

Islamic Economics as a Social Science: Some Methodological Issues^{*}

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Scope and Objectives

The main objectives of this discussion paper are to demonstrate how Islamic economics as a science begins as well as to explain why the distinction between positive and normative economics is unimportant in Islamic economics.

Generally speaking, positive economics studies economic problems as they are. Normative economics is concerned what ought to be. It is argued that scientific enquiry in modern Western economics is usually confined to positive questions, not to normative questions which depend on value-judgment about what is good and what is bad at least at the level of theoretical formulation. It is further said by some Muslim economists that Islamic economics is essentially normative. The main hypothesis of study is that the separation of the positive from the normative questions is not really relevant to Islamic economics.

Despite the fact that methodological issues are controversial, the paper is not just an academic exercise motivated by sheer intellectual curiosity, it is fraught with meaning for those who are determined to make a contribution towards the development of value-loaded Islamic theory, thereby influencing the policy direction of an Islamic economy. Therefore, this study can be of great practical consequence. The paper is divided into two distinct inter-related parts: the first part deals with the steps needed for the development of Islamic economic science, and the second part with the author's viewpoints on some methodological questions.

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The analysis is based on the assumption that there are distinct Islamic responses to diverse economic problems. The underlying assumptions on which neo-classical orthodox paradigms or Marxist-radical paradigms are based are considered to be inappropriate or inadequate or incapable of explaining the Muslim worldview in economic matters, although these systems may, in the opinion of their protagonists, work well within their respective socio-economic contexts and value framework. This is not to suggest that every institution and practice operating in these systems is un-Islamic in character. The fact is that in every system of thought, there will be some assumptions and ideas in common with other systems of thoughts. It is only through emphasis or de-emphasis, modification or rejection that an identity is established. Seen in this light, Islamic economics has its own identity.

Steps in the Development of Islamic Economics as a Science

In my view, there are at least seven steps in the formulation and development of Islamic economics as a science. They are interlinked with each other. The first step is to identify an economic problem or an issue. It is to be followed by a search for the explicit or implicit guiding principles of the *Shari'ah* through which we should seek solution of the problem. These principles which can be derived or deduced from the *Qur'an* and the *Sunnah* can be seen as timeless. But the knowledge on which these principles are based needs to be conceptualized. This is where a process of theoretical formulation of the problem begins: starting point of Islamic economic science. They are relative to space and time. Because "why", "how", "what", "for whom" and "which" are to be linked to the principles so identified. These questions need to be examined in terms of available options and alternatives having space and time dimensions. From this follows prescription of policy. It is to be clearly recognized at this stage that an ought statement is to be linked not only at the level of theoretical formulation but also at the level of prescription of policy. Here both the ethical judgement as being among the more permanent components of the system of values based on the *Shari'ah*, and value judgment on the basis of one's intuitive feelings or individual opinion concerning specific events, may influence both the description of concepts and the prescription of policy.

Although Islam recognizes the role of individual value-judgment yet it should always be sub-ordinated to ethical judgment. Now, policy which emerges from theoretical analysis is to be implemented. Hence the need for an appropriate institution without which the idea can not take shape. But any gap between the achievement and actual or perceived goal or target represents the inadequacy of the theoretical formulation and consequent policy prescription. It calls for a review of principles. It is also indicative of the need for reconstruction of Islamic economic theory and policy. This is a continuous process. As such, there are unlimited possibilities for the growth of Islamic economic science.

The following illustrative table summarizes the steps involved in the development of Islamic economic theories, policies and institutions. This table coupled with the explanatory notes should be helpful in understanding the evolution of Islamic economics as a social science.

Table
Steps in the Development of Islamic Economics Theory and Practice

	Timeless Islamic imperatives rooted in the <i>Shari'ah</i>	Alternatives having <i>space and time dimension</i> <i>Questions: Why, How, What, for Whom, Which? to be linked with step (2)</i>	Alternative Policy choices subject to Individual Social Moral constraints	Transfers & Exchange	Integrated view: Dual notion of individual and aggregate welfare: (maximize welfare)	Feedback	Remarks
Basic function common to all systems							
Step 1 Consumption	(Principles) Step 2 Moderation	(Process) Step 3 <i>Describe: what? concepts, functions, variables, behaviour etc.</i> Choice of variables based on (2); Formulation of theory starts	(Policy) Step 4 <i>Prescribe: identify a basket of goods and services? - its composition; - its content; to achieve (2)</i>	(Operation) Step 5 <i>Implementation</i> 3-4 influence institution building for transfer payments & exchange.	(Goal) Step 6 <i>Achievement of goal or perceived targets</i>	(Gap) Step 7 <i>Review with reference to (2) Reconstruct (3) (4) (5)</i>	Steps 2,3,4, are so inter-linked that attempts to distinguish between normative & positive economics becomes unnecessary
Production	"...seek the bounty of Allah (<i>Al-Qur'an</i>) work, produce	<i>Describe: How?</i> Function, Variables, behaviour etc. output why, which method - co-operation - competition - control - trade-off : Formulation of theory	<i>Prescribe: Which?</i> - price - non-price - market - demand + supply - choice of policy	do	do	do	
Distribution	equitable, not equality; (<i>al-Adl</i>)	<i>Describe: For whom? concepts, function, trend etc.</i> - poverty line - guarantee of a minimum level of income/living; - individual and family level - community level - International level	<i>Prescribe: How?</i> - minimum income - cash or kind; - minimum wage; - subsidy; - transfer payments;	do	do	do	

It is important to offer some explanatory notes on each of the steps as indicated in the table.

- Step 1: For the sake of simplicity we have identified three basic economic functions - consumption, production and distribution common to all economic systems irrespective of their differences in ideologies.
- Step 2: Some of the fundamental principles governing these basic functions seen from the timeless Islamic perspectives rooted in the *Shari'ah*. Take the example of "moderation" in consumption. This principle of "moderation" is to be reflected in the consumption behavior of Muslims both at micro and macro level. This principle has, *no* time dimension: it is essentially based on the Islamic worldview in economic matters (i.e., normative values).
- Step 3: Now there is a need to identify the method of its operation (i.e., process); this "knowledge" needs to be formulated or conceptualized. This is where the development of the theory starts and Islamic economic science begins. Thus the choice of variables or the use of ethically-based economic reasoning is to be directed to infer behavior patterns appropriate for the achievement of pre-selected objectives (i.e., moderation).
- Thus in explaining consumption function in an Islamic economy it should be possible to identify variables rooted in the *Shari'ah*.
- This theoretical formulation has time dimension. It can be *replaced* or *modified* by a superior theoretical formulation. They are value-loaded indeed.
- Step 4: It follows that once this concept of "moderation" is formulated, we need to prescribe a definite basket of goods and services to achieve the goal of "moderation" either at individual or at aggregate levels. Its contents and composition are changeable; it depends on the level of social and economic conditions of the society concerned.
- Step 5: This step refers to implementation of the policy chosen in step (4). This implementation can be done either by exchange through price mechanism or by transfer payments. This is where we need the development of institutions for the implementation of policy.
- Step 6: This step indicates the need of evaluation in terms of predetermined or perceived goals or targets, which aim at maximizing our welfare within the over-all framework of principles set out in step (2) as well as dual notion of return, economic and non-economic thereby making positive and normative considerations relatively indistinguishable and unimportant.
- Step 7: This step gives the results of evaluation. This feedback is needed to determine the gap between actual implementation of policy step (5) and perceived achievement. This is where the interpretation of principles (as indicated in step 2) on which the Islamic economic system is based begins. This is where the reconstruction of Islamic economic theory on which development of the policy and institution is based starts (as stated in steps 3, 4 and 5).

Following the logic and reasoning as advanced in step (2) through step (7), consumption, production and distribution process as indicated in the table, can be further explained.

Methodological Issues

Let us now pass on to the discussion of some methodological issues, In this connection, I would like to discuss briefly the following three questions:-

- i. Is Islamic economics a positive or a normative science, or both?
- ii. Do we need an Islamic economic theory in view of the absence of an actual Islamic economy?
- iii. Is Islamic economics a "system" or a "science"?

i. Is Islamic economics a positive or a normative science or both?

There is a clear methodological controversy as to whether Islamic economics is a positive or normative science. Some Muslim economists tried to maintain distinction between positive and normative science, thereby molding Islamic economic analysis in an intellectual framework of the West. Other positivists simply say that Islamic economics is a normative science. To me, it is neither a positive nor a normative science. In Islamic economics, normative and positive aspects of science are so inter-linked that any attempt to separate them could be misleading and counter productive. This is not to suggest that Islamic economics will not have any distinguishable normative and positive components. In fact, the *Qur'an* and *Sunnah* which are treated primarily as a source of normative statements, have many positive statements. This does not, however, qualify us to declare Islamic economics either as a positive or normative science.

The reasons why I would like to treat it as an integrated social science are as follows:

- a. It is already demonstrated that the steps (2) through (7) as indicated in the Table are linked up so intimately that distinction between positive and normative economics is unimportant both at the level of theory and policy. Values can be reflected both in theory and policy, since theory provides the framework for policy choices, values cannot simply be reflected in policy to the exclusion of theory.

Viewed from this angle the separation of the positive from the normative is not relevant to Islamic economics; they are both inextricably bound up with Islamic life philosophy, cultural and religious position (Mannan, pp. 170-77). In fact, this is true in the case of most economies, for, "value-judgment of one sort or another lies at the basis of all the premises of economic reasoning" (Heilbroner and Thurow, p. 77). Most economic arguments or disagreements over positive economics are about value differences, not about analytic techniques. This is evident, because in secular economics welfare function, which influences the investment decision, originates from sources inside the society in the sense that generally it represents the will of those who control the political power. In Islam, such a function essentially originates from a source outside the society itself, meaning the will of *Allah*. This constant exogenous variable provides a valid frame of reference to an Islamic model of

economic structure. The flexibility of endogenous variables, are, of course subject to the principles of *Shari'ah*.

- b. It follows that when values enter both in theory and policy, the distinction between positive and normative becomes blurred or else breaks down completely, if pushed to its limits. When examined carefully apparently normative propositions reveal positive questions and *vice versa*. Again, most positive assertions or theories which are based on so-called factual evidence or actual observations are not value-free. The question "what government policies will reduce unemployment or prevent inflation are positive ones because they could be tested by an appeal to empirical observation". But the question ought we to be more concerned about unemployment than inflation can not be settled merely by an appeal to facts. (Lipsey, p.5). Thus we see that positive and normative questions can be the obverse and reverse of the same coin. The point we are making is that economic problems and issues should be viewed in their *totality*. This is particularly true in the case of Islamic economics where the usefulness of the model or hypotheses and the validity of their theorems are to be determined by examining the correspondence between assumptions of the model and the principles of the *Shari'ah*.

Thus, in Islamic economics, the volume of private investment is *not* either negatively or positively related to the real rate of interest as advocated by the Keynesian model. For, the *Shari'ah* has prohibited interest for ethical and various economic reasons. Again, from the Hicksian indifference-preference hypothesis, we can deduce the conditional theorem: "if a person buys more of a good when his real income rises then he will also buy more of that good if, *ceteris paribus*, its price falls". (Mishan, p. 22). Even in such an apparently value-free-theorem an "ought" statement can be built into the theory. The question of "how much" or "which good" can be related to the Islamically acceptable level of "moderation". Thus it is possible to conceive that in a properly run Islamic community a consumer may refuse to buy "more of a good" during falling price or rising income, when he thinks that he is exceeding the limits of moderation as prescribed by the *Shari'ah*. At this point of refusal, his moral preference can be "revealed". This may consequently influence the shape of his demand curve¹. We may give a few more examples to demonstrate how Islamic values can enter into the very heart of the theoretical formulation of apparently value-free concepts. Thus in explaining the nature of "consumption function", we are required to identify variables having roots in the *Qur'an* and the *Sunnah* right at the level of theoretical formulation. These variables, such as personal income, intra-family income, intra community level of consumption and income, etc., need to be incorporated or estimated in understanding the true nature of consumption function in an Islamic economy. Again, when factor prices and a production function are to be explained within the Islamic framework, it should be understood very clearly that a firm which may be guided by the multiplicity of objectives may not *always* require to satisfy the first or second order conditions of maximization as taught in Western secular economics. Because the first and second order conditions are to be fulfilled only when the firm or enterprise is aiming at maximization of

(1) This situation can not be explained in term of "Giffen goods" (when price rises, consumption also rises and when price fell their consumption also fell) or "inferior good" (a rise in consumer income causes a fall in demand, a fall in income causes a rise in demand).

profit. But in an Islamic framework it should be possible to conceive of a firm which may require to satisfy only the first order condition (i.e., considering the relationship between the quantity "Q" of a commodity marketed by some firm and the total profit "R" which accrues to it, the derivative condition $dR/dQ = 0$ can be satisfied not only where profit is at its maximum but also where profit is at its minimum). Because a firm may aim at a minimum target level of profit only for some broader social considerations. Thus we need not *always* go for fulfilling the second order conditions (which require that slope of the dR/dQ must be negative) (Baumol, p. 55). The fact is that the choice of variables and their classifications into endogenous and exogenous variables as well as mode of operation of the firm: competitive or cooperative or guided, must be made with reference to the timeless framework as given by the Islamic value system.

- c. Any attempt to distinguish between positive and normative may perhaps backfire in the sense that it may eventually give rise to birth and growth of "secularism" in Islamic economics. The tendency to test each and every thing with limited human knowledge and bias may destroy the basic foundations of Islamic economics. By secularization is meant "the process whereby religious thinking, practice and institutions lose social significance" (Wilson, p. XIV). We must not forget the history of growth of "secularism" and the struggle between the Church and the State in the West. The Christian Church lost its battle to secularists even on the question of interest. It is common knowledge that both Aristotle and Plato condemned interest. The Roman law was against it in its early stages. In the middle ages, the Christian Church prohibited the payment of usury and the charging of it was against the principles of Common Laws. Despite these hard facts of history, secularists won the battle; interest revived with all its social, economic and moral consequences in the Western Christian world, not to speak of Muslim world and Third World countries. Though the evidence differs, the loss of religious influence in the Western societies is basically similar. There were several historical factors for this decline. But the positivists' pre-occupation with empirical tests and immediate results, the dominance of economic costing over spiritual aspiration and testable criteria of efficiency are, among others, responsible for loss of influence of religious institutions, organizations and institutionalized belief system in Western society (Wilson, p. XIV). Herein lies the lessons of experience for Islamic economists determined to make a serious beginning. It is now evident that, any attempt to classify Islamic economics either as a normative or a positive science may defeat the very purpose for which it is designed just as any attempt to separate 80% of human body which constitute water from the rest may very well destroy the body itself. As such, issues in Islamic economics are to be understood and evaluated within the framework of integrated social science without splitting them into normative and positive components.
- d. Lastly, it follows that we should try to get out of the intellectual stranglehold of the positivists as far as practicable. It is not always necessary or even desirable to mould our thought process in an intellectual framework which suits positivists' neo-classical orthodox paradigm. Once we allow this distinction to go to its logical extreme, it is likely to affect adversely the fundamental institutionalized belief system of Islam. Because a number of issues in Islamic economics can not be settled solely by an appeal to observation. or they are not subject to empirical observations.

Let us now discuss the following related question in some details.

ii. *Do we need an Islamic economic theory in view of the absence of an actual Islamic economy?*

My categorical answer is: Yes. It is the plea of the positivists that there is no need to develop Islamic economic theory because of the absence of an actual Islamic economy where ideas could be tested against actual problem. It is argued that the theory must explain the facts as they are. As such it is said that there is no case for an Islamic economic theory, as it has nothing to explain and predict from the existing socio-economic reality of contemporary Muslim societies. To them, the test of a theory lies in its ability to explain and illuminate reality, although every theory distorts reality by simplifying it.

The above-mentioned arguments of the positivists clearly show the lack of appreciation of the role of diverse theories emerging from respective ideologies in the development of economic society and institutions.

It is well documented that it is not always necessary to have theories to explain the realities and predict their behavior. I shall list the following few examples from the economic and political history of the world to support the above contention.

- a. The rapid period of innovations which followed the rise of Islam is a spectacular example of how innovations in religion and its economic values liberate the society from its previous equilibrium and expose it to consequences of dynamics of economic life. "Indeed the most important innovation in any society is the *idea* of innovation itself" (Boulding, p.202). Thus Islamic prohibition of interest coupled with imposition of *zakah*, has profound impact in the development of Islamic theories of money and public finance. The ethical concept of "moderation" coupled with intra-family and intra-community obligations is significant in understanding Islamic theory of consumption function and consumer's behavior. The concept of "*al-adl*" (justice) is among others, linked to the theory of distribution of income which, in its turn, is the centre of theories of growth and economic development. The fear of *Allah* and consequent dual notion of return can directly be related to the cost benefit analysis. These innovations in social and economic theory were not originally designed to explain the then reality, when introduced. In fact, in an important sense they paved the way for innovations in Islamic economic theory and economic life in subsequent generations.
- b. Let me give few more specific examples to demonstrate that theoretical development can take place to explain perceived reality. When in 1776 Adam Smith wrote *The Wealth of Nations*, freedom of trade was *not* the order of the day. He could foresee the need for it in view of the social and economic transformation which was taking place in Britain. What *The Wealth of Nations* claimed was freedom of trade, freedom from the tariffs and bounties, prohibitions and monopolies and all the other restrictions which governments imposed upon manufacturers and merchants. The book with its profound argument became a classic, for it contained much else besides a defense of free trade. However, it established the modern science of economics. "For centuries *before* 1776, it had been taken for granted, in Britain as elsewhere that the task of government was to regulate trade in what it is thought to be the best interest of the community. The most obvious feature is the Mercantilism, as the system of regulations" (Hill, p. 85).

Again, in 1867, the first volume of *Das Capital* by Karl Marx was published. It began the modern science of socialism and communism. Marxism became the gospel of the Bolsheviks of Russia who carried through the October Revolution of 1917 - exactly, 50 years after publication of *Das Capital*.

Besides, the doctrine on popular sovereignty of Rousseau² and its impact on French revolutionary thought and the influence of Locke's work³ on the development of philosophical and political theory, have been incalculable. These political theories were designed to explain the expected reality. It should be possible to produce more evidence from the world economic and social history to support my hypothesis.

It is now abundantly clear that the presence of an actual economy (i.e., reality) where ideas could be tested against actual problems is not really needed for the formulation of a social and economic theory, the development of which may be needed to explain both the reality of the present and the perceived reality of the future.

In the case of Islam, it would however be a mistake to assume that Islamic economic system and science were never implemented. Even in our contemporary societies many economic theories such as the Islamic concept of banking, *zakah* etc., are being implemented. There are at least three reasons to develop Islamic economic theory: They are: (a) to draw the lessons of past experience by identifying the reasons for adequacy or inadequacy of explaining the past economic behavior and practices by Islamic economic theory; (b) to explain the actual economy however fragmented it might be; (c) to identify the *gap* between the ideal Islamic economic theory and actual practices of contemporary Muslim societies so that an attempt can be made to reach an ideal situation. To me, these tasks of Islamic economic theory have their historical significance during our time; it is much more important than the narrow view of economic theory as taken by the positivists. It is to be recognized very clearly that Islamic economic theory being a science draws its principles from the Islamic economic system. This brings us to the question as to whether Islamic economics is a science or a system?

iii. Is Islamic economics a "System" or a "Science"?

To me, it is both. Although it is essentially a part of a "system", a fine case can, however, be made for Islamic economics as a "science". The word "system" is defined as a "complex whole: a set of connected things or parts and "science" as "systematic and formulated knowledge" (Oxford Pocket English Dictionary). In a similar vein, the word "science" is defined in the New Columbia Encyclopedia as the organized body of knowledge concerning the physical world, both animate and inanimate. but a proper definition would also have to include the attitudes and methods through which this body of knowledge is formed. Following the definition of a "system" we can easily say that Islamic economics is certainly *a part* of a complete code of life based on four distinct parts of knowledge: "revealed knowledge" (i.e., the *Qur'an*), the then existing practices of the society as adopted by the Prophet (be peace on him) and his actual sayings (i.e., *Sunnah* and Hadith) subsequent analogical deductions, interpretations and consequent

(2) Rousseau J. (1712-1778): Swiss-French philosopher author political theorists and composer. Famous for his "Social Contract".

(3) Locke J. (1632-1704): English philosopher founder of British empiricism. Famous for his "Two Treatises on Civil Governments" and other works.

consensus of the community or doctors of religion (i.e., *ijma*). Thus the "system" provides a built-in mechanism for fresh thinking (i.e., *ijtehad*) on new issues and problems so that a solution(s) can be found. It is permissible as long as it does not come into conflict with the system's basic components, (i.e., the *Qur'an* and the *Sunnah*). Thus we see that a "system" provides a set of principles governing the entire code of life. These principles should be seen in a timeless framework. (see Table: Step 2). Out of these principles, a conceptual framework is to be developed which can be related either to explain the past economic behavior or the present reality (actual economy) or expected and perceived future reality. For, the failure to perceive socio-economic change is an obstacle to change itself as it will bring stagnation in the process of development and evolution of Islamic economics as a science. This evolutionary process has clearly the space and time dimensions (Step 3 in the Table); it is entirely possible though that a new and competing conceptual framework can redefine a number of puzzles and may also generate new puzzles. It is evident that an Islamic economic theory can be replaced or modified subject to the timeless framework of the *Shari'ah*.

Conclusion

Taken all in all it can be said that the Islamic economists, determined to make a serious beginning, should now be able to have a broad understanding of the method of enquiry in formulating Islamic theory and policy. For, there is a valid case for an ideal value-loaded Islamic theory which may have time and space dimensions. It is needed to explain the past, present and perceived future economic behavior, institutions and organizations. But it must be understood within the broader timeless framework of the *Qur'anic* principles and the *Sunnah*. While Islamic economics is a part of a "system", it is a science too. The distinction between normative and positive economics is neither necessary nor desirable. In some sense, it could be misleading. It is to be noted however, that the method of enquiry can be deductive or inductive or a combination of both. The deductive method as developed by the Muslim jurists can be applied to Islamic economics in deducing the principles of the Islamic system from the sources of Islamic laws. The inductive method can also be utilized to find solutions for the economic problems by reference to valid historical precedents. It is to be recognized however, that much more work still needs to be done to bring the treatment of the subject to comprehensiveness and further refinement which is beyond the scope of this present paper.

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