**بسم الله بسم الله**

**ISLAMIC BANKS AND STRATEGIES OF ECONOMIC COOPERATION**

Edited by

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**ISLAMIC ECONOMICS AS A SYSTEM BASED ON HUMAN VALUES**

Prof. Dr. Sabah Eldin Zaim

Pof. Khushil Alm

The universality of the Islamic traditions as well as the technological revolution of our times has made almost all of the world as one small city. But although the distances have been reduced between places, the distances between human beings have increased. Lack of under- standing of different cultures, civilizations, traditions and life-styles is one of the problems with which we are beset. There is a lack of real contact and communication between people belonging to different traditions. And in this respect I do sincerely feel that a dialogue like the one in which we are presently engaged can render a valuable service by providing us with a language of communication, by enabling us, people belonging to two distinct traditions, to know each other and develop a more sympathetic understanding of these two traditions. Indeed, so far, the contact between the western world and the Muslim world has been in the nature of a relationship of independence.

Now there are developments which suggest that the nature of this relationship is going to change. We are moving towards cooperation and interdependence and in this new phase the need for dialogue increases manifold. It is in this spirit that I am making some submissions before you on Islamic economics. As a rather difficult task, I will make the humble effort of summing up contemporary Muslim thinking and outlining the major values and principles which inspire contemporary Muslim economists, economic planners and bankers to build a new world, one based on values drawn from the Islamic tradition. You will agree with me that economic theory is presently in the throes of a crisis. We are passing through a very critical period. The crisis is as great as, if not greater than, the one we witnessed in the 1920s and 30s, the period which led to the risk of fascism and the success of socialism in Europe.

A careful scanning of the contemporary economic situation convinces one that there is a fundamental economic problem with which we are confronted today. The economic framework which has been developed during the last three or four decades is unable to tackle this problem. There is mass poverty, frustrated take-offs in development, and increasing disparity between nations and regions; and the 16

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irrational use of non-renewable resources is posing a threat to civilization. There is incongruity between technology and develop- mental requirements. The production and consumption processes are unsuitable vis-à-vis the environmental needs of society. There is exploitation of the poor and afflicted by the rich and powerful. There is inflation; there is stagnation; we are faced with the queer phenomena of rising prices and high interest rates and high rates of unemployment. There are structural deformities in the relationships between the developed countries and the less developed countries.

All these problems the postwar framework is incapable of solving There are no signs "that we are converging towards a philosopher' stone that will cause all the pieces to fall neatly into place"; on the contrary, we are always one inflation too late in specifying the exact form of the price for a costing equation. Herr Brunner says that economists are beginning to realize that they built a rather elaborate edifice on rather unsubstantial, narrow foundations. A number o economists are now suggesting that their design which has been built and has been used to explain economic phenomena has failed.

A recent study has been made by Kurt Dopfer and six other leading economists. The title of the book is Significant Economics in the Future Towards a New Paradigm, and the authors make the significant observation that what is needed today is not some new interpretation of this, or that economic theory, but an entirely new paradigm. Not just changes within the paradigm, but a change of the paradigm itself. This is a very quick review of economic theory and the crisis in which we find ourselves. And every period of crisis is also a period of creativity, of change and opportunity, and, being an optimist, I feel that although we are passing through a critical phase, the promise of a new paradigm is also very much there.

The other aspect which is also to be kept in view is that there is a resurgence in the western world. This resurgence is political, economic, moral, ideological and cultural. It's a multi-dimensional phenomenon. The forty-three independent Muslim states engaged in a search for a new future represent about 15% of the world population and about 22% of the total land area of the world. As an important component of the Third World, the Muslim world makes up about 39.4 of its land area and 31.7% of its population. This Muslim world is searching for a new life, and this search is not merely for bringing about economic development. The real urge is to reconstruct their society and economy by drawing upon the values of their faith and religion and historical tradition. There are problems, there are tensions, there are irritants, but nonetheless, the real moving spirit

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Behind Islamic resurgence is Islam, and as a Muslim, I very humbly submit, particularly to my western colleagues in this seminar, the request not to try to look upon the Muslim world as another schism of the western religious experience, but instead to approach it more openly and to try to find out how Muslims are thinking and striving to rebuild their society and economy by drawing upon a religious and ideological tradition, a set of values which is different from the values on which western civilization has developed.

The Muslim economists, on the one hand, impressed by the crisis in economic theory, and on the other, by this resilience in the western world, are engaged in an effort to develop a new approach, a new discipline which could be described as Islamic economics. It is a discipline still in the process of emergence, something in the making. No Nonetheless, some of its contours are very clear, and my intention is to share them with you. I would not be mincing words if I suggested that this effort of Muslims to develop according to their own values and visions is not directed against anyone but is definitely an effort and approach which is different from the one prevailing in our own times. But to be different is no crime. To be different opens up new possibilities for all of us, and I look upon this development as an enriching experience for the whole of humanity, not something relevant merely to Muslims and in this respect, I should like to pay a tribute to my German friends. I will not talk of religion and the contribution they made several centuries back. Even when the western world was looking upon the classical pattern as the natural order, it was the Germans who exposed the limitations of the classical approach and showed that different nations have different problems which have been faced in different contexts. With this historical tradition, I, am quite confident that we will have a sympathetic response from the German people.

Now Islamic economics what is it all about? Let me try a definition. I will suggest that Islamic economics is a systematic effort to study the economic problem and man's behavior in relation to it from an Islamic perspective. It is also an effort to develop a scientific framework for theoretical understanding, as well as design appropriate institutions and policies pertaining to the processes of production, distribution and consumption, that will enable optimal satisfaction of human needs, enabling man to serve higher ideals in life. Now this tentative definition makes it very clear that Islamic economics is a study of economic problems and the institutions to cope with them. It has its theological roots, but Islamic economics is not an exercise in theology. Islamic economics has very close relationships with Islamic

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Jurisprudence and law: that aspect of law which deals with human relationships but I will again submit that Islamic economics is not an aspect of theology. It is also not an aspect of law, although it draws upon both of these. Islamic economics is simply economics. Its primary concern is with the nature of economic problems and economic institutions and, as such, it has to be looked upon as an academic discipline.

But what distinguishes Islamic economics from economics in general or from the traditions of economics with which we are familiar, namely western economics, whether the capitalistic branch or the socialist type, is that first of all, Islamic economics makes it very clear that the western position, that economics is neutral towards values, is unacceptable. This means that Islamic economics is not value-neutral. It has its own set of values, its own framework of values within which it operates and, in fact I would go to the extent of asking whether western economics is really value-neutral. There is a big question mark. And the deeper we reflect, the more we find that even the positive economic theory of the west is rooted in a certain set of values, sometimes explicit, but mostly implicit and to me it is unscientific to keep your values implicit, to hide them, and to pose as if you are objective and value-neutral. It is much more scientific to spell out your values and then to say that from this value framework these are the conclusions we draw, these are the differences which follow. Here the consistency of the values can be judged even values can be examined.

Otherwise, they are not fair, and la number of modern economists are becoming conscious of this. To quote only one: Professor Joan Robinson of Cambridge, in one of her recent works, said, putting it very distinctly, "Every human being has ideological, moral and political views. To pretend to have none and to be purely objective must necessarily mean either self-deception or a device to deceive others. To eliminate value assessments from the subject matter of social sciences is to eliminate the subject itself. Social science concerns human behavior. It must be conceived with the value assessments that people make." Joan Robinson is not alone. I can quote a dozen contemporary authors who have shown that western economics has its own value premises and it is not possible for economics to be value-neutral.

But a distinctive feature of Islamic economics is that we do not hide our values; we make it very clear that we have certain value premise from which we begin and from which we operate. Secondly, Islamic economics also makes it very clear that economics is not to be studied.

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In isolation from other aspects of social life. Economics is certainly a part of the social system and for this reason, a much more comprehensive approach, a much more integrated approach has to be adopted. Economic phenomena and economic behavior are to be studied in the context of the totality of human life.

That is why Islamic economic reform can take place only in the context of a total Islamicization of society, and not in isolation. Technical relationships would be studied, but only on their merit and in the context of a value framework. So Islamic economics deals not only with how human beings behave, but also how they should behave and for this reason points of policy intervention are there to help human behavior to lean in the direction of value realization and value fulfilment. This makes the scope of Islamic economics wider, more comprehensive, because it deals with motives as well as behavior, institutions and policies. It studies behavior as it takes place and it also has a vision of the future with which it wants human behavior to conform and towards which it wants it to move. This approach is a distinctive feature of Islamic economics. Islam has given us first, a set of objectives and values in economic life; second, a psychological attitude; third, a spectrum of motives and incentives; fourth, a social-political infrastructure for economic institutions; and finally, principles of economic relationship. These are the five types of guidance that we get from our religious tradition. And economics becomes a sub-section of the ideological and ethical system of Islam. As a sub section it has its distinct existence, but only as a subsection of the total system.

In view of this, at least six distinct branches of Islamic economics can be visualized. First, Islamic economic philosophy, which deals with the values and the philosophic approach which Islam gives; second, Muslim economic history, that is, how we have tried to translate this in space and time. Third, the methodology of Islamic economics. This methodology is by definition somewhat different from the methodo- logy of contemporary economics. Fourth, economic analysis, Islamic economic analysis. Fifth, applied economics, which means policy analysis from the Islamic perspective and the sixth is comparative economic systems. Now, the methodology that Islamic economics uses is, to use a contemporary mathematical term, an axiological approach, where the values and the principles that Islam gives go to make up a set of axioms. Once we have been able to formulate this set of axioms, the rest of the economics has to follow from this by true, deductive logic aAnd in this respect, a Muslim economist or a non-Muslim economist can both play a role, because once the axioms are there, then it should be possible even for a non-Muslim economist to make contributions in the field of Islamic economics. And the brilliant presentation we had this morning by our German colleague is an example of that. This is how even non-Muslim economists can make a contribution in promoting Islamic economics, provided we are clear about the axiological framework in which this exercise is to take place.

But together with the deductive method, Islamic economics also implies the inductive and empirical method the study of the phenomenon as it is and the testing of the theories in practice, and a feedback from that for theoretical analysis. This is an integral part of the methodology of Islamic economics. But what I would like to emphasize is that while adopting the axiological, deductive and empirical approaches, the uniqueness of the Islamic approach lies in the comprehensiveness of these approaches they do not run as parallel streams. Instead, they are fused together; there is interaction between them. And, again if I use a term with which the German philosophers have made us familiar, it is the Gestalt approach, the humanistic approach, a kind of global approach, where all these elements or all these methodologies are integrated and applied in such a way that they do not lead us to cross-purposes, but ease the integrated approach. This is how Islamic economics would try to tackle the economic problem.

The value premises which Islam has given have been spelled out in literature which is now available. I will not go into details of then, but would just emphasize that the primary value for Islamic economics as for the entire Islamic faith and religion is Tawhid, or unity of thought.

We do not look upon God as not relevant to the human situation. We. do not look upon God as a being who might have historically created the universe, but now, like the British monarch, has nothing to do with the fate of the world. Our understanding of God is that He is the Creator, the Lord, the Sovereign, the Sustainer, the Giver. He sustains everything. His intervention is a reality, and so we have a close and direct relationship with the Law, with the Creator. And in regard to pursuing the guidelines He has given, this divine Revelation is as necessary and as modern as tomorrow morning, not something of the past or obsolete.

So this approach, Tawhid, gives us our unique concept of human society; human society based upon validity of law, validity of life, validity of mankind and unity of the law. All these are natural corollaries of our faith. The idea is that God is Rab (Lord) who nurtures and nourishes and sustains and develops and leads us towards perfection. This is the divine model in the universe. We believe that human effort takes place in the context of this divine model and even though I may be making a living because of my effortit alone is not contributing towards that. There are a number of divine inputs into this effort, and as such the result of this effort also has to be shared in the context of the Divine Guidance.

The second basic value premise is the vicegerency of man. This spells out man's position in the world. Man is not just the product of an accident. He has been created for a certain mission with a definite position and that position is that of God's deputy. This gives us the concept that man must worship; he is responsible; he has his freedom, his faculties or intellect, accountability, relations and moral existence. The individual has a moral personality of his own; he is not just a cog in a machine as the collectivists' system would make us believe. His moral accountability, his being responsible, these are integral elements in this concept. It also means a very positive approach to life and its problems. That is, man is here with a responsible mission to serve, to change, to re-create, to rebuild, to reconstruct. All problems of life, social, intellectual, economic, political, cultural, national, international even sexual, all these are elements of this new moral ideological approach. None of them is a sin; none of them is to be shunned, but merely regulated and made instrumental for the achievement of higher objectives in life. This is a very positive concept, a revolutionary concept. It also means that man is not the master. He is only a trustee. He has been entrusted with whatever he has and whatever is there in the world, in the universe. But he has to operate as a trustee, so that he cannot misbehave and misuse these resources. This means that not to use available sources becomes a crime. The attribute of shukr is to be cultivated, thankful that God means us to avail ourselves of what He has given. No extravagance, no waste, but positive utilization as a trustee.

Trusteeship brings the idea of accountability accountability in this world before humans, before the people and before God in the life hereafter. And that is how the consequences of an action in this world, for oneself, for society and in the life to come, all of them become elements of Islamic rationality in order that the Islamic Ummah cooperates and understands and deals with the rest of the world as an entity.

After these two basic values, the third important value, which is the objective for all human effort, is justice, Adl. This is a term which appears in the Qur'an frequently, and this is the objective to which individual effort, social effort and intellectual effort is to be directed. And that means social justice, political justice and justice between 22

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human beings, between individuals and institutions and between nations. The Islamic economic approach is one which is directed towards the achievement and actualization of justice in human relations. The process for that is Tazkiah. This is purification, at the individual level as well as the social level. And the result of this effort is Falah, success or salvation, in this world and the one hereafter. Roughly this is the order in which the economic objectives which have to be kept in mind for all economic policy-making and economic thinking, to put it precisely, are: first, human dignity, freedom and brotherhood; second, efforts to make the best possible use of hum.in resources and material resources, that is, to make productive effort for achievement of optimal growth. Third, achievement of social and economic justice, so that poverty is eliminated, inequalities are reduced and human relations are built on justice.

With these objectives in mind, Islamic economics, first of all, starts with a set of values known as Halal and Haram, what is permitted and what is forbidden. And within these two extremes there is a vast area of permissibility. This is to be experimented with; man is free to male experiments. Secondly, this approach is man centered, as western economics is wealth centred. Wealth is definitely one of our concerns.

Wealth is needed for well-being. But the Centre of the study is man. As against the economic rationality of the West, Islamic economic rationality consists of decision-making with a view to achieving falalı, and Adl for oneself and for other hün other human beings. It has three major dimensions. First, one's own interest Islam does not deny this but incorporates it into its ethics, and supplements it by the interests of other members of society; second, the social and temporal con- sequences; and third, the consequences in Akhirah, that is, in the life to come. So all these three are integrated into Islamic economic rationality. Fourth, the interests of the individual and of society have not been looked upon by Islam as antipathetic, as they have been by the western tradition. There, capitalism went towards the extreme of individualism, while socialism and communism went towards collectivism to the neglect of the individual. In Islam, the interests of the two are harmonized. And this harmonization of the individual with society has taken place through this set of regulations, values, laws.

In the Islamic model, on the one hand we have an individual with private enterprise, with initiative and incentives, and on the other, the public sector which is an innovation of the Islamic system, where a number of society's needs have been provided for on a noncommercial, non-profit-making basis, through mobilization of the resources of society by voluntary means. Wagf is one of the key institutions throughout Islamic history; there was universal education and there was universal medical care, and provision for travelers; all of these have been catered for through this third sector which is an altruistic sector, which is an integral and essential element of the Islamic world. In Islamic sources one finds these efforts to harmonize social interest with individual interest, and wherever there is a divergence between the two, to bring them into one, into harmony with each other. Next is the Islamic idea that although production has to be enhanced and developed, it has to be useful production.

The concept of usefulness is an integral part of the Islamic scheme, which means that our emphasis is not merely on physical expansion but expansion within the framework of certain moral and social priorities, so that this production leads to human well-being and welfare, at the individual as well as social levels. Next is the principle of equalization of opportunities, which means that conditions of unequal opportunity have to be removed and the social infrastructure has to be so developed that there is equalization of opportunity in society. There is also a principle of decentralization and regional equity and finally the points of intervention. And the instruments of policy are moral training and purification of the motives and incentives of the individual, so that a change from within takes place supplemented by social forces and instruments.

Private property and private enterprise are basic institutions of Muslim society: But it is not unlimited-property, it is private property with the concept of trusteeship, so that it does not degenerate into an instrument of exploitation at any stage. Elimination of riba primarily means that loan capital is not regarded as productive of interest in the Islamic framework. Instead of that, our concept is that it is equity capital, which is productive in a real sense and the social and economies relationships which have to be built are not based on debt relation- ships, but upon equity and participation. Now this is a very different concept of society from that of the contemporary capitalistic society, which is a society where human beings groan under the burden of debt, and the individual is seen as a consumer. Mobilization, resource mobilization, all of that takes place through institutions which create a debt-ridden economy. Islam says it has to be a participating, a profit- sharing society, based on a different model, and in this model, freedom can be ensured because every individual feels he is a partner, a participant in the drama of production and not in any way subject to a debt situation. So morally and economically it is a very different vision and if some genuine situations for debt arise, they are to be met through social institutions. That is why for individual needs, for different situations, if genuine situations for debt arise, Islam has provided for them through voluntary institutions and private re- source mobilization. Zakat is a system of transfer of resources from the rich to the poor to ensure that obstacles, initial or generated, to opportunity are eliminated and all human beings in a society are at least provided with their basic necessities of life and then they have this opportunity to compete, to strive and to achieve the heights.

Now this set of economic principles goes to make up our value framework, and you can see that from this, the economist will derive a very different set of policy conclusions. Economic concepts will change. The concept of economic rationality will change as have pointed out. It will be a very-different concept of rationality in the Islamic framework. The concept of utility will not just be worldly fulfilment. In fact I would submit that the 'very thrust of economic analysis will move from want to world's needs and this will be a revolutionary change in economic thinking and economic policy- policy- making, because want is very much related to the desires as well as the capabilities of people. On the other hand, need can have an objective assessment. Needs have to have a hierarchy: individual, social, collective and national needs. All these criteria we can have, priorities based upon values for individual effort as well as for social effort.

Because of this, the shape of utility function will be different. Because of this, the consumption pattern will be different. Because of this, the product mix will be different. Because of this, the relative priority which will give two different components of the G.N.P. will be different. Even the indicators to measure the human situation will have to be changed, so that we have more composite, more social, more comprehensive indicators. That is how a revolutionary change will take place.

Similarly with the theory of consumption, the theory of distribution and the theory of production: all of these are about to change in this framework. A firm will not work for a maximization of profit; instead it will have the idea of a reasonable profit plus a just wage, plus a just price, plus welfare. These will be the four major components of the objective criteria for the firm.

I would like to submit that these axioms, values and principles are going to lead us to very different concepts of economics at the levels of consumption and production as well as in development, policy making and even accounting. We shall have to develop social accounting as against the type of accounting with which we are familiar at the moment. Friends and colleagues, I have taken more time than I meant to, but this has given a broad spectrum of the approach that Muslim economists are trying to bring to bear, and how these concepts are not just ethical norms, but have very important economic consequences and economic implications for theoretical analysis as well as policy formulation.

I will conclude by saying that this should at least establish the need for research and dialogue. Research for that we could have taken these avenues and many more; and dialogue, because we have to share these ideas and in this effort, both Muslim economists and western economists should be active participants. I will submit that in this new approach which we are trying to develop, we do not claim that we have all the answers or that we have been able to develop all the solutions- nothing of the kind. It is only a new approach. We are using this commitment with confidence but also with humility because we want to experiment. We will be learning from our experiences, the experiences of mankind; we would like to learn from other traditions and we would like to see others also adopt a more open attitude to the study of the Muslim approach to economics.

WORKING GROUP II

the profitability requirements, the liquidity requirements and some other criteria.

12. Expertise required for feasibility analysis

Our group has been worrying about the question: how will Islamic banks go about all these feasibility studies? They will need tremendous expertise to do all these feasibility analyse. There has been complete understanding in the group that Islamic banks may depend at the beginning on outside consulting offices to do or review feasibility studies offered or desired for investment considerations and of course, as the group has noticed, worldwide help is solicited in this area.

I have to say that there have been at least two great manuals in the world that have dealt with feasibility studies, but there was a need to make a new, simplified manual of project appraisal for developing countries. The United Nations, in 1980, published a simplified version of a manual for project evaluation in Arab countries which has been done with the Arab Center of Industrialization in Egypt. So actually, I should very much like to draw your attention to the fact that we have in front of us at least three manuals but still, again, we should like to have some more ideas on project evaluation. Of course, the last one is very profitable.

13. Lines of cooperation between German and Islamic banks This was considered by the group as the most important point. There has been a growing feeling in the group: let us stop this talking business and do something about it. And, of course, I have been seeing other people trying to do something about it but the group has come to these conclusions about the lines of cooperation. We felt that there is no model for international cooperation and the position will change from bank to bank and from country to country. The group arrived at the conclusion that the optimal risk structure and the liquidity requirement will determine the quality and the quantity of international cooperation. Some German participants made statements that were accepted by the rest of the group, that many German firms have excellent cost information that is needed for profit-sharing techniques. So when we do sharing then the other partner will make sure that we have clear-cut accounts.

And there was the final conclusion that emerged as one of the gentlemen suggested an idea for cooperation and all the group approved of it and considered that to be the last thing in the group discussion. This last recommendation was that the group suggests that the German participants write up opportunity ideas and send them to the organizing Committee of this Symposium fo consideration by Islamic banks, through the International Association of Islamic Banks, and in this way we shall find the means for rea participation.

WORKING GROUP III

Subject:

The Policy Design of Islamic Economics

Chairmen and Co-Chairmen:

Prof. Khurshid Ahmed; Dr. Norbert Szyperski; Dr. Mohamed A

Rashid

Report presented by: Prof. Khurshid Ahmed

Our group, like other groups, had three very useful and fruit sessions. We had the benefit of participation from German economists, and we had an opportunity to have a very friar discussion, not only on the questions which formed our initial programme. We were able to include a number of new questions ar issues from the floor and I should like, very briefly, to sum up tl issues on which we had a consensus of opinion that the policy design Islamic economics would not be confined to economic consideration only.

There would be three measures or parameters. First, the ideological parameter, which provides the broad value of framework, ti objectives to which the society is committed, but at the levels of t. individual, the society and the state. "Second, would be the economy viability of a specific programme or project, although the ethic ideological framework would be the broader framework, again which the economic feasibility or profitability of the project-would taken into account in the selection and formulation of policy. That how the economy-makers in an Islamic society would try to come terms with the demands and needs of the people. The third parameter would relate to social unity. Because, when considering the ethic ideological relation to economics they would also consider t relationship of these efforts to bringing the Muslim community clo and meeting its overall needs. It would not be confined-to-the welt of the Muslims because the Muslim community is related to the wh of humanity and on humanitarian grounds the relationship between the Muslims and the rest of the world, both for economic cooperate and for social, humanitarian cooperation, would be necessary.

WORKING GROUP III

So the policy design would consist of three parameters and there would be an effort to make a balance between them. This also helped us in clarifying our minds about the anxiety which exists that Islamic economics will be normative; nonetheless the empirical and pragmatic aspects would not only be ignored but would gain equal priority, and a balance would have to be developed, a kind of reintegration achieved between the normative and the empirical. This would be a synthesis towards which we should like to evolve.

One question on which we had a very fruitful discussion was: what is the distinct feature or uniqueness of the Islamic concept of social welfare and justice and how is it different from the prevailing Western concept of the Welfare State? There was a consensus in the group that there are two distinct aspects of the Islamic concept of welfare and justice. First, it is not a matter of just economic justice. The idea is to encourage the moral and spiritual development of man as an individual in a society with social and economic development. Secondly, we want to disengage economic policy-making from the prevailing. Western concept of welfare, where the primary interest is in attaining a particular level of subsistence. In this respect, Islam is at a level of existence, of enjoyment, where all people are enabled to participate in the economy. In other words, they are provided with the proper opportunities to become active participants and the makers of their own destiny. As such, instead of creating a class which is dependent on loans, our effort would be to make people economically active, to support them, sustain them, encourage them and enable them to become economically self-sufficient and active creators of value. This is a very different perspective from that of using opportunities and providing equalization and harmonization of opportunities for all

participants in-society. The next issue which we discussed was whether Islamic banks are an objective in their own right or only an instrument to serve some higher objective. And we came to the conclusion that Islamic bar ks, extremely important as they are, are only a means towards the extremely interest-free economy, in itself a means towards the establishment of the totality of Islamic economy in Islamic societies. And, as such, business deals have to be seen in this perspective: The Islamic banks are contributing towards the development of an interest-free economy which would be an element in developing the new economic order based on Islamic ideas. The Islamic banks have to play a very important and very distinct role in the future of the Western world.

And, in this respect, we came to the conclusion that Islamic banks are unique, first, because they are organized on an alternative basis to those of the West and that alternative basis is primarily the basis of profit-sharing, and profit-sharing can take a number of forms. Some forms had been experimented with; others will be developed and experimented with in the future. And this is a very vast and rich area and Islamic banks are trying to reorganize financial life and forms of capital participation in society on this alternative basis.

Secondly, Islamic banks are adopting a policy through which they are approaching the poorer, the grass-root sections of society. Unlike the Western banks, they are not lending to provide financial resources to those who already have them. Because of that, the circulation of wealth only within the rich classes would not take place. The resources of Islamic banks would go to the grass-roots of society, and that is, how the ordinary people would be enabled to make money in the future. This is also a way of establishing justice in a society. And the effect of Islamic banks as a group would be to bring the Muslim countries closer, not merely by transfer of financial resources from one country to another, which in itself is an important service, but also by becoming vehicles for the transfer of technology, know-how, and-the development of joint ventures between Muslim countries. This process would also mobilize the best in the Western world and enable the Muslim countries to profit from that. These would be the distinct rules of the Islamic banks as our group visualized them.

Finally, the group felt that although Islamic banks are a very important instrument for bringing the Muslim world closer, there is much more which is needed to achieve greater economic cooperation and integration between the Muslim countries. In this respect, giant economic planning and cautious efforts to develop interdependence between the Muslim countries is needed so as to have specialization within different countries in the Muslim world in such a way that the resources of one become available to the others at a high level of efficiency. The realization of human resources and provision to make the skills available are essential to bring greater integration between the Muslim countries.

The group also came up with certain ideas for the future. In this respect it felt that perhaps a very important area is promotion of research. Research in different fields of Islamic economics, research on the performance and contribution of Islamic banks and research on gaps in knowledge to benefit from the experiences of other nations of the world for the development of the Muslim countries. And in this area Muslim economists and bankers and other practitioners, of economics, as well as Western economists, bankers and financial practitioners, can cooperate and contribute jointly and this is an area which deserves to be explored in the future. Secondly, the group lelt that the importance of education in bringing about the economic development of the Muslim countries and the greater integration of the Muslim world has not been fully realized. Human potential and he priority which it deserves has to be emphasized and effective steps taken to mobilize it in the service of the development Muslim world. The third area for further research-and-cooperation is the transfer of technology. And in this respect the group felt that mere transfe of technology is not going to solve our problems, we-have-also to think what kind of technology; it should not be the discarded technology of the West which should be used here, but the latest and most appropriate technology. And that is why mere transfer of technology is not the answer, but rather creation of capability to develop technology. So, transfer of technology to enable us to develop our own technology, that should be our objective.

It was also emphasized that Islamic history is rich in different legal forms which have been experimented with in the past, and those forms can be developed further and applied in present times. So that is another area which deserves to be further explored. More work is needed on it, more dialogue, and here we have a very promising area for further work. And, finally, it was felt that the dialogue on the whole had been extremely useful in enabling the Muslim participants to clarify their own thinking on a number of issues, useful in enat ling our Western partners to share our thinking with us and also helpful, at least to some extent, in removing some misunderstandings or grey areas which existed between the Muslim and Western participants. And as we all realized, the time we spent was time utilized properly.

WORKING GROUP IV

Subject:

The Monetary Theory of Islamic Economics Chairmen and Co-Chairmen:

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Our group was not very much related to the discussion on the operational issues facing the Islamic banks. We had cut out the area for practical banking. And it so happened that most of our attention was focused on the central question: after interest is replaced by some other arrangement, what about the crucial rules which interest supposedly placed in the economy by allocation of resources and providing an incentive for savings? It was pointed out that in any ! economy whatsoever, it is the expected rate of profit that actually. guides the entrepreneurs and ultimately allocates resources to alternative uses. And this will be applicable as much to the Islamic system as it is applicable to any free system. Then, so far as incentive to savers is concerned, it was pointed out and unanimously agreed that! the return on saving is not the only, nor the major, motivation for savers to save. There are many other reasons. People save because they have more than they can usefully spend. People save because they want to leave something to their children and the expected returns on saving play a minimal role. In so far as it does play a role there will be, in the Islamic arrangement, an expectation of a return. The return will not be predetermined but there will be a fair degree of expectation. So people who save and give their savings to the Islamic banks will generally expect to get a positive return. How large the return will be will not be exactly known to them, but they will have a fair idea in the light of past experience. The dividends are the profits actually distributed in the preceding period. So they will not be in the dark and they will have something to guide them.

Then came the question: what signals are a guide to interest rates what is the interest rate actually doing in the modern economy, and will the concept of the expected rate of profit be able to fulfil that function? It was very intensively discussed and I think it was realized that actually interest determines the division of social surplus or whatever the entrepreneur has been able to reach by way of profit-in the production process, between the financier, the actual innovator and the entrepreneur or producer. This arrangement will be closed and replaced by a system of sharing. So there will be a ratio of sharing the profit determined by the forces of supply-and-demand-and it will take care of the sharing of the social surplus. This has to go to three parties: the savers who provided the deposits, the banks as intermediaries who handled and managed them efficiently, and the entrepreneurs, the producers who actually put them to use so that wealth had results in the creation of additional wealth, because this additional wealth created by the use of resources saved.in-the-present period is to be shared. It was pointed out that the profit-sharing arrangement will see to it that it is shared in an efficient manner. And that is the role of the ratio of profit and the two ends of this chain which has three links: the depositor, the bank as intermediary and the ultimate investor, the entrepreneur. There will be two ratios. One sharing profits between the producer.