

**GLOBAL ECONOMIC CRISIS:
NEED FOR A PARADIGM SHIFT**

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Abstract

[The global economic and financial crisis that started in 2008 and continues today with multidimensional and phenomenal consequences not only highlights once again the need to reform capitalist global economic system – particularly its present version of Market Fundamentalism – but also raises questions about the fundamentals of the discipline of economics. Leading economists of the world have called for a reform of the discipline. Some seeking way-out ‘within’ the dominant paradigm of economic thought and economy, yet others endeavor to search for not mere shift ‘within’ the paradigm but a shift ‘of’ the paradigm. Humanity today needs and urgent paradigm shift from elite oriented, free market fundamentalism based economic system to a human centric, just and equitable economic framework. The focus has to be on rediscovering and reestablishing the relevance of ethics and morality. After a discussion on worldview, values, principles and ideals of the Islamic economic paradigm, it is argued that this paradigm needs special attention. As against exclusive obsession with material affluences, and efficiency without reference to equity, Islamic economics emphasizes wealth creation activity, with a vision of economy that is humane, just and efficient, ensuring need fulfillment and well-being of all members of society. – *Eds.*]

Introduction

The world today is in the grip of a devastating and protracted economic crisis. What began with the collapse of Lehman Brothers in September 2008 has turned into a global catastrophe, shaking the very foundations of the capitalist system. The dominant paradigm of mainstream economics has also been increasingly challenged. If the fall of the Berlin Wall in November 1989 signalled the end of the seventy years’ experiment with communism, the economic crisis that has engulfed the capitalist world, has the potential of becoming an existential threat to capitalism, or at least its present version of ‘Market Fundamentalism’ representing high water-mark of a politico-economic experiment spread over three centuries, whose advocates had begun to glibly, yet assertively, present it as ‘the final destiny of mankind’.¹ Much seems to have been washed away by the powerful currents of financial tsunami. Important, therefore, is to analyze the causes and effects of global crisis and to discuss an economic model, framework or paradigm that has the potential to set things right at all levels. This paper presents an overview of the debate launched by contemporary economic thinkers, scholars and experts regarding the failure of present economic model, their realization of the need to bring a paradigm shift, and their ideas about the contours of the paradigm needed. It, then, discusses the Islamic economic paradigm as the only reliable panacea for all ills of economics and economy.

• The article has been adapted from ‘Foreword’ the author wrote for the book: Sayyid Abul A’la Mawdudi, “First Principles of Islamic Economics,” The Islamic Foundation, Leicestershire, 2011.

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¹ Fukuyama, The End of History.

Nature of Crisis – Paradigm Lost

To have some idea of the magnitude and devastating consequences of the unending global crisis, it may be worthwhile to reflect for a moment on some aspects of the predicament that has become the fate of humanity today. Roger Bootle, a leading British economist, describes the current state of the world economy in these words:

“... The value of complex financial instruments, designed by some of the world’s best “rocket scientists,” collapsed. Some large banks went bust, others were saved only by gigantic injections of public money, financial markets hovered on the brink of meltdown, house prices fell, share prices tumbled, and hundreds of millions of people shuddered over their future. At the worst point, about 60% of the world’s stock-markets’ wealth, equivalent to two years of America’s GDP, had evaporated ——— a sum of about \$30 trillion, or if you like your noughts, \$30,000,000,000,000. So no wonder that people were terrified about their savings and their pensions, their homes and their jobs. The financial structure cracked and buckled. Nothing seemed certain or secure...From the events of 2007/9, it seems plain that the financial markets have not worked to promote the common weal, and they have caused, rather than absorbed, chaos and instability. Ironically, they have had to be bailed out by governments. Meanwhile, it seems that the fortunes “earned” by banks, high and low, were not really earned but expropriated from the rest of us. If the system can produce such wealth-destroying success for some, how can it work for our overall benefit? And if the financial markets are like this, then what about the rest of the market system?”²

By October 2009, within the first years of the advent of the crisis, the International Monetary Fund reported that the global losses only in the banking sector were to the tune of \$3.6 trillion.³ From the start of 2008 to the spring of 2009, the crisis knocked \$ 30 trillion off the value of global shares and \$11 trillion off the values of homes only in the United States. At their worst, these losses amounted to around 75 per cent of world GDP.⁴ Philippe Legram observes, “the collapse was more brutal than during the Great Depression. Within ten months of its peak in April 2008 , world industrial production fell by an eighth and stock markets halved in value. In just three months, between November 2008 and February 2009, world trade plunged by a fifth.”⁵ Governments and the Central Banks of the U.S., U.K., and the Euro Zone had to pledge a total of \$8,955 billion to backstop the banks, \$1,950 billion in liquidity support, \$2,525 billion in asset purchases and \$4,480 billion in guarantees.⁶

According to a World Bank and IMF Joint Report⁷ even though recovery is under way the impact of the crisis will be lasting and immeasurable. Programs aimed at poverty reduction the world over will slow down. It is feared that some 20 million people in Sub-Sahara Africa and another 53 million

² Bootle, *The Trouble with Markets*, 2-3.

³ Stieglitz, *Freefall*, 127.

⁴ Legram, *After Shock*, 70.

⁵ *Ibid.*, 71.

⁶ *Ibid.*

⁷ *Global Monitoring Report 2010: Achieving the MDGs in the Aftermath of the Global Economic Crisis*, Joint Report of the World Bank and International Monetary Fund.

globally would descend into extreme poverty trap and those already below poverty line, about one billion unfortunate human being, would face serious erosion of their purchasing power. Infant mortality would rise and availability of safe water, primary education and medical care would nose dive. Life and conditions for the poor of the world would further deteriorate. Even in developed countries, loss of jobs and income are having a heavy toll. Official data show that around 16 million Americans have no jobs and over 2 million households in the US fear forced loss of homes. In the European Union almost four million jobs have disappeared, pushing the number of the unemployed to 144 million. While trillions of dollars are being doled to bailout banks, investment houses, and insurance tycoons, there is little concern for the households that are at the suffering end of the sordid mortgage scandal. The worst part of this obnoxious tale is that the victims, who had no role in driving the world into this crisis, became the worst sufferers.

Noble Laureate Joseph Stiglitz laments about the callous contrast one finds in the U.S. policy to provide massive \$700 billion to bailout the banks “but ignoring the millions of homes going into foreclosure”.⁸ The U.N. Secretary General Ban Ki-Moon brings into sharp focus this catastrophic aspect of the crisis, which he rightly describes as a “moral problem”. He says:

“In developing regions, many workers have been pushed into vulnerable employment. The ranks of the global unemployed have grown by 34 million, and another 215 million women and men have become working poor. And, for the first time in history, more than one billion people are going hungry worldwide. The moral argument is clear. After all, those least responsible for the global economic meltdown have paid the highest price — in lost jobs, higher costs of living, growing community tensions as families struggle to make ends meet”.⁹

Roger Bootle sums up this predicament of mankind in the following words:

“How did we reach the current ghastly position? My answer to this question is a tale of greed, illusion, and self-delusion on a massive scale. It not only reveals the truth about markets and economies, but also shines a torch on the nature of society — and on human nature itself.”¹⁰

Paul Volcker surmises that “the nature and depth of the financial crisis is forcing us to reconsider some of the basic tenets of financial theory.”¹¹ Will Hutton, the economic editor of the *Guardian* London, says:

“The financial crisis challenges the assumptions we had about how the world is organized and shows that free market fundamentalism was a huge intellectual mistake.”¹²

Nobel Laureate Paul Krugman raises some fundamental issues about the discipline and practice of economics in a number of articles. “Few economists saw our current crisis coming, but this

⁸ Stiglitz, Op cit., 30.

⁹ UN, Information Centre, New Delhi, *The Hindu* June 26, 2010.

¹⁰ Bootle, Op cit., 4.

¹¹ Volcker, “The Time We Have is Growing Short.”

¹² Hutton, “Thanks to the Credit Crunch.”

predictive failure was the least of the field's problems. More important was the professional blindness to the very possibility of catastrophic failure in a market economy."¹³ Krugman complains of a "hole in the heart of macro-economics." He also records the confessions of Allen Greenspan, a key architect of the US policies of economic liberalism, who in October 2008 had to admit that he was in a state of "shocked disbelief" because "the whole intellectual edifice" of global capitalism seems to have had "collapsed".

The *Economist* has tried to capture this state of intellectual bewilderment in one of its editorial comments when it says "of all the economic bubbles that have been pricked, few have burst more spectacularly than the reputation of economics itself."¹⁴ It is being admitted in serious discussions that the "efficient market hypothesis" has fallen to pieces. George Soros has come up with strong critiques of "Market Fundamentalism" in all of his recent books and articles. In his book on *Globalization*, he said:

"We must abandon the unthinking pursuit of narrow self-interest and give some thought to the future of humanity...[We need] a reassertion of morality amid our amoral preoccupations. It would be naive to expect a change in human nature, but humans are capable of transcending the pursuit of narrow self-interest. Indeed, they cannot live without some sense of morality. It is market fundamentalism, which holds that the social good is best served by allowing people to pursue their self-interest without any thought for the social good — the two being identical — that is perversion of human nature."¹⁵

Soros has established at the Central European University of Budapest an "Initiative for New Economic Thinking" which is sponsoring research on developing new approaches to economics, making the discipline relevant to the current needs of human society and serve the objectives of justice and human well-being.¹⁶

Edward Conway claims, "Following its failure to fix the current mess, economics has tumbled into a full-blown existential crisis." The increasing scepticism about the irrelevance of most of the economic models to the current reality paves the way for search for fresh thoughts and approaches. According to Conway:

"But in a strange way, the by-product of this financial collapse has been to free economics of this burden. In the corridors of the Bank of England and Treasury, there is a distinct whiff of excitement. For the first time in decades, economists have been able to throw away their textbooks and go back to first principles; to exhume once-sacreligious figures such as John Maynard Keynes or Friedrich Hayek. It is unsettling, no doubt, but this is a fertile moment, an opportunity from which may be born a better model of how to run an economy. We are already seeing the consequences. In the future, markets will be less free; there will be

¹³ Krugman, "How did Economics Got it Wrong."

¹⁴ *The Economist*, July 18th 2009. Leading Article. See also: "Onwards and Upwards", *The Economist* December 19th, 2009.

¹⁵ Soros, *Globalization*, quoted by Joseph E. Stiglitz, "A Fair Deal for The World."

¹⁶ Stiglitz, and George Akerlof "A New Economics in an Imperfect World." See also: Alex, "Praying for a Revolution in Economics."

more regulation; the state will be more interventionist. Taxes may become more redistributive. But from the ashes of the crisis may come a new understanding of how to run an economy that is both more successful and more stable, than the failed models of the past.¹⁷

Roger Bootle, among others, has challenged the very concept of homo-economicus and of market mechanism as the sole arbiter of economic decision-making. He says:

“Economics is based on a very particular view of human nature, embodied in the idea of homo economicus, the individual who makes the self-interested, rational decisions on which the success of the system depends, acting in competition with other individuals who behave in the same way.

“His motivations are plain and simple: he is a utility-maximizing machine trying to increase pleasure and reduce pain, without limit, and without regard for anyone else. Homo economicus is a bloodless, artificial creature who is remarkable in at least one major respect. Although, to the best of my knowledge, he has never set foot on the earth, he has nevertheless left huge footprints all over society.

“In fact, society is obviously not completely atomistic in the way that this crude, individualistic worldview implies. For at the very bedrock of society is not the individual but the family. Many actions are undertaken that do not seem to be in the direct interest of the actively engaged “economic agent”, but are rather in the interest of her family as a whole.

“There is no doubt that homo economicus is a simplifying assumption that yields results of analytical value and frequent applicability. But as an attempt at a total description of what drives human beings, there is also no doubt that it is profoundly misleading. There are two problems: the first concerns rationality and the second concerns motivation.”¹⁸

After exposing the hollowness of these oversimplified concepts and the flawed analyses and policies emanating from them, Roger Bootle comes to the conclusion that the “key villain” is “the subject of economics itself” and emphasizes a pressing need for “a radical reshaping of the way economics and finance are studied and thought.”¹⁹ He makes a dispassionate plea that:

“Economics must be rooted in an acknowledgment of what it is to be human, both as regards how human beings can be assumed to behave and the values by which their activity should be judged. Homo economicus needs to be laid to rest — for good.”²⁰

¹⁷ *The Daily Times*, July 31, 2009.

¹⁸ Bootle, *Op. cit.*, 79-80.

¹⁹ *Ibid.*, 232.

²⁰ *Ibid.*, 236.

Similar warning has also come from Anatole Kalatsky, who is also pleading for the birth of a new *economics*:

“Economics today is a discipline that must either die or undergo a paradigm shift — to make itself both more broad-minded and more modest. It must broaden its horizons to recognize the insights of other social sciences and historical studies and it must return to its roots...Economics is closer to astronomy in 1543, when Copernicus realized that the earth revolved around the sun. The academic economics of the past twenty years has been comparable to pre-Copernican astronomy, with its mysterious heavenly cogs, epicycles, and wheels within wheels. Today’s economists will fight for their irrational rationality as fiercely as the pre-Copernican astrologers defended their epicycles and star signs...Either economics will reform itself quickly or the funeral will be for the discipline as a whole.”²¹

Joseph Stiglitz also comes up in a strong way for the reform of economics. He is convinced that some of the major causes for the crisis in economy and injustices and contradictions in the world economy can be traced to the concepts and policy prescriptions of economics as a self-contained discipline, based on a set of assumptions about human nature, economic processes and incentives, market mechanism and the ethos of capitalism that characterize modern economy. In his latest work ‘Freefall’ he devotes a chapter to “Reforming Economics” as an essential ingredient to reconstruction of the economic order. He is of the view that “as we peel back the layers of ‘what went wrong’ we cannot escape looking at the economics profession.” He is of the firm view that “if the United States is going to succeed in reforming its economy, it may have to begin by reforming economics.”²² Stiglitz, after highlighting various key aspects responsible for the failure of the conventional paradigm of economics characterised by self-interest, profit motive, market mechanism, free trade and minimum state intervention, emphasizes the urgent need for a fundamental review of these concepts. He challenges the whole vision of *homo economicus*, the very bedrock of a capitalistic economy. “Most of us,” he surmises, “would not like to think that we conform to the view of man that underlies prevailing economic models, which is of a calculating rational self-serving, and self-interested individual. There is no room for human empathy, public spiritedness, or altruism.”²³

He makes a plea for rethinking fundamentals and reformulation of key concepts of the economic discipline. He also suggests that economists have to be responsive to the needs and aspirations of society. Human longings for a new just order cannot be ignored for long. An effort to rediscover and re-establish the relevance of ethics and morality to economic concepts and policy parameters would have to be an essential part of this exercise. The message of the current crisis is to reconstruct economics to serve the objectives of justice and well-being and not mere aggrandisement of wealth and power. Stiglitz makes a fervent plea for a new economics and a new society.

The concluding observation of Stiglitz deserves serious reflection:

²¹ Kalatsky, *Capitalism 4.0: The Birth of a New Economy*, 185-186.

²² Stiglitz, *Op cit.*, 238.

²³ *Ibid.*, 249.

“It is said that a near-death experience forces one to reevaluate priorities and values. The global economy has just had a near-death experience. The crisis exposed not only flaws in the prevailing economic model but also flaws in our society. Too many people had taken advantage of others. A sense of trust had been broken. Almost every day has brought stories of bad behaviour by those in the financial sector — Ponzi schemes, insider trading, predatory lending, and a host of credit card schemes to extract as much from the hapless user as possible. This book has focused, though not on those who broke the law, but the legions of those who, within the law, had originated, packaged and repackaged, and sold toxic products and engaged in such reckless behaviour that they threatened to bring down the entire financial and economic system. The system was saved, but at a cost that is still hard to believe.

“The simple basis of this chapter is that we should take this moment as one of reckoning and reflection, of thinking about what kind of society we would like to have and ask ourselves: Are we creating an economy that is helping us achieve those aspirations?

“We have gone far down an alternative path—creating a society in which materialism dominates moral commitment, in which the rapid growth that we have achieved is not sustainable environmentally or socially, in which we do not act together as a community to address our common needs, partly because rugged individualism and market fundamentalism have eroded any sense of community and have led to rampant exploitation of unwary and unprotected individuals and to an increasing social divide. There has been an erosion of trust—and not just in our financial institutions. It is not too late to close these fissures.”²⁴

“Much has been written about the foolishness of the risks that the financial sector undertook, the devastation that the financial institutions have brought to the economy, and the fiscal deficits that have resulted; too little has been written about the underlying “moral deficit” that has been exposed — a deficit that may be larger and even harder to correct. The unrelenting pursuit of profits and the elevation of the pursuit of self-interest may not have created the prosperity that was hoped, but they did help create the moral deficit.”²⁵

The Paradigm Needed

However dark, dismal and devastating be the costs and consequences of this global crisis, there is a silver lining on the horizon in the form of serious efforts on the part of an increasing number of intellectuals to revisit the foundations on which the contemporary economic system is built. This crisis has exposed its feet of clay. It does not merely reveal a crisis of the financial system. In fact it has revealed many other dimensions in the forms of a ‘crisis of economy’, a ‘crisis of economics’, a ‘crisis of society’ and ultimately a ‘crisis of civilization’. As discussed above, these crises have

²⁴ *Ibid.*, 275-276.

²⁵ *Ibid.*, 278.

become a wake-up call for a number of economists and social thinkers to revisit the fundamentals of their disciplines, get out of the safe cocoons in which many a specialist had retreated, and explore the root causes of the malaise that afflicts the world economy.

It has also prompted people to search for alternatives—some seeking way out ‘within’ the dominant paradigm of economic thought and economy, yet others endeavouring to search for a ‘new’ paradigm, not a mere shift ‘within’ the paradigm but a shift ‘of’ the paradigm. In my humble opinion, humanity today needs an urgent paradigm shift from elite-oriented, free-market fundamentalism based economic system to a human centric, just, and equitable economic framework—a system that addresses the economic problems in a broader social, nay civilizational, context. We have wasted too much breath on ‘clash of civilizations’. It is time, to give some serious thoughts to the crisis of civilization that has become the predicament of man in the contemporary world. It is time to look into all the resources that are available to mankind in its search for a brighter future. In this context, the paradigm of Islamic economics needs special attention.

What are the bases of Islamic economics and how it can address the causes and effects of the global economic crisis have been the topics of discussions and dialogues among scholars of economics for many years. Research on different aspects of economics from an Islamic perspective has progressed during the last fifty years. Many research institutions have been established for this purpose in different parts of the world. A number of international conferences and countless seminars and roundtables have been organized to develop different aspects of this nascent yet evolving discipline. Over a hundred universities in different parts of the world have introduced Islamic economics as a teaching discipline.

Regarding the development of Islamic economics in 20th Century, Prof. Rodney Wilson, a leading British economist and director Middle East Centre, Durham University, says:

“The first significant writer in the twentieth century was Sayyid Abul A’la Mawdudi, an ideologist from the Indian subcontinent...who popularized the term ‘Islamic Economics’...Mawdudi was not an economic theorist, but he was concerned with the economic injustices arising from inequitable land holdings and the indebtedness of many poor Muslims...[H]is writings and speeches profoundly influenced a new generation of professional economists in the Indian sub-continent who sought to reconcile Islamic teachings with the ideas and concepts they had acquired through their economic training...Although Mawdudi had coined the term ‘Islamic economics’ it was really from the 1970’s that the subject took on some of the characteristics of an academic discipline.”

The relevance of Mawdudi’s construction of Islamic economics to the present context is that he tried to define the economic problems of man in the context of his total civilizational existence and spelled out in reasonable details how these problems can be solved through an integrated approach taking care of moral and material dimensions simultaneously. In other words, Islamic economics does not only analyze economic problems or economics, nor does it endeavour towards finding solutions within the existing economic, social and civilizational framework; it rather presents a paradigm that addresses economic problems in a broader context of human life from individual to international. In order to develop a deep understanding as to how Islamic economics

views the current global crisis, what remedies it presents, and in which framework it operates, it would be pertinent to comprehend the worldview, values, principles and ideals of Islamic economic paradigm.

Islam²⁶ establishes the unity of the universe, the oneness of humanity, the indivisibility of life and the universality of Islamic laws and values through the concept of *Tawhid* (the Oneness of God). It believes in freedom of choice and spells out a genuinely pluralistic religious and cultural landscape for mankind. It is by free will and dialogue that ideological borders can be crossed. Acceptance of each other, despite differences, is a cardinal principle of Islam. It concerns all aspects of human life — faith and worship, spirit and matter, personality and character, individual and society, economy and community, national and international concerns. However, over arching these aspects is its moral approach to life and the universe. The physical and the secular have been brought together under the umbrella of the spiritual and the sacred. It does not exclude the worldly dimension; it does not pit the secular against the sacred. Rather, it integrates all dimensions of life under one moral and spiritual regime. The Islamic approach, therefore, is primarily a moral and ideological approach directed towards all human beings, irrespective of faith, colour, creed, language, or territory. It regards plurality of cultures and religions as genuine and respectable. There is also diversity within the Muslim *Ummah*. Islam does not stand for any artificial unity, forced conformity, or syncretism. It provides an authentic base for coexistence and co-operation.

Another important aspect of the Islamic civilization relates to its emphasis on values, which are absolute and universal, and the identification of certain key institutions, which act as permanent pillars for the system on the one hand, and on the other a vast area of flexibility, which could cater for the demands of changing times. While its value framework is based on human nature and universal realities, it also acknowledges the need to work out details and develop modalities for the application of this value framework in the context of changing political, economic, and cultural scenarios. Providing an overall regulatory mechanism, it avoids rigid instructions in respect of detailed human formulations. It regards the individual as the cornerstone of society, nay of all creation. Each individual is personally accountable to God. As such, individuals are not merely cogs in the social machine. Society, state, nation and humanity are all important and each has a specific role to play; yet final accountability is at the individual level. This ensures centrality of the individual in the Islamic system. Yet it also relates the individual to the society and its institutions and promotes a balanced network of relations between them.

Islamic morality is based on the concept on life-fulfilment and not of life denial. It is through moral discipline that all dimensions of human activity become a part of virtuous conduct. Personal piety and public morality contribute towards the enrichment of life and the pursuit of personal and social well-being and welfare for all. Wealth is not a dirty word; in fact, wealth creation is a desirable goal, subject only to moral values and social imperatives. A good life (*Hayat al-Tayyebah*) is one of the major objectives of human pursuit. Welfare in this world and welfare in the life-to-come are co-dependent, representing two sides of the same coin. It is this spiritualisation of the whole secular realm, and encasement of the entire gamut of worldly life and activities within a

²⁶ Islam literally means 'peace' and 'submission'. It stands for faith in God, as the only object of worship and obedience. It stands for faith in His Prophet as a model and source of guidance. It demands a firm commitment, among its followers to live in obedience to the Divine Will and guidance. *Shariah* (literally: the Path) is a set of norms, values, and laws that go to make up the landscape of Islamic way of life.

moral framework, that enables human beings to simultaneously seek to fulfil their own needs and to create a society wherein the needs of all are also fulfilled. Individual freedom, the right to property and enterprise, the market mechanism, and distributive justice are inalienable parts of the economic framework of Islam. However, there are moral filters at different levels—individual motivation, personal behaviour, social mores and manners, employer-employee conduct, and individual-state relationships that keep the economic processes within a wider framework that ensures equity and welfare in society. The state has a positive role to play, particularly in the nature of supervision, guidance, and essential regularisation; yet also to ensure freedom, economic opportunity, and property rights.

Islam emphasizes a more need-oriented approach, and is committed to establishing a society in which the basic necessities of life are ensured for all members of the human race, primarily through personal effort, and reward-orientated activity, but to do so in an environment in which those who are disadvantaged are helped to live an honourable life and become active participants in society. While Islam emphasizes wealth creation activity, its real focus is on moral excellence, spiritual bliss, and the creation of a just and egalitarian society where genuine equality of opportunity exists for all. This is only possible if society provides effective support mechanisms for the weaker members of the community. This is done both through the institution of the family and through other organs of society and state. The distinctive contribution of Islam to the economic approach lies in integrating freedom with responsibility and efficiency with justice. Justice is one the key values and has been described as one of the objectives for which God raised His prophets.²⁷ Guidance does not merely relate to man's spiritual relationship with God: it is no less concerned with man's just relationships with all other humans and all that exists in the universe.

This, briefly, is the worldview and vision of man and society that forms the framework for Islamic approach to economics and economy. The economic teachings of the Quran and *Sunnah*, the fundamental sources of Islamic *Shariah*, discuss in reasonable details how the economic problems of human race can be solved through an integrating moral and material dimensions simultaneously. Islam expounds the concept of *homo-Islamicus* as against that of *homo-economicus* of conventional economics. Considering the present state of global economy, four themes that Islam presents, are of greater importance.

First and foremost is the vision of an economy that is humane, just and efficient, ensuring need fulfillment and well-being of all members of human society. As such it is the philosophic foundations, the moral values, the social objectives, and principles of socio-economic life that occupy the centre-piece in the teachings of Islam.

In my humble opinion, this is the most path-breaking contribution of Islam. It deserves to be emphasised that it is the vision that constitutes the soul and substance of a discipline. On these basis, the scholars of Islamic economics have been able to expound and develop the vision of an Islamic economy and society with great clarity, and discuss in detail how this vision is distinct and different from the visions that inspired conventional economics and its different variants.

²⁷ The Quran, 57: 25.

I may submit in all humility that it is the *delink* between *vision* and *analysis* that lies at the root of the current failure of conventional economics.²⁸ It is in this context that it needs to be emphasized that there must be an inalienable link between Islam's worldview, value framework and principles of individual and social organisation, and the dynamics of analysis in economic theory and processes of resource mobilisation for development of economic life and policy-making. Role of religion and moral values in economic analysis and policy formulation is the most distinctive characteristic of Islamic approach to economics.²⁹

It is the establishment of a humane economy that could provide opportunities for good life to all members of the society, is depended on this integrated approach. Economics and morality are inseparable and the benefits of this integrated approach would be observed in different aspects of economic life and performance.

Secondly, there is a close inter-connectedness between different aspects of human life and society. Hence the need for an inter-disciplinary approach, as against every social discipline confined to its own isolated, falsely assumed to self-contained realm.

Human life is indivisible. Each aspect influences the others. While specialisation has a genuine role to play it is unrealistic and highly damaging to divide life into watertight compartments, creating independent worlds for each and every discipline that studies any aspect of human life. The *exclusiveness* with which economics has been developed during the last two centuries has resulted in the emergence of a one-dimensional science, focusing only on self-interest, profit-maximization and competition. Consequently the pursuit of economic gains become the sole driving force for all human efforts, resulting in a vast array of falsifications, distortions and inequities that characterise current economic reality. 'Society' has been reduced to 'economy', and 'economy' to the market. What began as an extension of moral philosophy to the realm of material pursuits has been reduced to a calculus of pecuniary gains and losses. The *delinking* of economics with religion and morality was not the end of the tale. Economics was gradually *delinked* from all other disciplines, philosophy, politics, sociology, psychology, history and others. These linkages have to be restored and strengthened if realistic solutions to human problems have to be worked out. An inter-disciplinary approach is a must for this new beginning.

Thirdly, efficiency has become the central concern of economists over the years. Efficient allocation of resources is a genuine objective both in economic analysis and policy prescriptions. But in this process yet another serious *delink* has taken place — that between *efficiency* and *equity* and *justice*. This has disastrous consequences for economy and society. Islam emphasizes that justice must remain the central objective. Efficiency is an essential *means* to serve the ends of equity and well-being, not an *end* in itself. This delink must also be reviewed so that personal interest could be

²⁸ See Heilbroner and William Mulberry, *The Crisis of Vision in Modern Economic Thought*.

²⁹ It is interesting to note that an increasing number of economists and social thinkers are now emphasizing the need for rediscovery of close relationship between economics and religion and ethics. Prof. Laurence R. Iannaccone, of Santa Clare University has surveyed some 200 papers recently published in academic journals. His conclusion is worth reflection:

Nigel Tomes (1985m p.245) once began a paper by observing that "economics is fundamentally atheistic. Religious beliefs, practices, and behavior play no role in the life of homo economicus" I would end mine with a countervailing hope; the economics of religion will eventually bury two myths— that of homo economicus as a cold creature with neither need nor capacity for piety, and that of homo religious as a benighted throw back to pre-rational times.

Iannaccone, "Introduction to the Economies of Religion," 1465-1496. See also: Roth, *Ethics, Economics and Freedom* and Rothschild, *Ethics and Economic theory*.

coupled with social responsibility, wealth-creation with useful consumption and production, and economic development with distributive justice and collective well-being. Profit-maximization cannot be the sole objective; it must be tempered with considerations of justice, fairplay, security and welfare. Market mechanism is the most suitable process for decision-making but market must operate in the context of well-defined moral, legal and social parameters. Individuals must play a pivotal role, but institutions are equally important, in some situations even more important. Competition must be the heart of the productive process, but cooperation and compassion have to be equally important forces in fashioning the working of the economy and society. State cannot and should not be a passive spectator; it has a regulatory and corrective role to play so as to ensure fulfilment of society's goals. While all stakeholders must play their respective roles, state and civil society must have a positive role to ensure that economic development serves the objectives of justice and welfare for all members of the society.

Lastly, it must be highlighted, in a forceful manner, that money's role in economy is that of an *intermediary* and not as an *objective* in itself. The focus of economic effort should always be on the development of the physical economy, i.e. the production of goods and services, their equitable distribution and useful consumption to promote well-being and contentment in society.

The integration of these major themes with the broader Islamic framework of social and civilizational construct provides a paradigm that fulfils the needs of the individual, society, state, and global community.

Conclusion

A major tragedy of the contemporary capitalist society is an ever-increasing *delink* between the money economy and the physical economy. Today the economy is awash with money, real and fiduciary, but the concrete processes of value-addition are falling much short of meeting even the essential needs of the global human community. An *autonomous* space has been created for the vicious game of '*money begetting money*', without expanding the real economy. Credit is no longer an instrument for creation of real wealth; it has become as self-sustaining world of its own. There is an explosion of debt at all levels of economy, the households, the firms, the states. It is the bubbles that are expanding and multiplying, not the real flow of goods and services that lead to the fulfilment of human needs and comforts. Islamic economics is a plea to re-establish the *link* between the monetary and physical dimensions of the economy. President Obama has been forced to admit in one of his recent speeches that "the world needs less of financial engineering and more of real engineering." It is an eye-opening situation in the world economy today that daily sale-purchase for foreign exchange is some FIFTY times more than that of the actual international trade in goods and services.³⁰

It deserves to be noted here that the main characteristic of Islamic finance is its inalienable link with the real economy and asset-creation. Amongst the factors responsible for current economic

³⁰ Noam Chomsky says: "In 1971, 90% of international financial transactions were related to the real economy — trade and long-term investment — and 10 per cent were speculative. By 1990 the percentage was reversed and by 1995 about 95 per cent of the vastly greater sums were speculative, with daily flows regularly exceeding the combined foreign exchange reserves of the seven biggest industrial powers, over 1 trillion a day, and very, short term about 80 per cent with round trips of a week or less". Chomsky, *Profit over People*, 23-24.

crisis are role of *riba* (interest), *maiysar* (speculation) and *gharar* (uncertainty and ambiguity). Islam prohibits all these. A recent IMF Working Paper makes this interesting observation:

“Comparing the performance of Islamic banks to conventional banks globally would suggest that Islamic banks performed better, given the large losses incurred by conventional banks in Europe and the US as a result of the crisis.”³¹

There is a universal urge to develop a more value-based approach to the economic and political problems that beset man and society. The objective should be the establishment of a just and socially responsible world order. This calls for a new approach to life, its challenges and prospects. What is needed is a more integrated and holistic approach to all our problems, keeping in view the moral, social, cultural, spiritual, political, and economic needs and aspirations of mankind. The shift of emphasis from machine to mind, from money to man, from means to ends, represents a qualitative shift in the global human situation. This brings the moral question to the centre of the debate and consequently concerns for justice become the ultimate objective, as against exclusive obsession with material affluence, physical development, and efficiency without reference to equity, as has been the case under the shade of conventional economics and the capitalist economic order.

Robert Fogel, winner of the 1993 Nobel Prize for Economics addresses this issue in his work *The Fourth Great Awakening and the Future of Egalitarianism*. His formulation of the real problem is succinct and perceptive. In his words:

“At the dawn of the new millennium, the critical issues are no longer, whether we can manage business cycles or whether the economy is likely to grow at a satisfactory rate. It is not even whether we can grow without sacrificing the egalitarian advances of the past century. Although the consolidation of past gains cannot be ignored, the future of egalitarianism in America rests on the nation’s ability to combine continued economic growth with an entirely new set of egalitarian reforms that adhere to the urgent spiritual needs of our age, secular as well as sacred. Spiritual (or immaterial) inequity is now as great a problem as material inequity, perhaps even great.”³²

I would conclude with Fogel’s words:

“In a world that our grandchildren will inherit will be materially richer and contain fewer environmental ills. It will be more complex and more intense than that of my generation. Ethical issues will be at the centre of intellectual life and engagement with those issues will form a large part of the fabric of daily life than is the case today. The democratisation of intellectual life will broaden debate and insinuate spiritual issues more deeply into political life. Clashes between old and new religions may become more acute, but the average age of the population will rise significantly and with that ageing will come, one hopes, a maturity and intellectual vitality that will help our grandchildren find better solutions than we found.”³³

³¹ “*The Effects of the Global Crisis on Islamic and Conventional Banks*”, by Hasan and Jemme Dridim.

³² Fogel, *The Fourth Great Awakening*, 1.

³³ *Ibid.*, 242.

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