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## On the Critics of Islamic Economics

Critics of Islamic economics have grossly misrepresented the position of Islamic economists when they try to suggest that they rely mainly on 'altruism' and assume the *homo Islamicus* to be motivated only by moral considerations. These critics regard this to be the fatal mistake of Islamic economists as in their view 'self-interest' remains the sole motive for human endeavors. Self-interest, they hold, is a universal phenomenon and as such the Muslim world is no exception. This is missing the whole point the Islamic economists are making. They do not deny the role of self-interest. Islamic economists' position is that the notion that economic behavior is motivated solely and exclusively by self-interest is unreal, both conceptually and on the basis of empirical evidence. This premise of classical and positive economics has been looked upon with suspicion by many from within, and is now being boldly challenged by the Islamic economists. It is being suggested by both that the positivist formulation is based on ignoring some of the assumptions made by classical economists and the evidence of patterns of human behavior based on empirical research by psychologists and sociologists.

Market mechanism is accepted as a major framework for economic decision-making in an Islamic economic system, but it is subject to moral filters, societal vigilance and a positive (not totalitarian) role for the state. At the empirical level the Islamic economists have tried to study human behavior in its different socio-moral contexts and not in total abstraction. They are concerned with many scenarios – a morally – oriented Islamic society. Muslim society deviating from the Islamic norms, and non-Muslim societies operating in the context of their own socio-moral concerns. If various patterns of behavior can be scientifically conceptualized despite intellectual commitment to the model of pure and perfect competition resulting in a variety of near real life situations from monopoly and monopsony to a myriad of imperfect competitions and this does not destroy and dislodge the perfect competition model why cannot the Islamic model work as a frame of reference for analysis and policy formation in a variety of confirmatory or deviationist situations? Moreover, in the Islamic framework human motivation is not a 'constant', it is also a variable like other variables and subject to moral and policy influences. If mainstream economists can embrace the idea of 'rights' and 'justice' without the collapse of the paradigm, (see particularly the works of Rawl and Sen) why can there not be an Islamic economy where equity and rights are as important concerns as efficiency and enlightened self-interest.

Another red herring has been discovered in the context of globalization and national economies. It is assumed that Islamic economic principles can operate only in a rural economy or in communities that are small and integrated. This premise is nothing more than conjecture. It is not based on any scientific analysis or empirical evidence. Islam has remained a global power for over a thousand years and Muslims have always operated as a universal *Ummah*, despite multiplicity of political regimes. Global outreach is not new, despite new avenues and forms of globalization. It is highly presumptive to assume that smaller communities, local integration and regional groupings have become obsolete or that human elements can be totally bypassed in large urban societies or in global dealings. The whole movement towards Communitarianism in Europe and America is based on the rediscovery of the principle of human relationships and social integration at local, nations and global levels. Islamic economics challenges this one –dimensional approach, which smacks of some kind of an implicit determinism. Islamic economists stand for human freedom and innovation and are optimistic about the future, despite all the difficulties that are very much there.

**Prof. Khurhid Ahmad**

### The International Islamic Finance Forum for Students

The Institute for International Research, in association with the Dow Jones Indexes and iHilal Holdings LLC is organizing the First Annual International Islamic Finance Forum.

The Forum will be held in Dubai, UAE on March 17th, 18th, and 19th of 2002. This forum is specially designed for the students around the globe who feel they have something to contribute to the field of Islamic finance. An award of \$5,000 will be given for the best paper.

### Call for Conference Paper on Islamic Dinar

Department of Business Administration, Kulliyah of Economics and Management Sciences, International Islamic University is organizing an International conference on Islamic Dinar.

Details are as follows:

Date: August 19-20, 2002

Theme: Viability of Islamic Dinar

Date for initial draft: 30 April, 2002

Final Draft: 30 June, 2002

Contact at: dinar2002@iiu.edu.my

Interested persons can contact for more information at: azhar\_kazmi@yahoo.com

### 'M. Umer Chapra Scholarship' in Islamic Economics

The Shari'ah Economics and Banking Institute of Indonesia (SEBI), has instituted scholarship called the 'M. Umer Chapra Scholarship in Islamic Economics'. It is also preparing to issue a translation in Bahasa Indonesia of the latest book by Dr Chapra - *The Future of Economics: An Islamic Perspective*.

Details of the scholarship can be obtained from: Sigit Pramono, assistant chairperson of the SEBI at: The Komplek Ciputat Indah Permai Blok C 25-26, Jl. Ir H. Juanda No. 50, Ciputat,

SEBI, which also runs the Best of the Best in Islamic Economics Programme for outstanding students, intends to start two more awards next year.

### Islamic Banks Play Pioneering Role in Developing Societies

Manama: Islamic banks play a pioneering role in helping develop the societies in which they operate, youngsters at a girls' school in Bahrain were told. "Islamic banks have given money, the function assigned to it by Islam, namely, contribution to development projects which benefit the society at large," said Abdul Rahman Ali Falah, manager of the Bahrain Islamic Bank (BIB). Falah was delivering a lecture to youngsters at the Al Noor Girls Secondary (High) School. The lecture was part of the bank's efforts to raise awareness about the benefits of Islamic banking, especially among young people.

### Malaysian Mufti at IDB's Shari'ah panel

Malaysia's edge in the field of Islamic banking gets another recognition with the appointment of Federal Territory Mufti Datuk Hashim Yahya as a member of the *Shari'ah* panel of the Jeddah based Islamic Development Bank (IDB). This appointment is treated as a reflection of the international Muslim community's endorsement of Malaysian expertise in *Shari'ah*, said the official in the Prime Minister's Department, Brig. Gen. (R), Datuk Abdul Hamid Zainal Abidin. Abdul Hamid was speaking during opening ceremony of Southern Finance Bhd's first Islamic Banking Centre in Selangor. He stressed that there is a need for the financial sector to introduce even more innovative *Shari'ah*-complaint products and services to further strengthen the country's Islamic banking system and assure its bid to become a center for Islamic banking. (*IslamiQ.com*)

### Compilation of Islamic Banking Fatwas

Al Arafah Islami Bank Ltd of Bangladesh is preparing a compilation of *fatwas* issued by full-fledged Islamic banks in the country. To date, there are six such banks in Bangladesh, each with their own Shari'ah board, which have been passing a number of fatwas yearly since their inception, "The compilation will help provide information in a handy form on the kind of work different banks are doing," said MA Matin, vice-president of Al Arafah Bank. "This will improve cooperation among different banks and result in the optimum utilization of resources since one bank can see the kind of work another bank has done and take it up from there instead of starting from scratch." The compilation, to be published this year, will contain the *fatwas* issued by four of the six local Islamic banks, namely, Islami Bank Bangladesh Ltd, the biggest Islamic bank in the country, Social Investment Bank Ltd, Al Baraka and Al Arafah. Shameel Bank Bangladesh Ltd. The compilation is written in Bengali, the local language. Al Arafah may bring out an English edition, should the opportunity come along. (*IslamiQ.com*):

### Six Gulf States Formed a Custom Union

Six Gulf States, Bahrain, Qatar, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates have agreed to set up a custom union by 2003. They have also announced plans to adopt a single currency by 2010. Taking a lesson from European union and their common currency Euro, these Gulf States have decided to follow the path by launching their own union. This is a good precedent toward economic unification of Gulf States. Apart from providing a normal benefit of having a common currency for a large geographical area this will also help these states to have a better representation in the international bodies like WTO.

This is also a high time when these countries should lead the example by forming a common Islamic bank with the sole objective to give a boost to the movement of Islamic economics in the region. Any common action toward the cause of Islamic economics, on the part of these states, would reflect the sincerity and the level of commitment of the political establishment of this region.

**Shariq Nisar**

## New Books and Articles

## Books:

1. AHMAD, Khaliq and SADEQ, Abul Hasan, *Ethics in Business and Management: Islam and Mainstream Approaches*, London: Asian Academic Press, 2001, 327pp.
2. BUCKLEY, Susan (ed.), *Teachings on Usury in Judaism, Christianity and Islam*, New York, NY, USA: The Edwin Mellen Press, 2000, 408pp.
3. CHAPRA, M.U., *Prohibition of Interest: Does it make sense?*, Durban, South Africa, IDM Publications 2001, 35pp.

## Articles:

1. AZMI, Sabahuddin, 'Public Expenditure – An Islamic Perspective', *Journal of Objective Studies* (New Delhi, India), Vol.12, Nos. 1&2, January/July 2000, pp.93-102.
2. BEG, Tahir, 'Globalization, Vulnerabilities at the Response of Islamic Economics', *The American Journal Of Islamic Social Sciences* (Herndon, VA), Vol. 17, No.3, 2000, pp.69-94.
3. BEG, Tahir, 'PLS-Banking: Past, Present and Future – With Special Reference to India', *Indian Association of Social Sciences Institutions*, Vol. 19, No.1, July-September 2000, pp.70-91.
4. HASAN, Masood, 'Evaluating International Investment Opportunities in Islamic Perspective', *Journal of Objective Studies* (New Delhi, India), Vol.12, Nos. 1&2, January/July 2000, pp 103-113.
5. ISMAIL, Mohammad Zaidi, 'Tadbir and Adab as a Constitutive Elements of Management: A Framework for an Islamic Theory of Management', *Al-Shajarah* 2000, Vol. 5, No. 2, pp 305-335.
6. MAIDUGU, A. Sheikh, 'Malthusian Population Trap and Poverty in Third World Countries: The Islamic Synthesis', *Journal of Objective Studies* (New Delhi, India), Vol.12, Nos. 1&2, January/July 2000, pp 115-134.
7. SUHARTO, Ugi, 'Zakat as a Special Institution of Public Finance: Reflections From *Kitab al Amwal* of Ibn Ubaid (d. 838)', *Al-Shajarah* 2001, Vol. 6, No. 1, pp 55-88.
8. SULAIMAN, Maliha & WILLETT, Roger, 'Islamic, Economic Rationalism and Accounting', *The American Journal of Islamic Social Sciences* (Herndon, VA), Vol.18, No.2, Spring 2001, pp.61-91.

## Book Review

## Prohibition of Interest: Does it make sense?

By: Dr. M. Umer Chapra

Published by: Islamic Dawah Movement, Durban, South Africa  
2001, 35. pp.

This booklet consists of three different papers published in Saudi Airlines monthly Ahlan wa Sahlan. Later on, Islamic dawah movement of South Africa published their revised and updated versions in the present form.

Author, basically, deals with three different sets of questions related to Islamic Economics. Firstly, Has Islam really prohibited interest? Apart from the usual discussion based on the *Quran* and *Sunnah* some early commentaries, dictionary and important *fatawas* are also referred and quoted to prove that interest is *Riba*, which is prohibited. The author discusses *Riba al Nasiah* and *Riba al Fadl*, however it is *Riba al Fadl*, which is discussed in detail. Four possible ways of indulgence in *Riba al Fadl* is specifically mentioned.

1. Exploitation in trade through any unfair means
2. Accepting a reward for recommending a person.
3. Barter transactions (because of difficulty in measuring the counter values)
4. Exchange of homogenous items in different quantities or at different times.

One may disagree with the author here that some directive principles of Islamic Economic Policy have been incorporated here under *Riba Al-Fadl*. However, one would not hesitate to accept that *Riba al Fadl* has been, throughout history, one of the controversial points of debate. Author himself has hinted towards this by quoting Caliph Umar "Abstain not only from *Riba* but also from *Ribah* (doubt or suspicion)". Author stresses that while *Riba al Nasiah* was well known to the world during that period, *Riba al Fadl* is a unique contribution of Islam to the world.

The second question of this book is, "Prohibition of interest: Does it make sense"? The author starts his discussion with a point that "it is not Islam alone which has prohibited interest rather all major religions like Judaism, Christianity and Hinduism have also done the same". However, it can be pointed out here that there may be some kind of reservation regarding interest in other religions, but no religion unlike Islam has completely shut its door for interest. Jews allowed it to non-Jews while Christians could not resist if for long. As far as Hinduism is concerned there was never any strong injunction lest Manu would not have fixed a ceiling on interest rate. It is only Islam whose teaching and injunction regarding interest is clear and final. A brief discussion is also made on those who argue that interest is prohibited because it exploited the poor in favour of the rich and since no such situation is present today therefore prohibition stand void. Author has proved that this argument does not stand before history.

Finally, he asks: "Banks without interest: is it conceivable"? Dr. Chapra started discussion with a point often argued by the proponents of interest that every thing has a price and so is the interest for capital, which plays a crucial role in the supply of, and demand for, financial resources in the economy and that it is the interest which helps in the allocation of financial resources mobilised.

Dr. Chapra questioned the suitability of this price, keeping in view the objectivity of humanitarian goals. He further argues that living beyond means is the result of easily available credit at interest, which is the prime cause of macro economic imbalances and financial instability. To cure this, Dr. Chapra highlighted the need for an equity-based economy, which is the foundation stone of Islamic economic system. Profit and loss modes of financing are suggested as a basis for financial intermediation of Islamic economy. Some other modes of financing, like *Murabahah*, *Ijara*, *Salam* and *Istisna* are also discussed by the author.

In the view of this reviewer this is an excellent piece of writing for understanding Islamic stand on interest.

Shariq Nisar

### Suggestion for Ph. D. topic on Islamic Banking in India

*We publish here a letter by a young research scholar seeking guidance from Dr. Nejatullah Siddiqi for choosing topics of research on Islamic banking and finance in India. We also reproduce the reply of Dr. Nejatullah for the benefit of the readers. Readers may also express their views on the subject in these columns. (Editor)*

**Sir,**

I want to choose topic relating to the concept of Islamic financial institutions working in the Indian environment.

I did try to meet few scholars in this regard but they are very clear that Reserve Bank of India would not permit Islamic Banking in India; in that case I may choose any other topic; for example how can Islamic banking be incorporated in the present legal environment of the country. However, I am also concerned with the utility of this research as well, and want to be self-reliant as soon as possible. I also visualize that with that kind of research the Middle East would be the potential as a job market.

I have also learnt that Muslims in India are not yet ready to adopt Islamic banking. This compels me to take the case study of a few Islamic financial institutions from India and try to analyze their strength and weaknesses and point out the viable solutions. I may compare these financial institutions with those of outside India. But I am still not clear about this. I need your valuable suggestion in this regard.

**Thanking you,**  
Mohammed Imad Ali

Dear Imad,  
Assalam-O- Alaiukm,

I think there are two possibilities. One, assuming Indian authorities will not amend the banking laws to accommodate Islamic banking, which does not guaranty bank's saving and time deposit (what we call investment deposits in Islamic banks), We proceed to see what Muslims should do as a second best. You can make a survey of what Muslims in other countries with a similar situation are doing. United States is one such country. You know there is a worldwide shift from commercial banks to Capital markets as a source of financing business. So we can develop a model in which mutual funds provide the main avenue for investment of Muslim savings, and the capital market, of which these funds are a part, becomes the source of acquiring finance for Muslim business.

The other topic could be directed at a survey of the special laws of countries like Malaysia, Indonesia, etc., which have Islamic Banking along with conventional banking, have made to accommodate Islamic banking. You could focus on showing that the same can be done in India, by showing that the financial system of the countries accommodating Islamic banking has gained by doing so.

Wassalam

**Nejatullah Siddiqi**

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