

Modern Islamic Economic Thought: A Study of Muhammad Umar Chapra

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ABSTRACT

The modern development of Islamic economics began with the turn of the 20th century. During the post-colonial era, as Western ideas, including Western economics, began to flourish, especially in the 1960s and 70s, several Islamic thinkers worked to develop a unique Islamic economic philosophy with its own answers to contemporary economic problems. They have put efforts to develop this new economics based on Islamic principles. The spirit was to transform Islamic teachings into economic realities. Although contemporary Islamic economics is a modern creation of twentieth century yet its roots go back to the 7th– 12th century when the classical Muslim scholars dominated the world’s scientific tradition. Impressive progress has been made so far to make Islamic economics more advanced, systematic and modern. Amongst the pioneers of Islamic economic thinkers in modern times is Muhammad Umar Chapra. He has sought to respond to the many challenges that the modern economic system poses for Muslims. He is one amongst such Islamic economists who have shown genuine flexibility and creativity necessary for the evolution of a new discipline along with a strong sense of history, moral integrity and intellectual commitment to Islam. In this paper an attempt has been made to highlight Dr. Chapra’s contribution to the development of Islamic economic thought in modern times focusing on some specific themes of the subject.

Keywords: *Islamic Economics, Modern Development, Islamic Economist, Umar Chapra.*

I. Introduction

Born in Pakistan in 1933 Mohammad Umar Chapra completed his bachelors and master’s degree from Karachi University and did his PhD from Minnesota University. He started his work from Institute of Development Economics and Islamic Research Institute in Pakistan. He also joined Minnesota as Research Assistant and worked as Associate Professor of Economics at Wisconsin and Kentucky Universities. He continued as consultant to Saudi Arabian Monetary

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Organization for 34 years earning a Saudi citizenship. He is accepted as an accomplished scholar of Islamic Economics and Finance for several decades now. His publications include 15 books and monographs and more than 100 articles and book reviews. *Towards a Just Monetary System* (1985) is an accepted ground breaking contribution. His other works *Islam and Economic Development* (1993) and *Islam and the Economic Challenge* are referred by Prof. Kenneth, a prominent economist, as a brilliant analysis of the virtues and defects of capitalism, socialism and the welfare state. He further adds that it is an important contribution to the understanding of Islam i.e., by economics in the present times. Chapra published *The Future of Economics: An Islamic Perspective* followed by *Objectives of Islamic Economic Order: An Introduction in Economics and Islamic Financing* in 2002 and 2005 respectively. In 2008 he added to his publications another book *Islamic Civilization, the Reasons for its Deterioration and the Need for Reform*. Translated into many languages his works are well received and taught in Universities around the world. He delivered numerous lectures and participated in many international conferences.

At present Dr. Chapra works as Research Advisor at the Islamic Research and Training Institute of Islamic Development Bank in Jeddah. He serves as a member of the Royal Economic Society (London), American Economic Association, Saudi Economic Association and the Islamic Economic Association besides being a member of editorial boards of various prestigious international journals of economics. He has been honored with the prestigious King Faisal International award in addition to several other awards for his outstanding contribution in the field of Islamic Studies.

Chapra as an Islamic economist describes Capitalist and Communist models very limited in relevance to Muslim economies and unacceptable in terms of the excesses inflicted by both the systems. He objectively recognized that rather than calling the Muslim economies developed they could be classified as under developed or developing in some cases. Despite this categorization Chapra holds reservations for the sub-discipline of Development Economics and he found it not just in applicable to the Muslim world but inherently and universally unacceptable too.¹ To Chapra higher well-being is not the result of accumulating more wealth and empirical researches are proof to it. In the aftermath of World War II several countries have shown a drastic rise in their real income but the self-reported subjective well-being of their population has not increased rather it has slightly fallen. The reason being the positive association of higher income with happiness

only up to the level of fulfillment of basic biological needs and an important non-material need being, justice which demands equitable share of the fruits of development to be enjoyed by all irrespective of their race, color, gender or nationality. Some generally recognized and equally requisites for well-being include mental peace, family and social harmony, freedom, security of life and property and minimization of crime, tension and anomie. It is been recognized by Chapra that all basic biological needs need to be fulfilled as the reason of happiness. The non-material needs like mental peace, family and social harmony etc and the most important i.e. justice are not taken into consideration under the Capitalist and Communist systems. For the realization of an overall and complete human well-being Islam believes in filtering out all such claims on resources that in any way jeopardizes the realization of comprehensive human well-being. To achieve this purpose Socialist central planning has not proven to be an effective mechanism and it is been abandoned by almost all the socialist countries. The market mechanism to establish demand and supply does help filter out excess claims on resources but it has not been successful in safeguarding social interests. The reason being the possibility of having several market equilibria which allows the tastes and preferences of individuals and firms interact in the market place with each other. It is not possible that any of all the market equilibria may lead to possible realization of comprehensive human well-being.² The change in the individual tastes and preferences in a way that can help filter out all the ways of earning and spending that frustrate the achievement of general well-being is largely based on the moral filter. To rule out the use of conscious the moral filter has a more important role to play. The two layers of filters, the price filter and the moral filter are thus employed to strike equilibrium between supply and demand for resources in a way that would suffice more to the actualization of the humanitarian goals of the society. The recognition of the importance of the need fulfillment, value judgement besides the decline in the undue emphasis on self-investment and economic man and then working for the fulfillment of all human needs is a welcome step. This brings out the human effort of analyzing their problems and knowing what and where the wrong exits. However, the remedy does not come easy. It comes with the re-organization of whole of society and the economic system in a way that brings transformation of individual from mere an economic man to a morally conscious human being willing to fulfill the demands of brotherhood, socio economic justice and family solidarity. Once this is achieved, the Islamic Economics and Conventional Economics will come closer to each other and provide solutions to a number of problems faced by the human kind.³

II. Islamic Worldview

As stressed by Dr. Chapra three fundamental concepts form the basis of Islamic worldview. These include *Tawhid* (Oneness and Unity of God), *Khilafah* (viceregency of human beings) and *Adalah* (justice). *Tawhid* being the core concept because the other two form its logical derivatives. *Tawhid* means the design and creation of Universe graciously by a Supreme Being who is One and Unique and that the universe did not come into existence by a mere chance or accident and whatever was created in the Universe serves a purpose. It is this very purpose that gives meaning and significance to the existence of universe of which human being forms just a part. Human beings by virtue of the fact that they are bestowed with rationality, free will and moral consciousness together with an inherent God consciousness are hence obliged to live a life of worship and obedience to the only Supreme Being implies that *Tawhid* incorporates both the recognition of reality and an active response to it as well. Human being enjoy the position of Supreme Being on earth, the *khalifah* or vicegerent and has all the resources at his disposal. He being the creation of God who alone possesses the perfect knowledge of their exact character, their positive and negative. God alone is the authority to provide for them and guide that satisfies their nature and needs. God out of His infinite Mercy has guided mankind by revealing the laws of behavior, value, beliefs through a chain of messengers including Abraham, Moses, Jesus and Muhammad ﷺ. Human beings are bestowed with free will, the right to accept or reject the guidance but to attain the true well-being (*falah*) it is necessary to accept and implement the same in their individual and collective lives. At the same time the status of vicegerent makes human accountable for living in conformity or not with the guidance and they will be rewarded or punished for the same in hereafter.⁴

III. Nature of Economic System of Islam

The undisputed stand of economic philosophy of Islam is that material well-being must be rooted in spiritual values. According to Chapra Capitalism and Socialism are different from Islamic system in their very foundation, the former being earth bound without any importance for spiritual values so the structure based on the same must necessarily be different. It only proves a lack of understanding if the three systems are presented to be similar. However, the Islamic system stresses on human brotherhood, together with social and economic justice and equitable freedom within the ambit of social welfare. The Islamic system has spiritual

orientation and it guides the whole idea of its social and economic norms. On the other hand orientation of modern Capitalism towards social and economic justice and to equitable distribution of income is just partial which happens to result from group pressure and is not embedded in the spiritual goal to establish human brotherhood and is in no way an integral part of its philosophy. Socialism is claimed to be guided by its basic philosophy. This claim however, is not true. On one hand the dedication to human brotherhood and of spirituality based fair and impartial criteria for justice and equity is missing and on the other hand the negation of basic human need for freedom that results in the suppression of human dignity and identity.⁵

IV. Islam and New Global Economy

The consolidation of world economies is not a new idea to Muslim thinking. The fundamental concept of unity of God i.e. *Tawhid* already proclaims the unity of mankind, if the Creator is One, the humankind has to be one too. However, the differences resulting from race, color, creed, nationality are all artificial and have no standing in a religion that stands for brotherhood. As clearly stated in Quran, people were created as one nation but became divided because of their differences.⁶ The ultimate objective of Islam is to reunite the already divided mankind suffering from conflict of interests, exploitation and misuse of power and other prejudices.⁷ Dr. Chapra discusses two ways to achieve this unification. One is to create a better and broader understanding among people by allowing greater interaction and co-operative with the idea to reduce if not totally remove the existing misunderstandings and prejudices since economics holds good in human life therefore the integration may become easier if the economies of different countries are also integrated. The artificial barriers, however, may make it difficult to realize integration through liberalization that allows unrestricted movement of goods, capital, labor, technology and information.⁸ Contrary to the Islamic thought the “New Global Economy” stresses integration without giving justice the necessary stand it deserves. According to Chapra, an important implication of justice being ‘equal must be treated equally and unequal unequally’. This shows that while the exports of industrial countries show rise, the developing countries should also show rise and importantly at higher rate than the former so as to produce a rise in the share of these countries in the world trade and minimize the gap between the rich and poor countries. This rise is not possible to achieve until all the obstacles to the expansion to their exports are eliminated.⁹ The expansion of exports of developing countries is possible with their continuous increased development, so that their

ability to produce for exports at competitive prices also increases. This, however, is not happening. Liberalization in this case will only raise the imports of developing countries and inhibit whatever production capacity they have already created. New global economy suffers from the absence of justice and it has created an undue stress on negotiations. Therefore negotiations generally pave a way for the rich and powerful to have their own way and as usually the poor countries yield and have to submit.¹⁰

V. Economic Justice

It is economic justice which brings meaning to the concept of brotherhood and equal treatment of all individuals before law and in society so that every individual gets his share for their contribution to society and there does not exist any kind of exploitation of one individual by another. It is stated in the Qur'an 'every individual must get what is his due and not by depriving others of their due share'¹¹ according to Chapra, Islam prescribed significant relationship between the employer and the employed and also specified norms so that the mutual treatment of both under these norms establishes justice between them. An employee deserves a just wage against his contribution and it is unlawful for a Muslim employer to exploit his employee and it is in accordance to the guidance of Qur'an to decide what is just wage and what is exploitation. Unlike Marx Islam recognizes only the contribution for output made by labor, therefore there does not exist any relation between the exploitation of labor and concept of surplus.¹² The just wage cannot be less than the minimum wage. The just wage has to be somewhere closer to the ideal wage so that the inequalities of income are decreased and the gap between the living condition of the employer and the employee is bridged which otherwise leads to the two classes of 'haves' and 'have nots' weakening the bonds of brotherhood which form the pre-requisite of any Muslim society. Chapra states that the actual level between the two levels would be determined by the interaction of supply and demand, the level of economic growth, the degree of moral consciousness in a Muslim society and the extent of the legitimate role played by the state. Islam emphasizes that besides being paid ideal or minimum wage the laborer should not be subjected to work under conditions that are harmful to their health, disturbs and impairs their participation in family life. In the jobs beyond their capacity it is required that they be provided help so as to avoid undue hardship.¹³

VI. Growth and Stability

Chapra opines that the objectives of need fulfillment and a high level of self-employment in Muslim Ummah is not possible without using the resources available with maximum attainable efficiency and generating a reasonably high rate of economic growth. The idea of equitable distribution of income and wealth would be realized faster and without many sacrifices on part of the affluent if a higher rate of growth is attained and the poor are allowed to enjoy a proportionately bigger share of the harvest of that growth. An improved performance in terms of economic stability would also help reduce the suffering and inequalities caused as a recession, inflation and fluctuations in prices and exchange rates. Similarly a Muslim society which does not depend on pare to optimality in deciding policies and does not emphasize economic growth for its own sake to attain an optimum rate of economic growth and minimize economic instability is necessarily to be fulfilled by the institutions of *khilafah* and '*adalah*'.¹⁴

VII. Equity Financing

Chapra discusses that in an interest free lending scenario only two alternatives exist i.e. *qard al-hasanah* and equity financing. *Qard al-hasanah* being a loan returned at the end of an agreed period without any interest or share in the profit or loss of the business. Only altruistic set up allows such financing as encouraged by Islam. This has been operational in the Muslim world but to a limited extent and for a short time periods. Usually found in cases of alleviating on personal hardship or financing small enterprise. However, it does not qualify as a significant source of business finance. Thus in an Islamic society a large portion of business financing necessarily has to be equity-oriented, where in the financier shares the profit or loss of the financed business. This type of financing would be equitably distribute the return on total investment between the financier and the entrepreneur and also provide some respite to the entrepreneur by transferring a fair share of risk of investment to the financier as well. This financing in an Islamic economy has to be either for indefinite period as is in the case of stocks of joint stock companies or shares in partnership, or of a defined period as is the case of borrowed capital. In case of borrowed capital it is based on profit and loss sharing and is not interest based. It would therefore, be in the nature of temporary equity financing and would mature on the expiry of defined time period. Such financing therefore cannot bear same implications as in case of capitalist economies.¹⁵

VIII. Foreign Equity Capital

Chapra opines that Muslim countries will essentially encourage and facilitate equity investment if there is an Islamic ban on Interest. This is no doubt needed because equity investment have been found beneficial to developing countries. He believes that equity capital come with advantage providing foreign exchange together with technology and management which are insufficient factors in Muslim countries and are needed to increase the rate of productivity. If the investment draws a positive return then only does it lead to the foreign exchange out flow at later stage. Therefore the risk involved is shared by the foreign investor rather than being entirely borne by the host country and this phenomenon is in contrast to borrowing. Chapra further states the atmosphere created by the readjustment of economic policies as per Islamic teachings in itself can become a political factor to attract foreign equity capital, without stressing to adopt any extra measure. The legal articulation of the fulfillment of all the contractual obligation as explained by Islamic principles will serve a long way in providing reassurances to foreign investors. Under normal peacetime conditions Islam finds it desirable to remove the exchange control on all the current account transactions falling within the Islamic value frame, including the case of profit remittance. It also becomes necessary to provide assurance about capital repatriation according to Chapra, the developed economies faces fewer problems with direct investment. However by the time Muslim countries start attracting more foreign equity investment, it may become necessary for them to carry on with the conventional borrowing to the extent absolutely required to finance productive self-liquidating projects that are important for achieving the objectives of Sharī'ah.¹⁶

IX. Conclusion

The study carried out presents Umar Chapra as a pioneer Islamic economist of modern times. He confidently argues that an Islamic economy is capable of providing freedom to the modern man from debt ridden economy and guiding him towards a society based on justice and equity. He has also explained in his different works that such economy would promote growth and stability. He has adopted both flexibility and creativity as necessary to evolve new disciplines combined with strong sense of honesty, moral integrity and intellectual commitment to Islam. Dr. Umar Chapra stands distinct in discussing economic issues in the context of present day economic debate as well as from an Islamic perspective. He is the recipient of many honors and awards including the prestigious king Faisal award in 1989.

End Notes and References

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⁶ Al-Qur'an, 10:19.

⁷ Ibid, 11:119.

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⁹ Ibid, p. 9.

¹⁰ Ibid, p. 11.

¹¹ Al- Qur'an, 26:183.

¹² Muhammad Umar Chapra, *Objectives of the Islamic Economic Order*, op.cit., p. 14

¹³ Ibid, p. 15.

¹⁴ Muhammad Umar Chapra, *Islam and the Economic Challenge*, International Islamic Publishing House, Jeddah, 1995, p. 213.

¹⁵ Muhammad Umar Chapra, *Towards a Just Monetary System*, The Islamic Foundation, Leicester, 1985, p. 67.

¹⁶ Muhammad Umar Chapra, *Islam and the Economic Challenge*, op. cit. p. 310.

