

# A Review of the Conceptual and Comparative History of Islamic Economic Theories

Nazaruddin Ali Basyah<sup>1</sup>, Irham Fahmi<sup>1</sup>, Zakaria A. Jalil<sup>1</sup>,  
Zulfadhli Rusli<sup>1</sup>, Amrusi Idris<sup>1</sup>, Dinda Marisa<sup>2</sup>

<sup>1</sup>Universitas Syiah Kuala, Banda Aceh, Indonesia, <sup>2</sup>Student, Universitas Syiah Kuala, Banda Aceh, Indonesia

Corresponding Author Email: nazar@unsyiah.ac.id

To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v11-i4/15688>

DOI:10.6007/IJAREMS/v11-i4/15688

*Published Online:* 24 December 2022

## Abstract

This paper aimed to explore the Islamic response and practical articulation to key economic concepts such as scarcity, wealth, poverty, and rationality using the divine revelation of Hadith of the Prophet Muhammad as a theoretical dimension of religion and piety. Furthermore, the concept of profit was redefined from the theoretical and practical perspective to "reconsider what is truly beneficial, what has real value and is worthy of our sacrifice". Certain concepts and comparative analysis were critically examined by referring to classical economic thoughts as well as neoclassical and Islamic theories. Moreover, the contributions of each author were evaluated from general perspective of economics to understand the intellectual history of thought flows developed outside Western culture. The process of Islamic assessment and old value reassessment in relation to new social and economic realities.

**Keywords:** History, Conceptual, Comparative, Thought, Islamic Economics

## Introduction

This study covers Muslim economic thoughts since the emergence of Islam, long before the economy became a separate discipline with a unique analytical tool. The economic environment in ancient Arabia from which Islam emerged was tested while related concepts in the Qur'an and Sunnah and the thoughts of early Islamic economists were also discussed. Moreover, detailed consideration was given to Islamic economic thoughts during the Umayyad and Abbasid dynasties, periods of administrative and economic reform, and many recent developments under the Ottoman, Safawid, and Moghul governments.

The Islamic revivalist reform movement was also assessed because it preceded the revival of interest in Islamic economics in the last century. The first step in the methodology to form and develop Islamic economics is the retrieval of relevant and related texts contained in the Qur'an and Sunnah written with absolute, permanent, and unchanging truth over time because they are directly from Allah and His Messenger. These texts are used as the center of Islamic economics and have been continuously developed (Anwar, 1997). Moreover, the efforts towards retrieving them to form the core of knowledge relating to economics have

long been made by Islamic *fuqaha* to shape *muamalat fiqh* laws following their respective *mazhab*.

In recent times, more systematic approaches have been implemented to retrieve the texts and harmonize them with the main titles in economics as observed in Waqar Husaini's "Economics in the Qur'an" and Muhammad Akram Khan's "Economics Teaching of Prophet Muhammad". The laws of fiqh and the principles established by authoritative *mujtahid* through legal methods are the Islamic economic doctrines required to be obeyed (Al-Sadr, 1983) and are expected only to be used after the process of *ijtihad* and *ijmak* specifically by professional and worthy ulema or *fuqaha*.

Islamic authors tend to divide economics into two parts and these include doctrine and science (Sadr, 1983). The study of economic doctrine is based on the goals, values, and principles a society wants to follow and this field is known in the writings of Islamic economics as the "Islamic economic doctrine". Moreover, the aspects focusing on analyzing the interrelated behavior of economic actors are often called economic analysis. This shows the discussion of Islamic economics or its systems is much broader than the concepts of fiqh and principles or doctrines of Islam (Kahf, 1989).

The role of Muslim economists and scholars from other disciplines at present is to promote socially sanctioned institutional reforms so as to provide the Islamic environment within which the individual can achieve development and *falah* (Junaid, 1992). This is one of the main attribute of Islamic thinking. The role of neo-classical analysis cannot be underestimated even though some aspects of its model should be undoubtedly discarded. The positiveness of its theorizing is accepted in so far as it does not conflict with the Islamic normative approach. The history of Islamic economics from the mid-twentieth century is very much related to Islamic financial practices. For example, the emergence of advertisements for these practices in Gulf countries and the challenges of introducing a comprehensive system in Pakistan, Iran, and Sudan reinforce the argument on Islamic economics. (Nagaoka, 2012). Therefore, the tension between theory and practice led to the division of the discipline into two groups including 1) schools oriented towards the aspirations to have an ideal Islamic economy and adhere to the

mudharabah consensus at an early stage and 2) reality-oriented schools providing important meaning to the economic viability of Islamic finance and accept its commercial practice at the same time. This shows the concept of Islamic economics has been developed based on these two arguments.

### Research Methodology

Freedom is a quality instituted in Muslims by Islam and this is evident in the understanding of monotheism where adherents are required only to obey Allah's orders without submitting to fellow human beings. This means Islam creates free-spirited human beings not influenced by the behavior, traditions, and regulations of others and are not subject to the understanding, theory, and philosophy designed by humans (Siddiqi, 1989). All forms of behavior and aspects of human life are only acceptable if they are in accordance with God's command. Therefore, the concept of monotheism implies only values and rules determined by Allah are true and are required by humans to practice in their daily living to achieve *al-Falah* which is the glory in this world and the hereafter.

The moral and spiritual values of Islam are based on the concept of belief or aqeedah when the commands and regulations of Allah are *syarah*. Islam consists of aqeedah and sharia based

on the principles of the Qur'an and Sunnah. Muslims obey Sharia because they have the aqeedah which is believed to be right and that the sources of truth are the Qur'an and Sunnah. Meanwhile, since the basic function of the methodology is to determine the truth, it needs to be founded on these holy books considering the fact that they have absolute truth (Khan, 1989).

Islamic economics methodology aims to develop economics towards understanding the wisdom of God in creating humans, nature, and the environment. This means economics needs to be processed to ensure its principles and methods are not in conflict with Sharia and also to show the Islamic economic system to be implemented has the ability to provide higher and more comprehensive happiness for the people. Therefore, true values and principles stated in the absolute truths of the Qur'an and Sunnah are expected to be the foundation of the system as well as for Muslims.

The main purpose of this brief study was to formulate the hypothesis that the fundamental principles of Islamic economics are sourced from the Qur'an and the Sunnah. Moreover, the interpretation and reinterpretation of these principles regulating several issues such as value, division of labor, fair price systems and concepts, power of demand, supply and production, population growth, government expenditure, and taxation, the role of the State, cross-trade, monopoly, price control, household income, and expenditure, etc., by a number of Islamic economists and scholars are the operational basis of Islamic economics and its sustainability since the beginning of Islam. (Mannan, 1984).

The methodology used by most Western social science scholars to test the truth of a theory or hypothesis is based on a positive and deductive approach which involves establishing the truth using the actual occurrence of a phenomenon. This method is considered scientific but has been discovered not to have the ability to explain the whole truth but only part of it (Mohammed Arif 1999). Meanwhile, Islamic science is broader than this because it combines Western scientific concepts with revelation to determine the whole truth. In fact, the

revelations expressed through the text of the Qur'an and Sunnah are the principle of the knowledge and this means Islamic economics has a more scientific methodology.

### **Findings and Conclusion**

This paper can contribute to the literature, this study is very important for the academic community. This paper examines the role of Islamic economics in theory building. To achieve this, the report assesses the impact of Islamic economic theory and provides in-depth knowledge of the history of Islamic economic theory. The paper contributes to the literature and analyzes the role of Islamic economics in strengthening theory and eradicating poverty and improving development programs to ensure social justice in all economic circumstances. The development of Islamic economics in modern times started during the second quarter of the 20th century and the writings on the contributions of Muslim scholars from the past were part of this development. The first article introduced as an economic thought was written by Salih (1933) which in Arabic was titled "Thoughts of Arab Economy in the Fifteenth Century" to discuss the economic ideas of Ibn Khaldun et al (1937) published a paper on "Economic Views of Al-Biruni" and in the same year, Rifat (1937) wrote the Economic views of Ibn Khaldun in Urdu. The first paper written in English was "The Social and Political Ideas of Ibn Khaldun" by Abdul-Qadir (1941) who was the first to have a Ph.D.

In neoclassical growth theory, the emphasis is on increasing savings and technological advances to improve workers' capital and, ultimately, their output while more sophisticated

work has been conducted in the 'endogenous growth theory' model to determine the factors influencing technology, human capital, and savings. The authors cited sources from several disciplines including the religious and philosophical contexts. Interestingly, instead of using the original text, citations were made from secondary sources such as the Republic of Plato. Due to the intellectual property and comparative analysis attached to the meaning of key concepts in different traditions, this study fills an important gap in the literature in terms of the theoretical foundation of Islamic economics. Moreover, with respect to the popularity of Islamic banking and finance, it also shows how important it is to deconstruct key concepts from mainstream economics which is currently enjoying hegemonic status. The concepts of Islamic economics are developed from theoretical frameworks and practical elements.

Some theories on the development strategies formulated by the most conventional neoclassical economists have been widely criticized. For example, Fahim Khan is a contemporary Islamic economic thinker that criticizes conventional economic development strategies and also offers an alternative from an Islamic economic perspective. It is interesting to study these thoughts to understand their substance and correlation with the economic development of contemporary Islamic discourse dominating the Islamic financial/banking institutions. This is due to the opening and enlivening of productive independent creative businesses which are considered appropriate and supported by the Islamic economic system based on profit and loss sharing partnerships. The idea was to promote a superior sharing system based on a conventional interest-based banking system to encourage economic development and support the entrepreneurial workforce.

According to Fahim Khan, it is possible to solve the economic problem of labor surplus through two strategies. The first is to establish permanent wage employment opportunities while the second is the creation of entrepreneurial opportunities. Unfortunately, the densely populated economic development strategy in the conventional framework only focuses on the first strategy, which is trying in several ways to create permanent wage employment opportunities for workers as quickly and as much as possible. This, however, requires capitalists to expand employment by employing human resource surplus instead of engaging them in

entrepreneurial activities. It means the conventional strategy tends to ignore the creation of entrepreneurial opportunities as a solution to the economic problem of labor surplus.

The non-Islamic interest-based economic system is considered unsuccessful in realizing the previously stated preconditions, especially in densely populated developing countries. It was considered not to have the ability to provide the capital needed by prospective potential entrepreneurs to start a business but focuses more on financing established ones to ensure they avoid bad loans and several financing risks. This was associated with the difficult requirements in financing a new business including the inability of the prospective business actors to guarantee its success. Therefore, an individual would certainly prefer to find permanent wage employment rather than engaging in a difficult and risky independent business.

The Islamic economic framework provides a mild level of Zakat income and attracts all predetermined capital costs by providing the productive sector the incentives to encourage production. This is expected to increase the output per person in the economy and price stability. It also has the ability to simultaneously solve the microeconomic problem of imperfections in the market by increasing competition and helping the reduction of market power.

**Increasing Income Distribution in the Islamic Economic Framework**

The analysis of classical and neo-classical literature on growth and development shows its theories and policies are less concerned with increasing income distribution. Interest-free financial intermediation, as a resource allocation system, ensures fixed returns for one agent (lender) and (borrower) in inter-time money exchange. Conversely, Islam encourages equity financing where losses/profits are shared and this provides better results from the perspective of redistribution and better cooperative behavior because the rewards are associated with the productive economic sector for all parties involved.

Family Systems and Inheritance Distribution - Islamic family systems make social capital available and this ensures empathy and responsibility through the implementation of a very lasting and durable social security. Furthermore, the inheritance law ensures the wealth of the deceased is widely distributed among family members and this permanently and systematically eliminates the concentration of wealth in a generation. Zakat and Infaaq are a combination of wealth and income taxes formulated to immediately achieve the goal of redistribution and reduces the confinement of wealth with some people. Moreover, the flow (income) and stock (wealth) are both taxed to ensure proper transfer of wealth and assets ownership to those in need. In a situation the economy is in disequilibrium and policies fail to recover quickly to increase income, the wealth of Zakat enables the allocation and distribution of income to stabilize the extreme business cycle.

The findings of an analyst may be right or wrong and those provided by reviewers in certain theories or phenomena may also differ from one another but the errors and differences in analysis conducted using Islamic economics do not violate the demands of aqeedah and Syariah because it is based on established principles. Moreover, continuous scientific discussion among reviewers usually leads to the correction of mistakes observed and the reduction of previous differences. Meanwhile, it is easy to develop Islamic economics through analysis due to the fact it involves human thoughts based on Islamic principles (Khan, 1989). A normative approach was used and this involves making efforts to determine the most suitable method to change the economic system currently practiced by the Muslim community to an original Islamic system. However, the non-existence of this original system makes it impossible to implement a positive approach to test its effectiveness and capability. This is necessary because a positive approach is expected to be used only in certain contexts such as testing the extent to which changes have occurred over time due to the introduction of a policy or strategy to implement the Islamic economic system. Therefore, the Islamic economic theories proposed by scientists can only be empirically tested if the system later exists (Khan, 1994). However, these theories are currently useful for explaining the appropriate possible direction and goals during the transition from conventional to Islamic economic systems.

As previously stated in the section on Islamic economic principles, the methodology starts with the formation of the text followed by the corpus. However, the authors have also stated a few more steps required to guide the public in implementing a fully Islamic economic system (Faruqi, 1987; Ahmad, 1989; Mannan, 1984; Khan, 1989). The formation of the strategy was not only analyzed but also include its effectiveness in helping community members towards the implementation of a comprehensive Islamic economic system in order to obtain al-Falah or brilliant glory in this world and the hereafter.

Ibn Khaldun, the famous Arabic scholar from Tunisia which is recognized throughout the world as the father of Social Sciences, provided a definition for economics that is broader in scope than the Tusi's. Moreover, this scholar was able to clearly see the close relationship

between economics and human welfare compared to others and the reference to the provisions of reason and ethics shows his perspective of economics as a positive and normative science. The use of the word mass (al-jambur) also indicates the fact that its intention to study economics was to improve the welfare of the masses and not individuals (Mannan, 1984).

This concept of the rational man in economics, who is guided by self-interest, that is derived from the historical process, has no feeling and emotions, and does not take into account the important human ingredients like sympathy for others, moral concern, religious impulse, or aesthetic endeavour. This self-acquisitive behaviour, in a sense, is necessary to achieve social good (Agil, 1992). However, this assumption of rationality has been criticized on a number of grounds which gradually led to the development of other forms of rationality. We will first examine the criticisms that have been forwarded by contemporary economists and proceed from there to highlight some new ideas that have been suggested as alternative to the egoistic rationality assumption.

This is associated with the existence of economic and social laws at the time but without much influence of isolated individuals. Ibn Khaldun observed a reciprocal relationship between economic, political, social, and educational factors and even though his famous work "Al-Muqaddimah" discusses these factors separately, they are all considered as the aspects of civilization affecting humans in their interconnected social organizations. Moreover, a number of fundamental economic ideas such as the importance of the division of labor, recognition of

labor's contribution to value theory, population growth theory, capital formation, cross-trade, a price system, and others were introduced. Muslim scholars generally and Ibn Khaldun, in particular, are regarded as pioneers of the physiocrat trade while classical authors include Adam Smith, Ricardo, and Malthus as well as neo-classical authors such as Keynes. Economic freedom is the first pillar in the structure of the Islamic market.

### **Conclusion**

The main conclusion is that countries with high savings, people spending more time to learn new skills, and better social infrastructures in the form of strong private ownership rights are able to have more income per capita than those without these characteristics. Islamic economic principles were analyzed to determine their capacity to help build these elements for sustainable growth and development. It was discovered Islam does not prohibit the right to private ownership nor provide the government the authority to take people's money and violate private property rights. Therefore, by prohibiting income based on interests and exploitative forms of trade, Islam ensures individual freedom in a broader sense. In Islam, both consumers and producers are not kings and their behaviors need to be guided by general, individual, and social welfare based on the Islamic Sharia. We believe strongly that rationality connotes behaviour that should lead towards falah, a comprehensive concept which means success in this world and the here after, and this can only be achieved if the behaviour is compatible with Islamic norms: otherwise it is irrational.



## References

- Ahmad, K. (1989). Problems of research in Islamic economics. *Readings in the Concept and Methodology of Islamic Economics*, 141-154.
- Al-Faruqi, I. R. (1987). *Islamization of knowledge: General principles and work plan*. International Institute of Islamic Thought.
- Askari, H., Iqbal, Z., & Mirakhor, A. (2014). *Introduction to Islamic economics: Theory and application*. John Wiley & Sons.
- Bondi, M., & Scott, M. (Eds.). (2010). *Keyness in texts* (Vol. 41). John Benjamins Publishing.
- Essid, M. Y. (1987). Islamic economic thought. In *Pre-Classical Economic Thought* (pp. 77-102). Springer, Dordrecht.
- Ibn Khaldun (n.d.), *Muqaddimah*, Beirut, Dar al-Fikr.
- Islahi, A. A. (2014). *History of Islamic Economic Thought: Contributions of Muslim Scholars to Economic Thought and Analysis*. Edward Elgar Publishing.
- Hollander, S. (1997). *The Economics of Thomas Robert Malthus* (Vol. 4). University of Toronto Press.
- Kahf, M. (1989). Islamic Economics and Its Methodology. *Readings in the Concept and Methodology of Islamic Economics*. Selangor Darul Ehsan: Pelanduk Publications.
- Kahf, M. (1999). Islamic Banks at the Threshold of the Third Millennium, *Thunderbird International Business Review* 41(4/5):445-460.
- Khan, M. S., & Mirakhor, A. *Theoretical Studies in Islamic Banking and Finance*. (1987). Islamic Publications International.
- Khan, M. A. (1989). *Economic Teachings of Prophet Muhammad*. International Institute of Islamic Economics and Institute of Policy Studies.
- Khan, M. A. (1999). Islamic economics: the state of the art. *American Journal of Islamic Social Sciences*, 16(2), 89-104.
- Khan, M. A. (1987). Methodology of Islamic economics. *International Journal of Economics, Management and Accounting*, 1(1).
- Mannan M.A. (1984). *Islamic Economics; Theory and Practice*, Houdner and Stoughton.
- Mannan, M. A. (1986). *Islamic economics: foundations of Islamic economics: theory and practice*. Hodder and Stoughton.
- Nagaoka, S. (2012). Critical overview of the history of Islamic economics: Formation, transformation, and new horizons. *Asian and African Area Studies*, 11(2), 114-136.
- Pryor, F. L. (1985). The Islamic economic system. *Journal of Comparative Economics*, 9(2), 197-223.
- Siddiqi, M. N. (1989). *Islamizing economics*. International Institute of Islamic Thought.
- Siddiqi, M. N. (1992). *Reading in Microeconomics an Islamic Perspective*. Longman Malaysia
- Al - Junaid, S. A. H., *Reading in Microeconomics an Islamic Perspective*. (1992). Longman Malaysia.
- Agil, S. O. S., *Reading in Microeconomics an Islamic Perspective*. (1992). Longman Malaysia.