



Economics and Economic Policy Islamic Perspective,
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This book is written as a textbook and takes a comprehensive approach to Islamic Economics, comparing conventional economic policies to Islamic economic policies and suggesting new theories and policies based on Islamic perspectives. The purpose of this paper is to assess a few chapters from this book, notably four chapters, on public finance that were written by two authors. The book does not adequately address critical themes, especially fiscal and public debt policies, despite the authors' sound methodology. Overall, even though the book discusses many significant themes, there may be more of these things covered.

Economics and Economic Policy Islamic Perspective

This book contains 22 chapters written by economists and scholars. As mentioned in the preface, it is intended for undergraduate students and policymakers, and is meant to serve as a textbook. The book is divided into five main parts. Overall, this book has a rich content and is well-designed for use as a textbook. It includes many graphics, boxes, and appendixes, and uses real-world examples to illustrate key concepts. Despite its length (631 pages), it is engaging and easy to read.

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This book presents alternative solutions to conventional economics, through analyzing almost all branches of Islamic Economics. When reading books about economic policies, I expect to see discussions about public or sovereign debt policies and more about fiscal policy in this book. It would also be interesting to see discussions about contemporary issues such as the independence of the Central Bank from an Islamic perspective. It takes a comprehensive approach that not only focuses on alternative financial applications, but also encompasses economic, social and moral factors. According to this book, the 2008 Global Financial Crisis or Great Recession is turning point in the way mainstream economics is viewed. After the failure of the crisis, the world needs a complementary economic thought based on Islamic Economy principles. My main purpose in this review is to focus on public economics related subjects. Therefore, instead of examining all chapters and subjects, I intended to focus four different chapters, which are chapter 1, chapter 3, chapter 10 and chapter 22. These four chapters focus on public finance issues.

The preface of the book states that: *“This book explains how markets can function best with minimal state intervention”*. But why should we focus on minimal state intervention at the beginning? Some economic interventions are crucial for Islamic economic goals. For instance, providing minimum economic conditions for poor people.

Chapter 1, chapter 3, chapter 10 are written by Fahim Khan. According to Khan market is self-correcting in Islamic approach. There is no need to intervene market by government (Khan, 2022, a: 9). Also, he claims that; *“the law of exchange of property eliminates the possibilities of externality, ensures free exit and entry, requires the sellers to be price takers and provide full information of their product.”* (Khan, 2022, a: 9). Khan characterizes the Islamic economy with perfectly competitive markets. However, perfect competition is an idealized scenario that usually does not reflect the complexity of the real world and goes against human nature. Islamic law doesn't prevent certain basic facts.

Khan defines market failure as *“a concept of conventional economy. It refers to failure of the market to maximize national wealth”* (Khan, 2022, a: 20). There are some mistakes in this definition. Firstly, market failures associated with “maximization of national wealth” which is not correct in this chapter. Market failure actually “refers to situation where market doesn't work properly” (Chang and Bhaduri, 2003: 49) and there is not economic efficiency in this situation, mostly it is about failing to allocate resource (Dinler, 2012: 38). Failure of competition, public goods, externalities, incomplete markets, information failures, unemployment, inflation and disequilibrium cause market failure (Stiglitz, 2000, Public Economics, 77-85).

Thus, Khan's definition of market failure is incorrect. Even if market failure occurs, it is possible for national wealth to increase. Market failure is not an obstacle to increasing wealth.

Khan's approach to market failure is similar to neoliberal economic policy. He is against government intervention. The market system gives itself solutions. F. Khan argues that "*for Islamic economy, market failure is not the issue; enforcement of Islamic laws is the issue*" (Khan, 2022,a: 20), *implementation of Shariah in letter and spirit will not generate market failure*" (Khan, 2022,b: 247), and "*If in Islamic economy rule of law prevail, the market will be efficient*" (Khan, 2022,a: 21). So, Khan implies that there is no need for state intervention in this approach. He is against to use tax and subsidy to address externalities. He gives an example in Appendix section. But this example just covers externalities, doesn't contain other market failures. In addition, there are no solutions of deficient production of positive externalities. In positive externalities government wants to increase the production of these goods and services through giving a subsidy for private hospital or building a school, and similar ways.

Despite all these, F. Khan also improved the concept of market failure. According to him, if there is market failure in any system, the fault lies with the economic system, not with the market itself. He suggests that interest and interest-based institutions cause market failure. F. Khan also criticized some concepts in market failure like bad goods (e.g., cigarettes are harmful for human body and there is fatal risk). Instead of preventing the use of cigarettes, the market system in an economy typically only restricts their use through taxes and other fiscal interventions. I agree with F. Khan, government interventions through tax policy (or other tools) do not effectively prevent social and environmental problems.

Chapter 22, titled "Islamic Economic Policy: Principles and Guidelines", is written by M. Anas Zarqa. This chapter is described as "the crux of whole book". And intend to provide "conceptual basis for framing and implementing policy". The chapter presents basic principles for formulating policy with an Islamic Shariah perspective. "It is important to take some positive facts into consideration when formulating policy": i) society mostly has more than one desirable goal ii) any given policy has multiple consequences (such as side effect) in the short term or long term, both direct and indirect. iii) to sum up the policy making process is a matter of choosing between alternative policies. Therefore, it is necessary to make an ordering among alternatives. According to Zarqa "*Shariah rules are generally permanent, however even permanent rules need to activate given time and place.*" (Zarqa, 2022). Thus, in real life sometimes people encounter new problems

or challenges. Muslim jurists addressed this situation. The chapter employs the *istislah* rule (from *usul al fiqh*) to address these kinds of challenges.

According to Zarqa, there are four economic goals in Islamic Economy. The first two goals are commonly accepted among modern scholars in Islamic economics. These are: (i) ensuring a minimum standard of living and (ii) pursuing policies that reduce income and wealth inequality. And also, there are two other economic goal which are power and autonomy (iii) and generate sufficient surplus income and wealth (iv). Those policies related to each other. Choosing one of among alternative policies, might be affect other policies. In this chapter, the author draws a “hierarchy” for conflicting economy policies. Every policies, fall under mutually exclusive categories of Shariah injunctions. Obligatory(O), Recommended (R), Permissible (P), Discouraged (D) and Forbidden(F). It can be ordered like this: O>R>P>D>F.

The author emphasized that the Islamic economic approach is comprehensive and takes real-life economic factors into consideration, when making economic policies. Hence, he gave a case study from imaginary world (Zarqa, 2022: 553, 554). In this example, the government has to choose one of the alternative policies and has to make public expenditures accordingly. Meanwhile in this context, a think tank organization-called the R Institute- published a report which demonstrate that “race A” is more qualified in math compared to “race B” in this country. The government must consider this information and also focus on needs of the population, such as their need for education, and with strategic objectives, such as improving cybersecurity. Resources are limited, there is not enough fund for both improving cybersecurity and education in this country. Therefore, when allocating resources in the budget process, the government must carefully weigh these competing factors when making decisions about economic policy. Zarqa propose different economic policies according to the country’s economic objectives and priorities. He explained this example step by step.

- Point 1; Muslims should accept or reject empirical evidence? It means that, this country should take into account R-Institute’s report when deciding economic policies. Assume now that R-Institute’s positive claim is proven true. Second point is; How to view it within Islamic worldview?

According to Zarqa, Islam rejects racial superiority. But also, Islamic Shariah never condones the denial of an evidence-based positive fact (Zarqa, 2022: 554). Therefore, some differences among races are possible. The author tries to support his idea by giving an example from the Noble Quran (6: 165). But it’s not a “evidence-based fact”. There is no doubt people are created differently. However, this doesn’t

mean that some races are bad at certain things especially in the educational area like math. This assumption is too general, biased and unreliable. Even if, we accept that some races are better in some areas, how can we measure it or how can we trust statistical data from a think tank institute. This judgment is not acceptable. Then Zarqa proposed two economic policy according to the situation with or without the cyber security goal.

- Point 3; Suggested Policy, first approximation: Assuming, for now, to hide the cybersecurity goal out of view.

As mentioned before, Goal 2 in Islamic Economy is about reducing wealth inequality. Zarqa imply that we can use same logic for reducing educational inequality. The government spending might be directed towards Race B who are weak in mathematics (equity objective). And also, we can remember that the government should avoid *israf* or “waste” (efficiency objective). In the light of Race-B assumed to bad at maths, if the government spend resources for reducing educational inequality, like giving scholarships or building new school for Race-B, public resources are wasted. On the other hand, if the government spend money toward Race A who are already good at maths for equity objectives, the government violate equity objective. To sum up there are two competing objectives. In this situation according to Zarqa, government should order different policies. If we assume both goals (equality and efficiency) are Recommended (R), government can split public spending among each other. If we assume equality is Obligatory(O) and efficiency is still Recommended (R). Then resources should be given for equality purposes.

- Point 4; Suggested Policy, second approximation: Assuming that cybersecurity is unhidden again. And strategic objective has priorities over other objectives.

It refers to giving more resources to cybersecurity specialists. Therefore, regardless of race, the spending of public resources is based on efficiency- not equity-. Therefore, the government does not distinction between races capability in these priorities.

Despite some deficiencies, Zarqa, like F. Khan, has a true methodology and an interesting approach, providing basic examples and combining theories in Islamic economics with real-life problems and practices. Overall, Zarqa has produced a valuable and original work.

To conclude, F. Khan against public intervention even if market failure is occurred. On the other hand, A. Zarqa suggested some policies in terms of equity objective and efficiency objective. Notably, equity objectives or policies to reduce

inequality are given to the government as state interventions. Therefore, these two ideas are not consistent with each other. F. Khan wrote multiple chapters in this book. But some points he draws a perfect world, and his idea is similar to neoliberal theories (obviously it does not imply that the author has neoliberal approach). Also, in addition, since the book does not cover the fiscal policy issues in adequate sense, this would deem to be a deficiency. Even though F. Khan is against the market failure and state intervention, fiscal policy is an important part of economic policy. Fiscal policy is a rich branch that also includes policies related to zakah and government debt.

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