

# **The Ethical Rules for Research in Islamic Economics**

**By**

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# The Ethical Rules for Research in Islamic Economics

## 1. Background and justification

There is a belief among many Muslim economists that Islamic economics has come of age. It really has not and may take a long time to do so. What has happened is a noticeable growth of studies in Islamic banking and finance commensurate with the rapid growth of petro dollar in the oil producing countries of the Middle East which happen to be Islamic. In their understandable eagerness to gain control over these investable resources, western banks and financial institution hurriedly learned about Quranic prohibition of interest (rate) and gets up Islamic windows in their own banks. They are offering many sharia compliant products and have succeeded in taking having away a very large chunk of the oil wealth from the Middle East, estimated by some Muslim scholars at around a thousand billion US dollars. At the same time these countries are indebted to the western financial institutions to the tune of an estimated 600+ million US dollars, giving rise to an extraordinary situation of borrowing one's own money. Whether this is the best use of Islamic fund is a tenable question that falls in the ambit of Islamic economic research.

Again in Muslim countries like Bangladesh millions of middle class retirees who have been till now keeping their life's savings in reputed conventional banks and living off their interest income, are not given sufficient incentive to transfer their funds to the newly emerging Islamic banks in the country; Because these bank's whose credentials are yet to be fully established only offer limited banking products which give the small depositors a return at best comparable to the interest rates offered by non-Islamic banks.

These Islamic banks, by lending money to rich entrepreneur predominantly on a murabaha (cost plus) basis are foregoing an opportunity of higher return on a musharaka basis, and thus contribution to the rich getting richer at the cost of the poor.

Then there is the case of Malaysia where some dominant politicians strongly believe that "riba" really refers to usury and not the ordinary simple interest. The issue truly calls for a through and scholarly research by a team of muslim economists, historians and jurists.

The above are only for a small sample of many unresolved questions in Islamic economics that call professionals so that the right solutions emerge which truly

reflect the Islamic values of justice, fairplay and harmony. Herein lies the justification for the present article.

## **2. Objectives**

This paper aims to review the broad issue of ethical rules pertaining to research in Islamic economics. Toward that goal the specific objectives are

- To propose an analytical framework as a conceptual tool to capture what is fully involved in Islamic economics
- To identify the priorities, or at least develop a method to prioritize research in muslim countries aiming to achieve economic progress within an Islamic framework
- Identifying the right methodology for the selected agenda of research, and
- Finding the right way to utilize the results of research for the benefit of a large body of people striving to lead a good life in accordance with the assets of Islam.

Finally this review will make some recommendations for research sponsors which could be taken as ethical rules for sponsors of Islamic economic research.

## **3. Methodology**

This article utilizes secondary materials, mostly journals, books and scholarly article accessed through the internet websites. It also utilizes articles presented at a conference jointly held by The Islamic Development Bank (IDB), Jeddah and the Islamic Economic Research Bureau (IERB), Dhaka in April, 2007.

In writing about ethical rules for research in Islamic economics, one has to start with a clear comprehension of what Islamic Economics is all about. Is it just conventional economics minus interest (riba) plus zakat and waqf, as some scholars, both muslim and non-muslim, tend to believe. In a way it is but it is not all that it is. In order to understand the concept more clearly it would perhaps be best to construct an analytical framework that captures all the main elements of an Islamic economy and their broad interactions. Such an analytical framework is diagrammatically presented in Figure- I and briefly explained in section 4 below.

It is to be kept in mind that the above analytical framework has been constructed logically and not empirically. In other words, it is not based on the analysis of a set of real Islamic economics, but is a logical formulation based on guidelines provided by

and/or derived from the Quran and Sunnah. This is the ideal state towards which all life Islamic economies should strive to evolve.

The conceptual framework of an ideal Islamic economy would constitute a useful tool for identifying the problem of existing economy of a muslim state which is trying to be Islamic but is still not quite getting there. (In fact most muslim counties probably fall into this category)

The exercise would consist of a companion of the existing model against the ideal model, component by component and function by function. It is through this process of identifying what the problems are that one takes the first step in ethical rules in carrying out Islamic economic research.

#### **4. A conceptual framework for an economy**

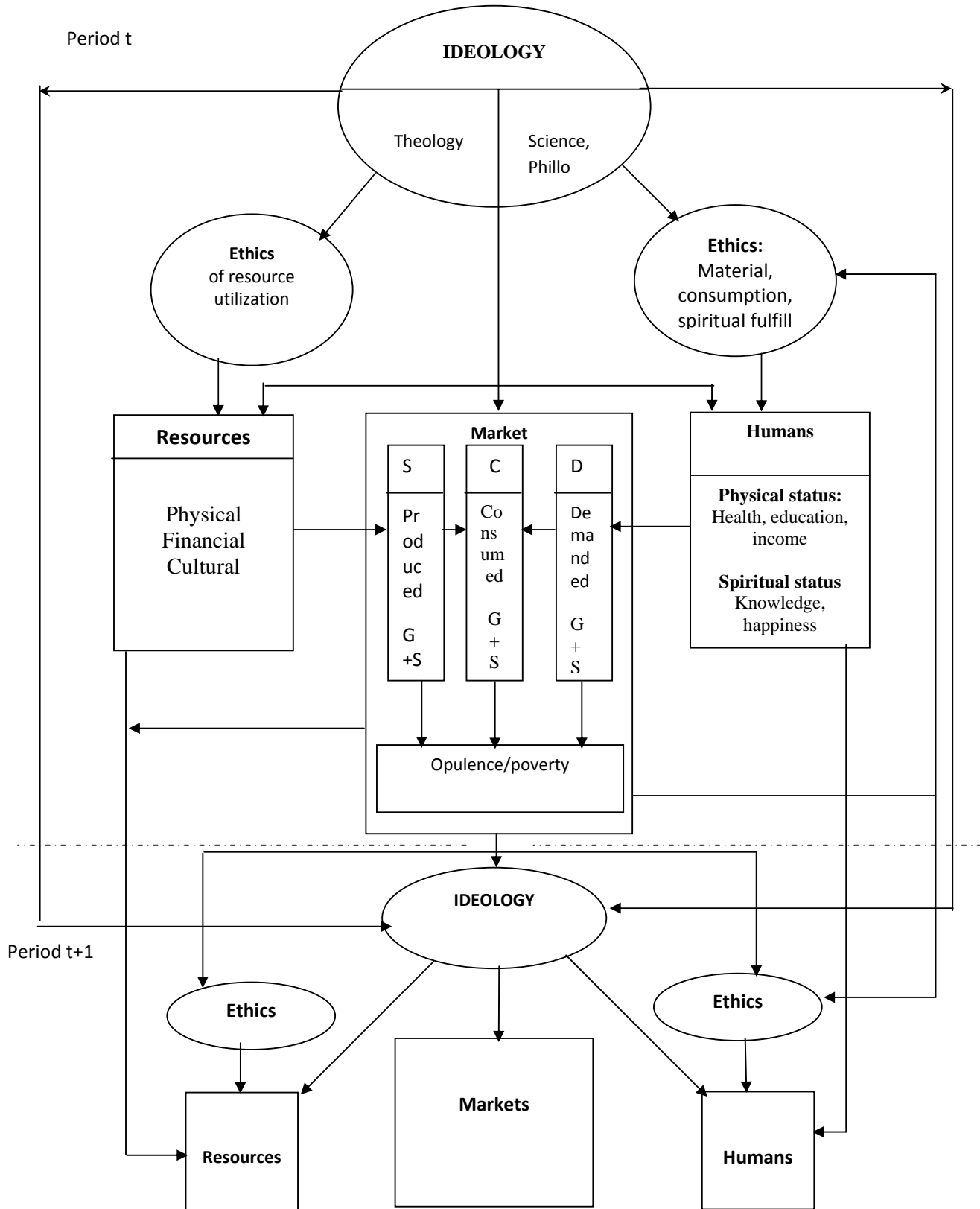
Figure - I shows in broad terms the essential components of an economy in a given period of time and how they interact with each other to functionalize the economic system. Rectangular boxes are used to depict physical objects (i.e resources) while elliptical boxes represent things which are not physical, eg. Ethics (ie ethical standards).

The top box, represents ideology which contains both theology/faith as well as science and philosophy. This box provide the knowledge as well as moral standards for man to conduct himself through life in the pursuit of his ultimate goal which in Islam is attainment of peace and harmony through complete submission to Allah. Needless to say, the consumption of material goods and services is not ignored. But these are treated as intermediate steps and not as ends in themselves as in done in some materialistic culture in part of the western world.

The elliptic box titled ethics of resource utilization would essentially contain both the science and technology of production as well as the moral codes from the Quran and Sunnah regarding Islamic economics, about caring for these resources how much of what to consume and how to take care of the resource after the required amount is extracted, how all trades have to be just and fair and how promptly the wages to be distributed, and so on. There are verses in the Quran which illustrate these points very clearly.

The rectangular box RESOURCES contains all that is in the air on earth and underneath eg sun, wind/air, water, soil, rocks, trees, animals, birds, all the living creatures. Oil, gas, coal, precious stones and minerals would constitute resources

**Figure -1: Conceptual Framework for an Islamic Economy**



Note: G = Goods, S = Services, including spiritual fulfillment

beneath the soil. This box also contains man made resources referred to briefly in the diagram as financial and cultural resources.

In the rectangular box, HUMANS, both dimensions of his well being are noted, namely physical status in respect of health, education and income (wealth), and his spiritual well being in respect of knowledge happiness and harmony, and in case of Muslims Allah's blessings.

The semi-elliptical boxes with rectangular tops and elliptic bottoms represent domains that contain both material as well as non-material elements (or variables). For example the box containing four such boxes – production (P), consumption (C), demand (D) and poverty/opulence (I) lying horizontal at the bottom of P, C and D – represent the market. The horizontal box could be +ve (indicating  $S>D$ ) which implies opulence (surplus), 0 (indicating  $S=D$ ) is market clearance and -ve ( $S<D$ ) is poverty.

The lines between the boxes are either unidirectional, indicating one way influence or bi-directional indicating two way interaction as in case of HUMANS and RESOURCES, representing supply of manpower activities. Finally, the whole set of boxes would pass from period t to period t+1, changes occurring in most of the boxes, ie in the elements within each box, representing, regeneration, aging, diminishing by consumption, increasing but reproduction, etc.

## **5. What ought to be done but is not being done**

The analytical Framework provides a useful tool for comparing the existing status of an Islamic economy with an ideal model. The list of factors that are at a suboptimal status may really be large, but taking a broad look at the consolidated picture, it would be easy to identify factors that are key. Listed below are several factors that seemed to be important, particularly in the context of Bangladesh. A perusal of the content of about 200 articles published in the Quarterly Journal of Islamic Economic Research Bureau, Dhaka has been helpful.

- a) Quantitative model building of an Islamic economy, comparable to the General Equilibrium model in neoclassical economics.

This should be undertaken for every muslim economy, preferably under the aegis of the planning or Finance Ministry. It would involve (see Figure I) the inclusion of the nonmaterial goods and services in the list of consumable items in addition to the material ones that are traditionally considered in the analysis of demand, production and supply.

In essence it would be an elaboration and reinforcement of the conceptual model discussed under section 4 above and then estimating the inter relationships designated by the arrows in quantitative terms.

- b) Development of appropriate indicators and index numbers: virtually a blank field. Dissatisfaction with indexes of economic well being has long been felt by economists of western tradition. In particular the per capita income index has been rejected by many notable scholars and philosophers since the 1970s. This includes Amartya Sen, Mahbubul Huq and, of late, President Sarkozy of France.

This branch of quantitative Islamic economics would be a natural spin-off from the general equilibrium model building exercise referred to under 2(a) above; but one need not wait for it, since it would be a while before general equilibrium models get going in Islamic economies. On the other hand, indexes referred to above are useful tools which stand on their own and would in fact constitute building blocks for developing general equilibrium models.

- c) Comparative analysis of Islamic economies with non-Islamic economies: non-existent, muslim economists have frequently extolled the supremacy of the Islamic approach in economics over the so-called rationalistic approach followed by western economists. But such assertions have remained largely hypothetical in the absence of concrete empirical evidence. This is one of the serious shortcomings of Islamic economic research. Fortunately, a good number of Muslim countries have adopted Islamic principles wholly or partially in their economies. Sponsors should invest on projects to study the impact of the two approaches on the basis of comparative analysis between countries, companies and individuals, belonging to the two different categories.

But beyond the compulsion to prove the supremacy of an Islamic economy to a non-Islamic one, it would be of great benefit to political leaders and policy makers to be able to compare the level of performance of an economy at various macro as well as micro level between different periods of time (i.e. inter-temporal comparisons)

Such comparisons would also be useful for the Muslim Ummah to identify weaknesses in countries at different levels of well-being, so that appropriate measures can be adopted to redress the problem and bring all Muslim states to an equitable level of well being in both material as well as non material aspects.

- d) Identification of investment opportunities by richer Muslim countries in poor Muslim countries.



According to some crude estimates, Muslim countries in the Middle East have invested in excess of 800 B US dollars in western countries, while they have borrowed around 600 B US dollars from these countries. It is like borrowing one's own savings. There are many low income Muslim countries which provide a much higher rate of return to investment compared to western countries. Muslim countries, especially those looking for foreign investment, should carry out research on establishing this fact with empirical data.

- e) It has been observed in Islamic banks in Bangladesh, and it probably is a common phenomenon in similar banks of many other Muslim countries or non-Islamic banks with Islamic windows, that longer form profit and avoid and various short term instrument with dubious shariah compliance and lesser overall earnings for investors preferred. It is important to demonstrate through action research that this practice is detrimental and erroneous.

## **6. How are the gaps to be filled:**

A simple answer is by including all of them in future research agenda. The sponsorship has to come from national as well as international source. The banks now interested in Islamic banking is a potential source. The World Bank, IMF, OECD, OIC are all potential sources which need to be tapped for funds. The western bilateral agencies DFID, USA ID, CIDA, SIDA, NORAD, etc, may also provide funds for cross cultural models and their comparisons.

## **7. How to adopt appropriate research methodologies**

Fortunately this area is well developed in the western tradition and there is very little differences between Islamic and non-Islamic methodologies apart from the obvious ones of excluding non-sharia compliant variables and research tools such as porc, alcohol and riba.

To recall briefly, the areas that needs particular attention in case of primary data generation

- Appropriate skill and training of
- Well tested questionnaires and voluntary giving of information with protection of privacy assumed contractually if need be
- Judicious use of data
- Religious testing of findings with an acceptable range of users

## **8. Dissemination of research results**

Many research reports in Third World Countries often do not see the light of the day. The most frequent reason – the results are not to the liking of the sponsors.

This problem needs to be solved through a variety of ways including pre-research contract, lobbying and constitutional provision.

Leaking to donor groups or responsible journalists as sometimes practiced. But the best strategy is perhaps transmission by word of mouth – an age old method.

When sponsors' sensitivity is not a problem, widest possible dissemination through multimedia channels can be carried out now a day with relative ease.

But once again the researcher must be confident beyond reasonable doubt about the variety of the results and must always disclose weaknesses where they exist.

## **9. Conclusions and Recommendations**

In this article it is possible that ethical rules for Islamic economic research have been somewhat liberally defined to include not only rules for those who are responsible for doing the research, but also on the ethics of Islamic economics itself. In my view these are actually inseparable. If an Islamic economist is doing everything the right and ethical way on an unethical issue, say exploitation of the poor, he is clearly transcending the boundary of ethics.

The other point to make is about sponsorship of research. Poorer countries need research too, perhaps more than the richer countries. But research is often seen by policy makers and fund providers in these countries as not strictly necessary, unless funds are from abroad. But such funds are not abundant and/or available at times of need.

Perhaps IDB, OIC, some rich banks in the middle and rich countries which collect and distribute zakat would build a fund for helping poor countries in the Ummah.

Finally we make three specific recommendations to give a booster to Islamic economic research.

Initiation of two Country specific Index numbers on an annual basis for all countries under OIC.

**a) A Peace Index by OIC:**

The OIC has the right organizational about and legitimacy to start this worthwhile Index. Since Islam means peace custodian of the Ummah in preserving peace and keep monitoring it as a sentinel.

Such an Index could be constructed for each OIC country using a common formula, and each country could possible carry this burden of cost of a gallop pool type survey. Furthermore details on a proposed peace Index and how to construct it is available at the Institute of Hazrat Mohammad (SAW) and can be forwarded on request.

**b) A well-being index by IDB:**

This would be an improvement over the existing indexes; QLI (quality of life index) or a Human Development Index. It would call for time series data on a number of economic parameter, if GNP, GDP, literacy, health status, religiosity, Contentment etc. Preparation of this Index could be done in cooperation with the UN as well as the special committee set up by the Franc President for developing a Happiness Index. Comprising Nobel Laureates Amartya Sen and Joseph Stighitz.

The IDB appears to be the most suitable organization to undertake this task.

**c) Development of an Islamic Economic General Equilibrium Model by King Abdul Aziz University.**

This model would be an extension of the general equilibrium Model with the accommodation of the non-material elements in the production, consumption and well-being variable sets. The most distinct feature would be a double variable optimization function that would capture both material and non-material well being The conceptual framework presented under section 4 could provide a prototype to build on. Once the conceptual model is fine tuned and fully representative of the Islamic economy being modeled the exercise would boil down to estimating empirically the interrelationship between individual and/or block of variable in different boxes in the analytical Framework.

This project work requires a team of experts of with considerable theoretical/philosophical maturity as well as quantitative analysis skills. An ideal solution could be a collaborative network of several Muslim as well as western research centre of excellence with close link to institutions with strength in

databases of many countries, e.g. the World Bank, OECD, IDB etc. the theoretical guidance could come from King Abdul Aziz University, Al-Azhar University, Islamabad, Kuala Lumpur, on the Islamic side, and Oxford, Harvard, Wharton on the western side.

The best approach would probably consist of developing a generic model by a Team under the guidance of world class experts. Thus this could be replicated by national teams through continuous on line communication as well as periodic conferences at KAU.

*(N.B. The references will be provided in the next draft.)*