in modern times. Both argued that the wider, over-arching principles of Islam apply to all aspects of life, and economics is no exception to this. These principles or axioms are those, which lead to spiritual development and enable the human being to reach noble heights of thought and action and rightfully claim the title of vicegerent of God on earth. There is consensus on this view amongst Islamic economists. Various writers such as Ahmad (1980), Siddiqi (1981), Naqvi (1981) and Chapra (1992, 2000); amongst others have listed such axioms as follows:

Tawhīd (Allah’s unity/uniqueness/sovereignty): This is the core of all Islamic teachings, which underlies and simultaneously permeates all Islamic thought and action. The vertical aspect is the individual’s faith in Allah and reliance upon Him. The horizontal aspects of it are expressed in the individual’s interaction with the rest of creation and manifest themselves in several of the other axioms.

‘Adālah (Justice): Justice in Islamic terms entails giving due rights to all those that are entitled under *Shari‘ah*. Hence it incorporates the rights of citizens, rights of neighbours, rights of husband or wife, rights of parents or children, rights of workers or employers, and so on. It also includes more abstract ideas such as rights of animals and the environment. This axiom is the opposite of *zulm* or oppression.

Taqwā (God-consciousness): When ‘Umar the second caliph of Islam was asked about *taqwā* he defined it as “pulling in one’s cloak as one walks past a thorny bush so that it may not become entangled”. Hence it implies conscious enlightenment employed to actualize positive norms and exemplary behaviour. This concept is closely related to the concept of *ihsān*.

Ukhuwwah (Brotherhood) implies the brotherhood of man as recognized children of Adam. Hence a sense of closeness, affinity and co-operation which is realized in an ideal Islamic society and it is a conceptual extension of *‘adālah*.

Khilāfah (vicegerency), which defines that human beings are vicegerent of Allah on earth implying man’s ultimate accountability to Allah. As a representative of Allah on this earth, one carries a responsibility which one will ultimately be accounted for in the hereafter whereby Islam provides a two-dimensional utility or welfare function. It should be noted that this is a concept that governs not only rulers and leaders, but everyone.

Ihsān (Perfection): If *tawhīd* is the foundation and central core of Islam then *ihsān* is the final crowning glory or finishing embellishment. It is the ultimate aim of the dynamic process of development in the economic, social and spiritual sense, and attaining it implies the attainment of *falāḥ* (success). It can, consequently, be interpreted as the actualization and realization of all other values and axioms. *Ihsān* and its centrality to the model proposed here is discussed in the following sections.

This list is by no means exhaustive and other major principles can be added such as *ṣabr* (patience), *‘ubūdiyyah* (servitude), *shukr* (thankfulness), *jihād* (struggle) and *‘ijz* (humility), *rubūdiyyah* (nourishment and directing things to their perfection as *fiṭrah* requires) and *tazkiyyah* (growth with purification) as important foundational axioms of Islamic economics that have implications for socio-economic and spiritual development and attainment.

Islamic economics, thus, provides foundational axioms and proposes an ethical and systemic understanding of economics and finance based

upon the ontological and epistemological sources of Islam. Several decades later, however, the only structural and institutional application of Islamic economics has come in the form of the Islamic banking and finance industry and has resulted in the growth of what is now termed the 'IBF industry'. However, as Islamic economic theory has not developed its operational axioms adequately (which would have provided the normative framework within which IBF could have functioned), we see that the IBF has implicitly adopted neo-classical assumptions. The result being that IBF, rather than realizing the axiomatic aspirations of pioneering Islamic economists and helping to establish socio-religious norms in the form of a moral economy, has actually achieved little more than a re-marketing of the capitalist debt-peddling model as a pseudo-Islamic alternative. This failure of IBF has drawn the criticisms of many Islamic economists recently. For detailed discussions of these see Siddiqi (2004), Hasan (2005), El-Gamal (2006), Asutay (2007a; 2007b) and Nagaoka (2007), amongst others. The details of the criticisms levelled against IBF is not of concern here. Nevertheless it is relevant to note that it may be grouped under two broad headings.

Firstly, the concept of interest-free banking and finance has been criticized on the grounds that it is economically not feasible. Issues of efficiency and cost are used to highlight how such an approach leads to products being more costly and hence even less accessible to those in need. Indeed, it is said, if one of the oft-quoted *maqāṣid* (aims) of *Sharī'ah* is to safeguard the wealth of the people, then IBF certainly fails here. Another economic challenge for IBF is the fact that very little of the large amounts of wealth associated with it have actually reached the most needy in Muslim societies. Instead it circulates amongst large corporate interests in oil rich states. It is therefore no surprise that the emergence of IBFs coincides with the oil-shocks and the emergent oil money in the Gulf in 1970s.

Secondly, a growing criticism against the process of re-engineering financial products to make them *Sharī'ah*-compliant, is focussed on the actual validity of the *fiqh* (jurisprudence) involved. Some sceptics, such as El-Gamal (2006), have expressed unease at the fact that *Sharī'ah* scholars who authenticate such contracts are themselves employed by the industry, while others have claimed that such contracts are designed to circumvent *Sharī'ah* laws and so violate broader principles or *maqāṣid* associated with the prohibition of *ribā*. The consensus of critics in this category is that *fiqh* is restrictive, outdated and unable to meet the challenges of the modern capitalist-dominated

world economy; and therefore remains only as a technical approach to economic issues rather than taking into account policy dimensions which can provide the essential solution for the development problems of Muslim societies and communities.

This paper, therefore, intends to demonstrate that through the reconceptualization of the Islamic development paradigm arrived at by examining ontological and epistemological sources of Islam, both areas of criticism above are at best, unhelpful and myopic. The model proposed in the following sections elucidates how human development in Islam is an interactive dynamic process, which transcends the spheres of both economic activity and *fiqh*.

3. RECONSIDERING DEVELOPMENT IN ISLAM

Conventional economics arose as a distinct science only in the post-enlightenment period and attempted to emulate the tools and assumptions of the hard sciences. Similarly, Islamic economics had not existed as a distinct science in Islam until the post-colonial period when it was deemed necessary in the pursuit of nation building as part of Islamic identity politics in a constructivist paradigm. Hence, although economic realities are included in the earliest of Islamic teachings, the concept of development permeates through, and is entwined within, the fabric of the Islamic ontological standpoint on the nature of the human being. This implies that development is not merely economic, but goes far beyond into the spheres of moral, spiritual and universal uplift. Thus, the need for a distinct Islamic development paradigm to be formulated is clear. To support this, El-Ghazali (1994) states “the whole concept of development needs to be reviewed in order to incorporate human being’s basic needs and not just the rates of growth of simplified development components.” This is important as the emergence of Islamic economics in 1970s is a reactionary response to failure of nationalistic capitalist or socialist development strategies, which were rightly accused of denying a human centred economic development, something that is at the core of Islamic economic strategy. The multi-dimensional approach of this constructivist economic development strategy is particularly stressed by Islamic economists, such as Ahmad (1994) when he states that the “. . . Islamic concept of development is comprehensive in character and includes moral, spiritual and material dimensions. Development becomes a goal and value-oriented activity, devoted to the optimization of human well-being in all these areas.”

Before discussing a development model or paradigm, development as a concept and its nature should be defined and more importantly, how Islamic economics in terms of theory and policy is to be located within it. The *Holy Qur'ān* and the *Sunnah* of the Prophet Muḥammad are the sources for all Islamic understanding and provide the fundamental definitions of what human existence is and what it should be. These sources are endless oceans of knowledge and of course this work cannot contain but a small selection of the relevant guidance. The following will be sufficient for the purpose of this work to outline a broad definition of development in Islam.

To illustrate the dynamic nature of human development and the essentiality of change as being central to this, the *Qur'ān* speaks of positive human progression in terms of a journey along the *ṣirāṭ* (path). This is referred to by Allah sometimes as '*al-ṣirāṭ al-mustaqīm*' (the straight path) or '*ṣirāṭī*' (my path). This is significant as the implication is that Islam does not accept sedentary or static existence, rather, engagement and interaction are required. In this dynamic interactive model, human, spiritual, and socio-economic development are part of a continuous change paradigm. Such a change-oriented attitude is reinforced by other verses in which Allah denounces the asceticism of monks as "an innovation not prescribed by Us," (*Qur'ān*, 57:27).

Those who are successful in this journey are described in many verses and often referred to as *mufliḥūn* (successful ones) or *muḥsinūn* (achievers of perfection). For our purposes we may consider these two states as being synonymous, whereby the concepts of *falāḥ* and *iḥsān* are connected. The details of the path and the actions of those who are successful are an indication of what Islam requires of mankind in order to reach a higher status, which elevates humans above all other creation. In the few verses below the relevant words are in bold italics.

"And I did not create the *jinn* or mankind except that they should **worship Me.**" (*Qur'ān*, 51:56)

"And that you should worship Me. This is the **straight path.**" (*Qur'ān*, 36:61)

"Those who **believe** in the unseen and establish salat and spend from what We have provided them; and those who **believe in what was sent down to you** (O Muḥammad) and what was sent down

before you and have *certain belief* in the hereafter. Those are the ones on true guidance from their Lord and those are *the successful*.” (*Qur’ān*, 2:3-5)

“Say (O Muḥammad): “Come, I will recite what your Lord has prohibited you from: *Join not anything in worship with Him*; be good and dutiful to your parents; kill not your children from fear of poverty, We provide sustenance for you and for them; come not near to shameful sins whether committed openly or secretly, and kill not anyone whom Allah has forbidden, except with justice. This He has commanded you that you may understand. And come not near to the orphan’s property, except to improve it, until he (or she) attains the age of full strength; and give full measure and full weight with *justice*. We burden not any soul, but that which it can bear. And whenever you speak do so justly even if a near relative is concerned, and fulfil the Covenant of Allah. This He commands you that you may remember. And verily, this is *My Straight Path*, so follow it, and follow not (other) paths, for they will separate you away from His Path. This He has ordained for you that you may become *al-Muttaqūn* (the pious).” (*Qur’ān*, 6:151-153)

Consequently, belief in Allah alone and all that He has revealed is the essential and prime requisite of travelling the straight path to success; and the articulation of belief in Allah provides the source and guidance to reach *iḥsān* and *falāḥ* in a dynamically changing order or paradigm in a constructivist manner. Hence, the axiom of *tawḥīd* is unquestionably simultaneously both the bedrock of all Islamic activity and the essentialized indispensable core of any potential ‘development’ if they are to succeed. If this pre-requisite is not present, there can be no hope of movement along the road to Islamic development. As the central core of a successful life, *tawḥīd* sustains all other activities by permeating the fabric of life and simultaneously maintains the criterion or standard by which all aspects of life are to be judged. A constant auditing cycle is implemented with reference to the *tawḥīdī* essence and actualization.

Another aspect of the metaphor of a path being repeatedly used implies that development is not instantaneously achieved but is instead a dynamic process continuously evolving and progressing. This metaphor is a useful one and will be continued in this work, as development in human and socio-economic sense, is equal to growth and change (Ghazali, 1990: 24). Therefore, orientation towards activity in Islam is ‘becoming’ in terms of self-development and process orientation as

opposed to ‘doing’ (which is taking action and achievement focused) and ‘being’ (which is self-expression oriented).

Development is looked upon by Islam as a multidimensional activity. As efforts would have to be made simultaneously in a number of directions, the methodology of isolating one key factor and almost exclusive concentration on that would not work. It should be noted here that the mistake of neo-classical economics has been this isolated analysis of economic activity by exogenizing other dimensions of real life. However, as opposed to such an exogenized world-view, Islam seeks to establish a balance between different factors and forces, and as such all of them would have to be harnessed and mobilized. Hence, Islamic political economy represents an interactive and intersected paradigm in which all these forces that determine real life are endogenized in a multidimensional integrated model.

To substantiate this paradigm, Islamic epistemology can provide further insights. For instance, in Islamic sciences it is a well known principle that the *Sunnah*, or speech and actions of the Prophet Muḥammad, is used to gain a more detailed insight into the broader guidelines presented in the *Qur’ān*. For the purpose of this paper, one particular *ḥadīth* known as the *ḥadīth of Jibrīl* is particularly important and has been presented by all classical scholars of Islam as the concise summary of the whole of Islam. It merits reproduction in full. ‘Umar, the second Rightly Guided Caliph, narrated that:

“While we were sitting with the Messenger of Allah, may Allah bless with him and grant him peace, one day a man came up to us whose clothes were extremely white, whose hair was extremely black, upon whom traces of travelling could not be seen, and whom none of us knew, until he sat down close to the Prophet, may Allah bless with him and grant him peace, so that he rested his knees upon his knees and placed his two hands upon his thighs and said, ‘Muḥammad, tell me about *Islām*.’ The Messenger of Allah, may Allah bless with him and grant him peace, said, ‘*Islām* is that you witness that there is no god but Allah and that Muḥammad is the Messenger of Allah, and you establish the prayer, and you give the *Zakāt*, and you fast Ramaḍān, and you perform the *ḥajj* of the House if you are able to take a way to it.’ He said, ‘You have told the truth,’ and we were amazed at him asking him and [then] telling him that he told the truth. He said, ‘Tell me about *Īmān*.’ He said, ‘That you affirm Allah, His angels, His books, His messengers, and the Last Day, and that you affirm the Decree, the good of it and the bad of it.’ He said, ‘You have told the truth.’ He said, ‘Tell me about *Iḥsān*.’ He said, ‘That you worship Allah as if you see

Him, for if you don't see Him then truly He sees you.' He said, 'Tell me about the Hour.' He said, 'The one asked about it knows no more than the one asking.' He said, 'Then tell me about its signs.' He said, 'That the female slave should give birth to her master, and you see poor, naked, barefoot shepherds of sheep and goats competing in making tall buildings.' He went away, and I remained some time. Then he asked, 'Umar, do you know who the questioner was?' I said, 'Allah and His Messenger know best.' He said, 'He was Jibrīl who came to you to teach you your *dīn*.' (Muslim ibn al-Hajjaj, 'Abd al-Baqi, and Nawawi, 1995)

In these few lines it articulates the whole roadmap of human development within the mentioned change paradigm of an interactive and integrated model. Islamic development can be located within the wisdom inherent in this *ḥadīth*, as it indicates that development aims at actualizing *iḥsān* within the *tawḥīdī* interactive dynamic model. Three main concepts; *Islām*, *īmān* and *iḥsān* are clarified and each one's relation to the other then becomes apparent.

Firstly, Islam is constructed with the foundational existence of five pillars: *tawḥīd* in the form of *shahādah*, *ṣalāt*, *zakāh*, *ṣawm* and *ḥajj*. The first of these is the framework within which all others are built, as *tawḥīd* is the core and the beginning of development. It underpins all other stages, as shown by the quoted sources above, and it also must permeate the fabric of life at all stages built upon it. Thus, *tawḥīd* is the beginning, the middle and the end in this journey and formulates the criterion by which all actions, beliefs and thoughts must constantly be assessed so as to ensure compliance within the framework of the model. Subsequent to *tawḥīd* and built upon it, are the outward attestations and actions of worship which by necessity are expressions of *tawḥīd* and which exist as a tangible framework to give shape to Islam in society. This stage of development includes all such outward actions and speeches as encompassed by the law. As the substructure upon which development is to be founded, the robustness and solidity of this stage is of prime importance. Nevertheless this outward development is not the end but simply a means to the ends and hence, outward development devoid of *īmān* are by themselves of no benefit and remain only as hollow movements and sounds. al-Ghazali (1971) likens these outward actions to "the skin or peel of a fruit whose only function is to hold and give shape to the beneficial flesh inside."

As a science, *fiqh* (according to our definition) is concerned solely and wholly with this stage. Knowing these limits of *fiqh*, Imām al-Ghazali relegated it to the category of worldly sciences, as its subject

matter is laws, which apply only to this life. Thus, each action in Islam has a basic minimum, which is outlined by *fiqh*. It then has to positively grow to the levels of *īmān* and then even higher to *ihsān*, if there is to be meaningful development.

The concept of *īmān* is elucidated next. This is primarily translated as faith or belief. At this stage *tawhīd* impacts directly upon the inner dimensions of belief, thought and intention, and so actions are not dictated by externalities but rather motivation originates and emanates from within. This stage is also affected by such foundational principles as *tazkiyyah* (self-purification), *rubūbiyyah* (nourishment, directing things to their perfection) and *tawakkul* (reliance). The transition to this stage is one of moving from doing to knowing; hence actions, emerging as a direct actualization of intentions, now gain relevance and provide support to further development.

The third category mentioned is that of *ihsān* or perfection as informed and shaped by *tazkiyyah* and *rubūbiyyah*. This is an advanced stage of development and is shown in this *ḥadīth* to be more or less equated with realized sincerity, i.e., that one should at all times be aware of Allah's presence and ensure that one's actions are done purely for His sake alone.

Ihsān then represents the peak or plateau of Islamic human development and the culmination of the harmonic exercise of the mutually inter- and intra-dependent precursors of Islam and *īmān*. Indeed as the end point of the journey along the path, *ihsān* forms the nexus between journey and destination, between *ṭalab* (seeking) and *falāḥ* (success), and represents the actualization of development itself in Islamic terms. The effect of *ihsān* is to transform *īmān* to *yaqīn* (certainty) and so knowing becomes being, blind faith becomes gnosis and the heart sees clearer than the eye. Through the ubiquitous nature of *tawhīd* the effect of *ihsān* extends to Islam also and now renders every action and speech an act of sincerest compliance to the will of Allah. This is the *summum bonum* aspired to in the model of Islamic development and demonstrated by the Prophets. Seen in isolation, *ihsān* is utopia. However, when all underlying stages with their corresponding institutions are harmonized and concurrently focus in the same direction along the path, it provides a strategic goal for humanity to strive towards and the rate of progress towards this goal then becomes the measure of development success.

A key element of the dynamic and interactive nature of Islamic development is also alluded to in the *ḥadīth* discussed. *Ihsān* is shown to be a state not normally experienced in the life of most; that is to

worship Allah as if one is seeing Him; and is located at the end of a process initiated by simple statements and the outward actions of worship, thus implying change and dynamism. Worship here encompasses the wider sense of fulfilling responsibilities to Allah as well as those to the creation, and so equates to actualizing the human being's role of *khilāfah* on earth as development. In other words, worship articulates the qualities, nature and the corresponding action in every realm of life rather than being a ritual and function. This implies that worshipping leading to *ihsān* is the process of being *homoislamicus* or *ta'bay* (beyond being Muslim but an articulated and affirmed Muslim). Islamic development is inextricably and fundamentally linked to change as mentioned above, which must become apparent and effected in all actions and thoughts. Success in this model of development cannot be measured by any static snapshot in time but rather by rates of change in key institutions and individual actions. Islamic society must not become stagnant or complacent as this denies the essence of the *tawhīdī* understanding of travelling towards Allah, which is a dynamic process of actualizing and articulating *ihsān*.

From this brief look at the sources and key conceptual milestones, we are now in a position to understand better the process of human development and betterment as intended by Islam. The next section represents this process as a journey along a path, which crosses multiple levels and transcends numerous stages towards its higher aims and ideals.

4. THE JOURNEY

The beginning of any journey to development in Islam must essentially begin at *tawhīd*. This is repeated, as it is a central theme to all endeavours, actions and states of being in Islam and underpins all the subsequent development. In other words, *tawhīd* is the essence of Islam and as such is the ubiquitous quality, which serves both as constant support to development and the criterion by which it is to be assessed. We can thus begin to represent our model of the '*path*' of development in an expository form as follows:

The arrow in Figure 1 represents development as a movement out from the initial core of *tawhīd* through the legal requirements and obligatory duties and on towards the stage of correcting inward intentions and self-control. In other words, *tawhīd* as the foundational framework informs, shapes and directs *fiqh* and actualization of *īmān* towards

FIGURE 1
Actualisation/Articulation of *Tawhīd*

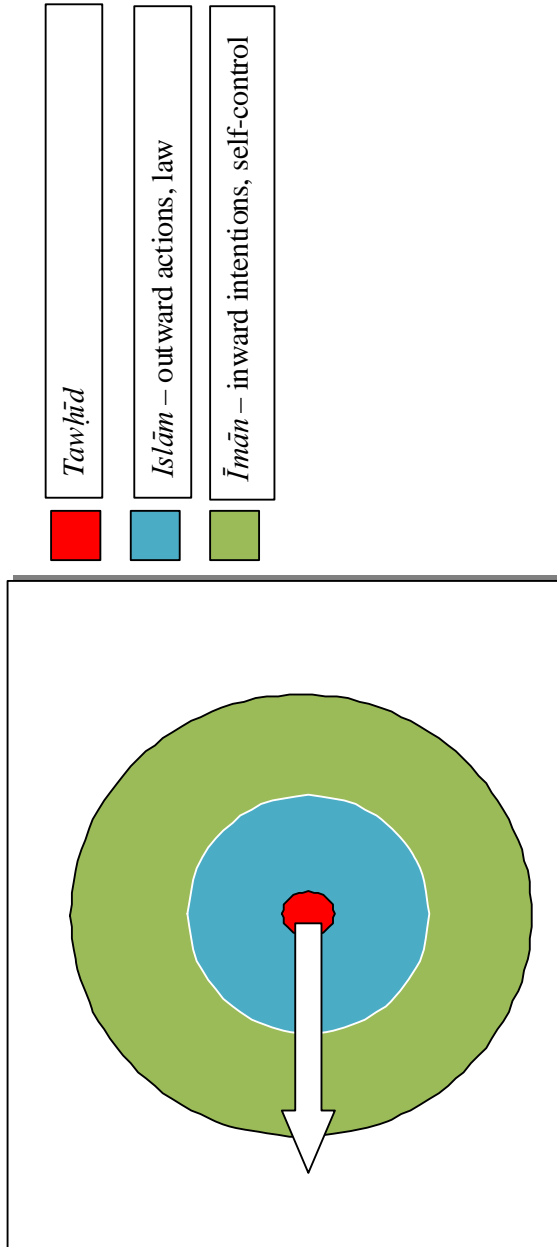
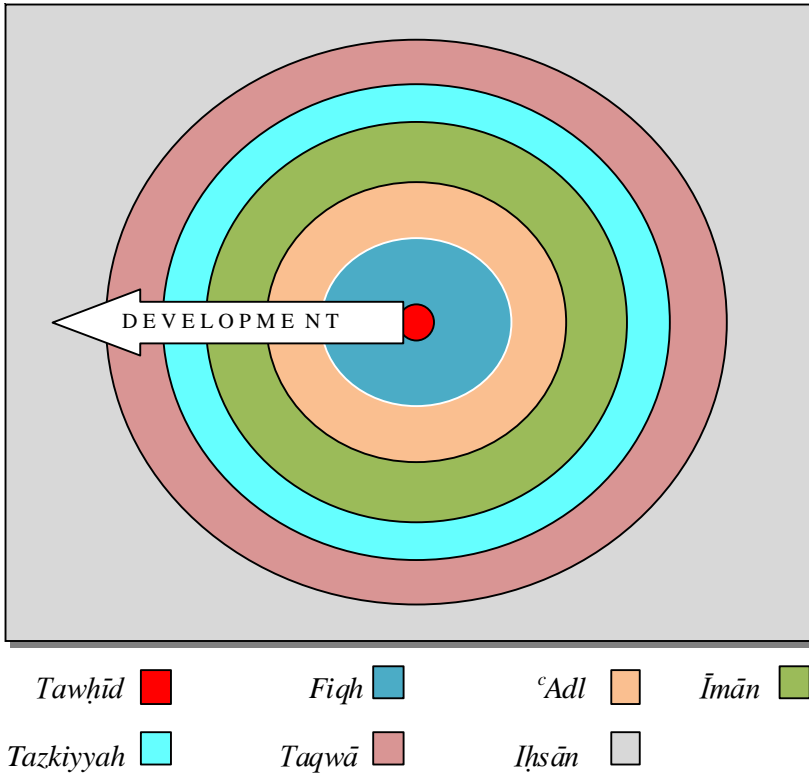


FIGURE 2
Multi-faceted and Dynamic Elements of *Ihsān* Realization

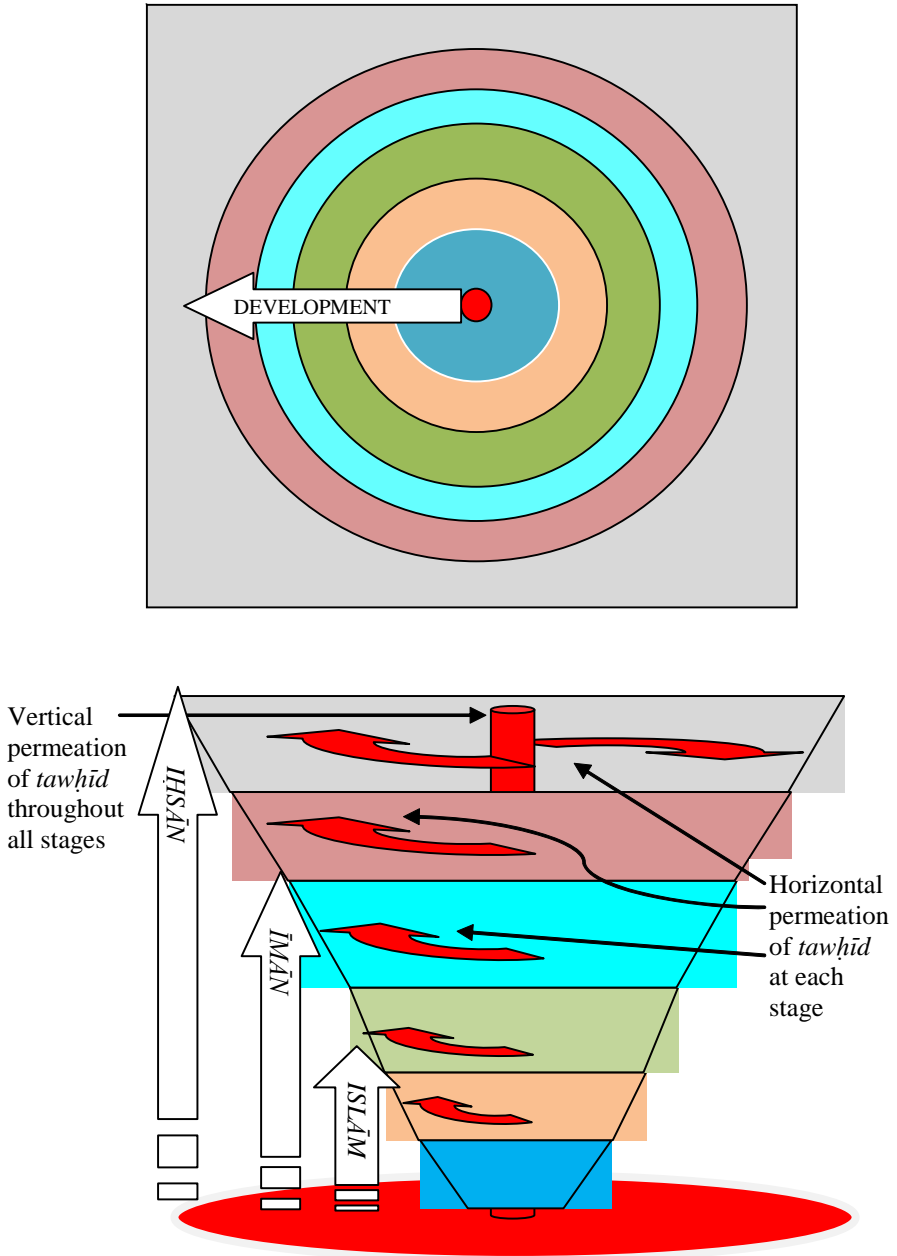


growth and development within this dynamic continuous paradigm. *Fiqh* is the technical process of facilitating and defining the parameters of this development. In other words, this is the articulation and actualization of *tawhīd* for development purpose.

If we continue to expand this diagram in line with the development path, the axioms such as *ʿadl* (justice), *taqwā* (piety), *tazkiyyah*, *rububiyyah* and *ihsān* will be included. These are represented as circles of ever increasing diameter and signify the journey to each stage traversing the previous stage in a progressive manner. This is shown in Figure 2.

In this model of development every aspect of life under Islam follows a similar path of progression from *tawhīd* through *fiqh* and *īmān* through to *tazkiyyah* and *ihsān*. Each higher stage is not simply a ring lying beyond the last stage but actually a circle, which has its own centre at *tawhīd* but spreads beyond the previous stage to higher platforms of

FIGURE 3
Continuous Vertical and Horizontal Interactive Aspect
of the *Tawhīdi* Essence of the Development Path



development not reached by the previous. Hence, one can develop from a simple literal application of laws to a deeper understanding and sincerity, but that sincerity now also applies at the stage of laws and actions. In other words although one may reach higher developed levels one is still bound by the underlying requirements of law and duties. One can never claim in Islam to be so spiritual that one no longer needs to fulfil ones obligations under the law, as interactive change paradigm defines the nature of Islamic development.

Figure 3 illustrates the multi-faceted and interactive nature of the *tawhīd*-centric development model. *Tawhīd* is seen as both the underlying basis and simultaneously the constant central core of the development process as a whole. Just as it remains the constant throughout the vertical rise through development stages, it also permeates each individual stage horizontally. In realization, this means that *tawhīd* runs like a golden thread through every aspect of human existence to ensure strategic aims are not abandoned at any point. This is the interactive ‘audit-cycle’ of the process. Parallel to this, the dynamic role ensures that through constant feedback and improvement at each stage, a positive progression is also realized towards higher stages.

Having formed this very rudimentary understanding of development as outlined in Islam, we now locate Islamic economics within this model in order to better understand the reasons why existing financial institutions as part of the Islamic financial system has thus far failed to move towards realization of its early outlined ambitions. In Islam, the subject matter of economics is seen as a means to an end and not an end in itself. Zaman (2008) cites Shafi (1979) to illustrate the point:

“Economic progress is desirable for man and the earning of a *ḥalāl* livelihood is required after the religious requirements. At the same time it is equally self-evident that in Islam the fundamental problem of man is not economic, and economic progress is not a goal or objective of life for humans.”

Because of this point there was no separate discipline of economics in the classical Islamic writings although the subject matter of economics was widely dealt with under various subjects such as law, statecraft and social behaviour. The reason for this is that it is very difficult if not impossible to isolate the subject of development from non-economic matters. As explained before, development and other economic issues cannot be analysed in isolation. Economics is part of a social reality and can only be possible with a multi-disciplinary/inter-disciplinary approach as also contended by the new political economy approach in conventional thought.

As mentioned, one aspect of the practical articulation of Islamic economics has been the birth of IBF, which in turn has failed to live up to expectations and hopes in terms of providing the uplift in human welfare it promised. The reason for the social and development failure of IBFs should be searched for within this multi-dimensional and *tawhīdī* development process with an authentic definition of development as discussed earlier. It is Islamic political economy rather than the 'neutral' Islamic finance or even Islamic economics, that can respond to this failure.

The axioms of early Islamic economics have been shown to be those outlined within Islamic epistemology. However the development model outlined here shows that these axioms lie far beyond the realm of simple financial transactions and contract law. Much of Islamic finance so far is located within a mostly neo-classical framework because its founders have themselves been very much influenced by neo-classical economics and finance, while Islamic economics mostly represents a hybrid identity between mainly Islamic sources and Islamization of (secular) knowledge. Thus, a major problem has been the failure to locate the actualization process due to limiting the articulation to economic rather than political economy debates.

To seek to explain the lack of development and upliftment of society and human well-being by mere references to economic deficiency or manipulation of *fiqh* is extremely misplaced and reflects a misunderstanding of true Islamic developmental methods. In other words, IBF is mainly relying on *fiqh*, whereby *fiqh* is relegated to a mere technical process without a value system in a reductionist manner by ignoring the consequences of such an approach. What is in fact the case is that any solution limited to financial methods or economic tools will never by itself bring about wholesale upliftment and development as prescribed by Islam. In fact, the factors that lead to long term and widespread development of society in line with Islamic ideals are many, such as the socio-politically constructed Islamic political economy emphasizing on a moral economy. Even macroeconomic development has failed in the conventional understanding, and therefore conventional economics and policymaking has been emphasizing the micro (economic) dynamics of the development process. This transformation in conventional economics indicates a convergence towards a value oriented economic system such as Islamic political economy, as the discussion in the preceding sections so far indicates through the micro nature of development in the Islamic paradigm. The following section reflects on the political economy nature of Islamic economics.

5. ASPECTS OF POLITICAL ECONOMY

A distinguishing feature of Islam as a worldview today is its integrational approach, as has been evidenced in the preceding section. Its concept of the human being as an amalgamation of soul and body, underlies its ontology. Thus, its guidance covers all dimensions of human existence from spiritual to physical, private to public, personal to universal. Islam deplores the artificial dissecting of affairs of materialism as vehemently as it does the unnatural exclusion of the material found in monasticism. It is this perspective, which adds such complexity to the development model described as many aspects dynamically interact and continuously evolve to produce outcomes. The difficulty in isolating these aspects in order to analyse distinct stages of the process is no less than that in separating body from soul in order to fathom the secrets of human behaviour.

The model proposed involves the complex relationships between faith, justice, wealth, co-operation, truth, charity, law, security and many more aspects of human existence. These aspects weave together interactively and dynamically to form the very fabric of society. This fabric is what has been defined by some as the institutions of society. In the words of North (1990), “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Without confining ourselves within the debate on economic institutions, we can nevertheless, conclude from our model that the actualization and realization of Islamic developmental axiomatic goals depend at least to some extent on the identification, support and propagation of the specific indigenous institutions of Islam associated with each axiom. In other words, these humanly devised institutions, which shape human interactions, should be located within the ontological and epistemological content and definition of Islamic political economy, rather than a narrower definition of Islamic economics. Consequently, understanding these operational and institutional features will lead to a systemic conceptualization of Islamic development, not as a state of being, but as a process of ‘becoming’.

From this perspective, having understood the intertwined roles of socio-political energies in the construction and maintenance of a positive Islamic fabric of society and the systemic nature of Islamic development, the limited scope of IBF to affect any change becomes vividly apparent. In failing to outline the operational foundations required to realize ideological goals, Islamic economics lays itself open to accusations of perhaps naively not concerning itself with the political economy of Islam

today. There is an urgent necessity of considering Islamic political economy as a system beyond mimicking neo-classical economics with a value system of Islam in the form of Islamic economics.

It should, therefore, be noted that any system has several necessary elements and all of these must be identified and specified for that system to be fully realized. Asutay (2007a) has listed such elements of an Islamic economic system as follows:

- a. Framework paradigm (with ontological and epistemological sources) in terms of point of reference;
- b. Value system;
- c. Foundational axioms;
- d. Operational principles / mechanism;
- e. Specific methodology;
- f. Functional institutions.

The model identified and explained in this paper complements this view by specifying necessary conditions to the mechanisms, methodology and institutions. While each of these particularities exists in Islamic political economy as discussed by Asutay (2007a), each of these elements must be constructed around the central core of *tawhīd* and be constantly shaped and formulated by this. Secondly each one must positively traverse each of the three fundamental levels of *Islām*, *īmān* and *ihsān* in order to contribute to Islamic development.

Taking the case of IBF, an institution of Islamic economics today, it is clear that the industry has forsaken the value system, identity politics and systemic understanding of Islamic economics and has become a part of mainstream international financial system (Asutay, 2007a; 2007b among others). Its ties to the axioms of Islam extend only to the Islam level in that its contracts merely satisfy *fiqh* requirements, but there is no sign of transcending to the levels of *īmān* or *ihsān*. Hence, the failure of IBF to meet the aspirations of Islamic economics can be accurately located in the model proposed here, but also they can be overcome by the framework suggested in this paper. Islamic political economy as the *tawhīdī* oriented paradigm aiming to articulate and actualize the objectives of *īmān* and *ihsān* in an authentic manner to achieve development holds the answer.

The focus, therefore, now needs to shift from Islamic economics to Islamic political economy as the development process or journey identified is a synthesis of the various institutions, values, transactions and choices with a common core of *tawhīd* and strategic goals to

elevate society towards success. The interactive nature of Islamic development, thus, necessitates realization of political pre-requisites for the successful establishment of any of its subcomponents. Hence, economic institutions such as various forms of financial intermediation and financial modes, public finances, commercial institutions, and institutions such as *zakāh*, *ḥisbah*, *waqf* and *ṣadaqah* related to the micro dimensions, cannot be actualized in any beneficial or *iḥsān* form except with the support of institutional values aspired by Islamic political economy. The actualization and articulation of *tawḥīd* and *khalīfah* roles cannot be focussed only in the form of justice, property rights, security and trust but must also manifest in *tazkiyyah*, *rubūbiyyah* and *ukhuwwah*. However, for an Islamically optimum and efficient functioning of such an integrated system to be deeply rooted in any society requires political will and power. This political aspect has previously been a side issue or an assumption, rather than a central issue when discussing development in Islamic economics. As an example, El-Ashker and Wilson (2006) state that the “Islamic system *per se* has the capability of providing the operational norm and workable model, providing other things are equal; and these ‘other things’ are: (a) a degree of adherence to Islamic norms and ideals, (b) a politically strong Islamic state, (c) a lack of internal hostility from the political machinery to Islam through national governments and externally through international pressure, and (d) the adaptability of Islam to new changes in society, technologically and otherwise”.

It should, therefore, be contended that the absence of major political pre-requisites was not given any deeper consideration, other than to state that such pre-requisites needed to be in place for Islamic economics to function, and this is the prime factor for the failure of the Islamic economic system to be established anywhere and to effect any social upliftment whatsoever. Despite devoting very little of his writings to these political necessities, except for the Khaldunian model, Chapra (1992) accepts that the “political factor is one of the most important factors responsible for the failure of the Muslim countries to implement the Islamic strategy for development with justice.”

6. CONCLUSION

This paper aimed at revisiting the concept of development in Islam with the objective of conceptualizing it beyond traditional treatment through a political economy approach rooted in a micro dynamics essentialized and articulated by a *tawḥīdī* paradigm of continuous

change supported with the process logic of ‘becoming’ orientation towards activity. Based on the discussion and discourse presented in the preceding sections, it can be stated that the Islamic development model presented in this paper demonstrates the essentiality of actualizing the axioms of Islam at every level and every stage of the journey along the path to success. The policy implications of this broad framework are that at the level of Islam institutions such as law, property rights, contract enforcement, *zakāh* infrastructure and security must be established on a society wide level along with other institutions mentioned above. This is the basic needs scenario and may be summarized as *ḥuqūq Allāh* (the rights of Allah), which requires the articulation and actualization of the notions of Islamic political economy to serve human well-being as identified by *maqāṣid al-Sharīʿah*.

The subsequent level of *īmān* as well as relying on the institutions of the previous level also requires higher concepts to be commonplace such as brotherhood, unity of *ummah*, *ṣadaqah* and *waqf* and its value system based on justice, *tazkiyyah* and *rubūbiyyah*. These are included in the body of *ḥuqūq al-ʿibād* (rights of the people) and nourish the voluntary sectors with *ethics of care* as part of *ḥuqūq al-ʿibād* within *ḥuqūq Allāh* within the *tawhīdī* paradigm presented in this paper. The ethics of care as an attitude and value enables us to actualize the notions of Islamic political economy, as it negates reward and transaction oriented relationship between individuals and Allah in serving the needy. Hence, ethics of care is an essential element of the presented political economy, as part of the value system of the Islamic political economy. Also at this stage *taqwā* becomes essentialized, and so society leans further away from disobedience and harm. Furthermore not only are the establishment of these institutions necessary but the eradication of systems and policies which undermine any of the above, is absolutely essential.

In concluding, the nature and specifics of this ‘establishment’ of norms and values is a much needed area of future research. However, it is important to note that politics or the political establishment is not always synonymous with the state or government led establishment. Rather, the historic evidence suggests that qualities of leadership, vision, knowledge and ability within civil society as well as the nature of politics are the keys and these may appear from any section of society.

It should be recalled that the state is a modern concept and hence is not inherently an Islamic organization of the politics of the society; and as the Virginia School of political economics states, “the state should not be perceived in a romantic sense to serve the society and maximize

a romantically constructed social welfare function, as new political economics evidences such a social welfare function does not exist at all, nor does there exist ‘benevolent despotic’ politicians to maximize such a welfare function.”

This is important, as Islamic political activism has romanticized the Islamic state as a solution. However, contemporary Muslim experiences with the state (Islamic or otherwise) and academic knowledge as articulated by new political economy together with past Muslim history, show that the ‘state’ is far too romanticized, and the founding fathers of Islamic economics since 1970s contributed to this romantic view of the state. However, realities are different and actualization of Islamic political economy as a moral economy with its political economy institutions would be fulfilled in a more efficient manner (Islamically as well) through civil society based political settings, as the proposed development process and strategy in this paper. Therefore, confinement and curtailment by the state towards the path of actualization of this process is the last thing to be desired. Lastly, it should be accepted that *iḥsān* as the peak of the development path cannot materialize unless and until the previous two stages are embedded in the norms and the psyche of society are actualized.

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