1 Islamic Economics and Banking – the Background

METHODOLOGY

Islam is founded upon the notion of Tawhid – a total commitment to the will of God, involving submission to the pattern of life disclosed in the expression of His revealed will. The logical conclusion from this premise, that Islam shares with other monotheistic faiths, is that all aspects of life have a spiritual dimension. There is no part of life that can be placed in a secular compartment, devoid of religious and ethical considerations. Islam is a lifestyle and worldview – not just a spiritual opinion about God’s character (Abbasi et al., 1989, p. 7).

What distinguishes Islamic thought from Judaism, Christianity and even Muslim pietism is that the jump from individual obedience to the transformation of society is automatic.

In Islam, there are no concepts of ‘mosque’ and ‘state’ as specifically religious and political institutions. Religion and state are believed to be fused together; the state is conceived as the embodiment of religion, and religion as the essence of the state. (Baldwin, 1990, p. 34)

This belief arises from the contents of the Qu’ran – an indivisible mixture of religious teaching, social ethics and law – and Mohammed’s establishment of the inaugural Muslim society. This was not an afterthought of the new religion but of a piece with it.

The automatic espousal of theocracy has profound implications for Islamic economic methodology. Most obviously, Islamic law becomes the predominant influence upon, and arbiter of, economic structures. It is highly specific in its proscription of some economic actions (e.g. hoarding), and its prescription of others (e.g. the division of inheritances). Hence, conservative scholars regard ‘Islamization’ as the embodiment of these provisions in legislation, and the shaping of economic and social policy in accordance with their guiding principles (in the areas where Shari’ah is not specific). The role of the Islamic economist is to explore and elucidate the application of Shari’ah to
economic life, rather than innovating by using ethical precepts of his or her choosing (e.g. K. Ahmad, 1980, p. xvi).

The organising principle of Islamic social thought is that the spiritual and moral takes precedence over the material and pragmatic, based on the assumption that human happiness is ultimately to be found in moral obedience rather than material ease (e.g. Naqvi, 1981, p. 18). This emphasis is reinforced by the belief that the punishment or reward of the afterlife will be directly related to the degree of moral obedience displayed in this, measured against the Qu’ran’s standards. This ‘carrot-and-stick’ approach is believed to be necessary to ensure widespread obedience to religious precepts in this life (e.g. Qureshi, 1979, pp. 117–18); and to be useful for the smooth running of an Islamic economy, by inducing cooperative actions without needing to resort to costly enforcement mechanisms (Bashir, 1990, pp. 357–8). Belief in divine judgement also provides paternalistic justification for restricting economic practices proscribed by Shari’ah. Whilst a wide freedom of contract is admitted, limitations are advocated to protect individuals from jeopardising their chances of entry into Paradise.

These features make the framing of a theoretical Islamic model society relatively easy. However, like other theocratic ethical systems, Islam can diagnose what is currently wrong and describe the ‘perfect’ society, but is less certain about what to do if people refuse to conform to Islamic moral standards. Hence, the role of Islamic economics also includes the evaluation of the government initiatives and legal reforms needed to transform current institutions and modes of behaviour in Muslim societies into those which conform to Islamic norms. It has the task of building bridges between the ‘is’ and the ‘ought’ (Siddiqi, 1971, p. 33). This leaves ample scope for divergence of opinion because scant guidance is given in Islamic law on such pragmatic questions.

THE GUIDING PRINCIPLES OF ISLAMIC ECONOMICS

The dominant principle of Islamic economics is that of the responsibility for the stewardship of property, derived from the belief in God as creator:

The Almighty Allah is the real Owner of everything. Man is no more than His trustee. Man in Islam is Allah’s Khalifa (vicegerent)