



### Three Generations of Islamic Economics

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*In the name of Allah, the Merciful, the Beneficent.*

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Abstract: The idea of social science is based on the false assumption that universal laws applicable to all societies can be derived from the historical experiences of European societies. Instead, we argue that all social theory emerges as an attempt to handle challenges facing particular societies within a particular historical context. Within this framework we analyse how the first generation of Islamic Economics emerged as part of the struggle for liberation in the colonized Islamic lands after the second world war. The first generation argued that Western economic systems – capitalism, communism, and socialism – were created by human beings, and led to inequities and injustice, and brought misery to the masses. Instead, they offered the vision of a system built on the teachings of Islam which would serve and promote the welfare of all members of society. Failure to achieve the political control required to create genuinely Islamic socio-political systems led to the emergence of the second generation in the mid 1970's. Whereas the first generation had rejected capitalist economics, the second generation sought to build an Islamic Economic system within a capitalist framework. The defects of both the capitalist system, and the accompanying economic theory, became glaringly obvious to all in the global financial crisis of 2007-8. This led to a re-evaluation of the 2<sup>nd</sup> Generation approach and the birth of the Third Generation of Islamic Economics, which seeks to go back to the revolutionary ideas of the First Generation. The critical insight at the heart of the third generation is that capitalism is fundamentally incompatible with Islamic ideals, and must be rejected and replaced by an alternative system built on Islamic foundations. The goal of this paper is to describe the historical contexts within which the three generations emerged. Also, we aim to describe the central characteristics of the third generation of Islamic Economics, which builds on the experiences gained from both the first and second generations.

# 1 BACKGROUND AND INTRODUCTION:

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## 1.1 THE THREE GENERATIONS:

A previous paper, Zaman (2017), discusses three generations of Islamic Economics. The first generation (1950-75) of revolutionaries addressed the needs of newly liberated colonies from European rule. It created the vision of an Islamic Economy, which would be radically different from Capitalism and Communism. It would provide equity and justice, and take care of needs of all members of society, based on outlines provided in the Quran and Sunnah, and implemented during the era of the Islamic empires. However, after the lapse of a quarter century, it became clear that the newly liberated colonies in the Islamic world continued the social, political, and economic systems that had developed during the period of colonization, without making any moves towards a genuine Islamic economic system. This was because the ruling elites and armies were closely aligned with Western secular interests, and did not share the Islamic vision common among the public. As a result of this failure to capture power and bring about an Islamic revolution, the second generation (1970-75) of pragmatic Islamic Economists re-defined the nature of the project. Instead of creating a revolutionary alternative to capitalism, the 2<sup>nd</sup> generation sought to modify existing capitalist models in order to “Islamize” them. The deep and dramatic opposition between capitalism and Islam made it impossible to carry out this project, since it was like mixing fire and water. One of the signs of this failure has been the inability to even define the subject, or to develop textbooks, which represent any widespread consensus on the meaning and approach to Islamic Economics.

The Global Financial Crisis (GFC) of 2007 showed the weakness of both the capitalist economic system, and the corresponding economic theories. These theories had been accepted as objective facts by the second generation, and used as the foundation for construction of an Islamic Economics. The proven failure of these theories in the GFC led to a crisis of thought, and a corresponding crisis in 2<sup>nd</sup> Generation Islamic Economics as well. Zaman (2012, Crisis) provides quotes from leaders of the field showing widespread awareness of the failure of the second generation. For example, Nejatullah Siddiqi (2008) writes that “All is not well with Islamic economic(s) ... The grand idea of providing an alternative to capitalism and socialism ... has yielded to a desire to join the flock.” The cause of this failure of 2<sup>nd</sup> Generation Islamic Economics is the attempt to combine two conflicting and contradictory paradigms. Instead of trying to “Islamize” Western Economics, we need to reject it, and replace it with a new discipline built on the solid Islamic foundations of the Quran, Sunnah, and the intellectual heritage of the Islamic civilization. An introductory set of lectures based on this idea are available from Zaman (2023). This is the starting point for third generation thinking, discussed more fully in the next section.

## 1.2 WHAT IS ISLAMIC ECONOMICS?

As discussed earlier, the second generation sought to construct Islamic as a combination of Western capitalism and Islamic concepts. Furthermore, the second generation was deceived by the knowledge claims of modern economics, and accepted their projected image that economics is scientific, factual, objective, and does not have normative and ideological foundations. As a result, where the first generation saw a conflict between “scarcity” and the bounty of Allah, the second generation accepted scarcity as a fact, and sought to re-interpret the Quran and Hadeeth to remove conflicts with conventional modern economic theory; see, for example, Zaman (2015), for a list of ten conflicts. This



attempt at harmonizing strongly opposing points of view led only to massive confusion. More than twenty different definitions of “Islamic Economics” emerged, and consensus could not be achieved on any one of them. Numerous attempts at creating a textbook for the subject failed because of sharp disagreements on exactly what was meant by the term. Mixtures of Capitalism and Islam naturally lead to conflict because they attempt to smuggle concepts directly opposed to Islamic values into the framework of Islamic economics.

Third Generation Islamic Economics is: *the struggle to implement the orders of Allah related to economic affairs in our personal and communal lives, as well as at the level of the Ummah of Muslimeen, extending to all of the creation of God.* This is aligned with the vision of First-Generation Islamic Economists, who sought to create an economic system aligned with the Sharia’s. The word “struggle” is introduced in light of the fact that such a system currently does not exist anywhere. Instead of waiting for a perfect world where the ideals of Islam can be implemented, we consider that the efforts required to create such a world are themselves part of Islamic economics. After all, Allah T’aala has asked us to struggle for the good, but the outcomes remain solely within His hands. Also, He has promised to provide guidance to those who struggle. (29:69)

*And those who strive in Our (cause), - We will certainly guide them to our Paths -*

## 2 FOUNDATIONS FOR AN ISLAMIC METHODOLOGY

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Almost by definition, foundations for an Islamic methodology must be sought in the Quran and Sunnah, and not in the writings of Western philosophers. The right place to start is Quran (5:3):

*Today I have perfected your religion for you, completed my favor upon you and chosen Islam as your way of life.*

As the Quran states, our religion is complete and perfect. This is the major point of difference between the second and third generation thought in Islamic Economics. Because the second generation accepted the claim that modern economics is factual and objective, they re-interpreted the Quran to remove conflicts, instead of rejecting economic theory. For example, the Quran (3:92) teaches us that

*You can never attain righteousness unless you spend in the cause of Allah that which you dearly cherish; and whatever you spend, surely it is known to Allah.*

Spending of that which we dearly love is exactly the opposite of utility maximization; nonetheless, the second generation affirmed utility maximization and sought to harmonize this Western concept with Islamic teachings. In contrast, the Third Generation seeks to build a discipline directly guided and inspired purely by the teachings of Islam. Such a definition of the subject has already been given in the previous section. We turn to an exploration of its implications, especially from the point of view of methodology for Islamic Economics. How can we implement the orders of Allah in our personal, social, and collective lives?

## 2.1 PERSONAL LIVES: ISLAMIC MICROECONOMICS

When we talk about consumer theory in Islam, we must look to the Quran, instead of Samuelson, for guidance. The Quran teaches us that our earnings must be halal. Also, we must spend it on halal items, and for purposes which are approved. In particular, we must avoid Israf and Tabzeer, concepts without counterparts in conventional economic theory. Furthermore, the Quran emphasizes spending what is above our need in the cause of Allah. Finally, what is left of our worldly possessions after we leave this world must be distributed according to the Divine Laws. This gives us a detailed, concrete, and specific structure of consumer theory, which has no match at all with Western consumer theory. In particular, the Quran teaches us to fulfill our needs, but warns against the fulfillment of idle desires. Zaman (2010) shows that the central problem of modern Economics – scarcity – does not arise within an Islamic society. There is more than enough for everyone's needs if those with excess wealth spend on those who are in need. Furthermore, this solution was actually practiced in Islamic societies; those with excess wealth would set up Waqf for charitable purposes, in order to purchase the Akhira with their wealth. These Awqaf succeeded in eliminating poverty in Islamic societies for more than a thousand years.

The Quran teaches us to pay zakat to purify ourselves, and to spend that which we love, in order to achieve goodness. That is, material wealth is to be used as a means for spiritual progress. Zaman (2019) sketches how economics would be affected by this perspective, radically different from those of Western economic theories, whether orthodox or heterodox.

Instead of luxurious lifestyles, Islam encourages simplicity in living. Furthermore, “conspicuous consumption”, done to be admired and envied, is specifically prohibited. Instead of pursuing selfishness, as counselled by economic theory, Muslims are taught that (Quran 59:9)

*And whoever is saved from the selfishness of their own souls, it is they who are 'truly' successful.*

There is a huge amount of detail which attaches to these brief remarks. The only thing to emphasize here is that the framework, methodology, and worldview underlying an Islamic theory of personal behavior has almost nothing in common with Western theories. Third generation thinking seeks to explore how to implement the orders of Allah with respect to economic behavior in our personal lives, and also how to spread this way of living to others.

## 2.2 FAMILY AND SOCIETY: ISLAMIC MESO-ECONOMICS

It is a major failing of Western economic theory that it has no concept of family and community. This arises due to their commitment to the mistaken idea of “methodological individualism” --- they believe that a community is nothing more than a collection of individuals and so studying individual behavior is sufficient for scientific purposes. Recent studies of complex systems theory and emergent behavior show that “methodological individualism” blinds you to the complex interactions between individuals which create social patterns. These cannot be understood by studying individuals in isolation. Some western economists have come to realize the importance of communities, and have initiated some study of this central component of our social lives; see, for example, Shaffer *et. al.* (2004). However, while the West is at initial stages in this study, Islam provides us with a deep and sophisticated approach to building families and communities.



We can only provide hints about the Islamic approach, since details would require a book-length treatment. The family is the basic unit of Islamic society, and the concept of Sila-Rahmy (ties of kinship) receives extreme emphasis in Islamic teachings. This is where children learn to overcome the individualistic selfishness and greed that is one part of our nature, and over-emphasized in conventional microeconomics. Instead, they are trained in the Islamic characteristics of generosity, love, trust, appreciation, and sacrifice. These Islamic virtues arise from combating the Nafs-e-Ammara which invites towards evil. Islamic teachings also place heavy emphasis on the neighborhood and the mosque for frequent contact with neighbors, to create a strong community. The rights of neighbors receive strong emphasis, and community building is encouraged by codes of good conduct towards each other.

### 2.3 THE UMMAH AND HUMANITY: ISLAMIC MACRO-ECONOMICS

The Quran (49:13) emphatically rejects the breakup of humanity into nations with conflicting interests, perpetually at war with each other:

*O mankind! We created you from a single (pair) of a male and a female and made you into nations and tribes that ye may know each other (not that ye may despise each other). Verily the most honored of you in the sight of Allah is (he who is) the most righteous of you.*

Western macroeconomics is built on foundations of nation as a unit of analysis, and accepts the idea that nations have conflicting interests, and may seek to maximize their welfare at expense of other nations. Islam teaches that all of humanity belongs to a single family, and rejects this loyalty to nations which has led to the bloodiest century in the history of humanity. With more than 50 million killed in the two world wars, and continuous bombardment of different nations, Allama Iqbal's verse contains a depth of meaning:

*Among the fresh gods, the biggest is the "NATION", the clothing it wears is the coffin of religion.*

As described in detail in Fromkin (1989), modern nation-states in the post-colonial period were deliberately designed to keep Muslims divided and at war with each other, so that the West could manipulate control and rule us, in line with their highly successful divide-and-rule strategy. On multiple occasions, the Quran and Hadeeth warn against divisions among ourselves, and counsel the Muslims to be united like one body, to feel the pain of each other. To achieve this vision, we must build Islamic Macroeconomics at the level of Ummah, rejecting the national level as too limited. We must think of economic policies in line with the mandates of the Quran, and analyze their effect on the Ummah as a whole.

Of course, our Prophet Mohammad SAAW was sent as a Mercy to all Nations. Our message benefits the whole of humanity. The interests of the Ummah are not opposed to those of the others; indeed our mandate and mission is to serve all of humanity, out of the love of Allah. As the Quran (3:11) states,

*"You are the best of the nations raised up for (the benefit of) all mankind".*

Third Generation Islamic Economics must be built upon fulfilling this mission of providing guidance to the entire mankind about the pathways of good, and preventing the evil.

### 3 THE BUILDING BLOCK: HUMAN BEHAVIOR

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Since individuals are the building block of society, validity of social science depends on the validity of the underlying theory of human behavior. There is now overwhelming evidence that economists' theory of human behavior, widely known as *homo economicus*, is dramatically in conflict with reality. For an extensive survey of this evidence, see Karacuka and Zaman (2012).

We cannot understand human behavior without understanding human purpose because actions are motivated by the desire to achieve a purpose. Modern economic theory agrees with this idea, but makes an absurd assumption about this purpose: the sole purpose of all human beings is to maximize the lifetime pleasure obtained by consumption. Humans make choices which are best for achieving this goal. This assumption is ridiculous because it is neither true as an empirical description, nor is it useful as a normative prescription. The Quran (92:4) tells us that "*The ends you strive for are diverse*" and this is empirically verifiable: different people have different goals, but very few are motivated solely by the desire to maximize lifetime pleasure from consumption. The utility maximization principle is also a bad normative principle, even for atheists who believe that life will terminate with death. Secular psychologists who have studied happiness have learnt that consumption only brings short-term pleasure. For achieving long lasting contentment and satisfaction in this life, we must develop certain character traits, and also develop social networks. Both of these are best achieved by Islamic teachings about character and conduct.

To put it in proper perspective, it is important to note the source, roots and origins of this theory of utility and profit maximization, which is the heart of modern economic theory. Between 1809 and 1823 Jeremy Bentham carried out an exhaustive examination of religion with the declared aim of extirpating religious beliefs, even the idea of religion itself, from the minds of men. As an alternative to religion, he proposed the pleasure-pain principle as the basis of morality: every action is good and moral if it leads to pleasure (of the Nafs) and it is evil and immoral if it leads to pain. In fact, this is precisely the religion of the worship of the Nafs, which the Quran (45:23) prohibits:

*Have you seen he who has taken as his god his [own] desire, and Allah has sent him astray due to knowledge and has set a seal upon his hearing and his heart and put over his vision a veil? So, who will guide him after Allah?*

Conventional Economics claims to provide a positive description of human behavior. But it is easy to see that this is false – humans do behave like *homo economicus*. A fallback position has been that this is a normative theory which describes rational behavior. However, as Sen (1977) has shown, behaving like *homo economicus* would be highly irrational, since anti-social behavior causes considerable harm. 3<sup>rd</sup> Generation Islamic Economics is based on understanding of human behavior derived from the Quran, Sunnah, and the Islamic intellectual tradition. This provides us with deep insights which are far beyond the reach of Western psychology. Rothman (2023) provides a model with four dimensions - soul, desires, head, heart – based on the Islamic intellectual heritage, which would provide a radically different basis for building up a science of psychology.

## 4 METHODOLOGY: START BY STUDYING SELF

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The best place to start the study of human behavior, essential foundation for any social science, is to start by studying our own inner selves. Shaikh Ibn-e-Arabi reports that *“Whosoever knows himself knows his Lord.”* Similarly, the Quran (75:14) informs us that people have deep insight into their own souls:

*“Rather, a human being is himself well-aware of his own self”.*

To study human behavior, it seems natural to start by studying our own selves. Yet, this is dramatically different from the methodology currently in use in Western Economics. To understand why, we must look at the differences in Western and Islamic theories of knowledge.

Modern Economics is built on foundations of the philosophy of Logical Positivism; see Zaman (2013, Positivism) for a detailed discussion. This theory of knowledge says that knowledge only comes from observations and logic, and denies value and validity derived from subjective sources. Since our knowledge of our own selves is intuitive, and not observable by others, Logical Positivism rejects the validity of this knowledge. As the Quran says, it is not the eyes, but the hearts, that become blind. Rejecting self-knowledge leads economics to a disastrously wrong model of human behavior, widely known as *homo economicus*. According to economic theory, rational humans maximize their pleasure, with complete disregard for others. A survey by Karacuka and Zaman (2012) shows how this model fails completely as a description of human behavior. Nonetheless, by describing greediness and hedonism as rational, economics does encourage students to behave in this way.

Julie Nelson in *“Poisoning the Well: How Economic Theory Damages Our Moral Imagination”* describes how training in economics leads people to adopt behaviors and ways of thinking which go against natural tendencies of humans towards cooperation and generosity. One of the central messages of economic theory is that human beings are selfish, and that selfish behavior is rational. Even more damaging is the idea the selfish behavior also maximizes social welfare; a principle known as the *“Invisible Hand”*. For example, Mankiw explains in the preface to his introductory text that greed is good for society: *“The reason for excellent functioning of decentralized market economies is that all participants are motivated by self-interest. This self-interest works better than love and kindness in terms of promoting social welfare.”* This message is absolutely false, and the opposite of the truth – love and kindness work much better at promoting social welfare. Nonetheless, this falsehood is widely believed by economists, and unfortunately, second generation Muslim economists have also participated in spreading this message, even though it is contrary to the teachings of Islam. The Quran praises generosity and condemns selfishness and greed.

A small amount of self-study would show the dramatic contrast between our own inner selves, and the ugly picture portrayed of this self in economics textbooks. According to economic theory, we could maximize our own utility by having a fancy meal at a posh restaurant. However, insight into people suggests that they would be happier if they remained hungry and used this money to feed hungry children. The pleasure that people get from making sacrifices for others, and by making them happy, is much larger than the pleasure they get from selfish consumption. Secular research has established that *“generosity”* is universal invariant among human beings – we all get pleasure out of helping others, even at cost to our own selves. This is obvious when we look deep into our own inner make-up, which is fundamental to an Islamic methodology, but not a part of Western methodology.

## 5 FROM DARKNESS TO LIGHT (AND THE REVERSE JOURNEY)

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The Quran (2:257) informs us that:

*Allah is the Protector of those who have faith: from darkness He will lead them into light. Those who reject, their patrons are the evil ones: from light they will lead them into darkness.*

Here, light and darkness clearly refer to knowledge and ignorance. This statement is a puzzle and a challenge for the second generation who believe that the knowledge of modern economists is light, while Muslims are in the dark about the guiding principles of economics. In fact, the reverse is true, as this ayah asserts. What is claimed to be knowledge is actually ignorance masquerading as knowledge. The theories of the economists are so far from the truth that they are beyond ridiculous. From time to time, when the economic realities clash violently with economic theories, leading Western economists realize that there is something wrong with their theories. For example, Paul Krugman writes that the profession as a whole went astray because they mistook the beauty of mathematics for truth. Similarly, Paul Romer writes that modern economists' 'dismissal of facts (which contradict their theories) goes so far beyond post-modern that it deserves its own label; I suggest "post-real"'. The entire theory is founded on assumptions about human behavior and welfare which are dramatically in conflict with reality.

### 5.1 FROM GREED TO GENEROSITY

It is a puzzle as to how economists continue to teach, at universities all around the world, theories about human behavior which are directly in conflict with what we are intimately familiar with. We are human beings, and our personal experience shows clearly that human beings behave very differently from the *homo economicus* of economic theories. The solution to this puzzle is also given in the Quran (59:18):

*And do not be like those who forget God, so God made them forget themselves (their souls): they are the rebellious ones.*

Those who disbelieve have forgotten their own souls. That is why they posit absurd theories of human behavior, which can easily be disproven by anyone who examines his own interior self. For instance, in my classes, I often ask my students to contradict the economists' assumptions about human behavior by seeking nothing for themselves from other humans, and instead seeking only to serve the creation of God, for the sake of the love of God. This message resonates with the hearts of people, because our Deen is in the nature of human beings. Whether or not we can achieve and practice these high ideals, we understand that these are preferable and possible modes of behavior for human beings, which are diametrically opposite to the assumptions of economists about humans. Thus, we can arrive at the falsity of economic theory simply and directly by examining our own selves. It is this Western rejection of the guidance of the heart which leads them from light to darkness. If we open ourselves to the guidance of the Quran, instead of being misguided by modern economics, we will be led from darkness to light.



## 5.2 THE BATTLEGROUND OF GOOD AND EVIL

The human soul is a battleground between good and evil (Quran 90:10):

*We have shown him the two highways (and left him free to choose between good and evil).*

Human freedom to choose between good and evil is a central message of Islamic teachings. This leads to a complex behavior which cannot be captured by mathematical formulae; nor can it be predicted by regressions analysis based on extrapolation of past patterns. Even a saint who has been virtuous all his life may have a moment of weakness, while someone who has committed 100 murders may become repentant. Life is about making these choices, and everyone has basic guidance about good and evil built into his/her soul (Quran 91:7,8):

*(Consider) the human self, and how it is formed. And how it is inspired with (the consciousness of) its evil and its self-righteousness.*

Understanding the difference between right and wrong is central to understanding human behavior, since this knowledge is built into the human soul. Nonetheless, modern economics completely ignores this difference, pretend to be value-free and objective, while incorporating values which are un-Islamic. Hausman and MacPherson (2006) show how modern economics claims to be objective and value-free, but is actually built on hidden values which are conflict with widely accepted social norms.

The most fundamental and central difference between conventional economics and Third Generation Islamic Economics lies in the vastly different specification of the purpose of our lives. Conventional economics confidently asserts that all rational human beings live for the sole purpose of maximizing the utility they derive from lifetime consumption. The Quran (79:38-40) teaches us the opposite lesson:

*(For him who) preferred the life of this world, blazing fire will truly be the goal! -- But unto him who shall have stood in fear of his Lord's Presence, and held back his inner self from base desires, paradise will truly be the goal!*

There is a clear opposition between those who fear their Lord, and abstain from pursuing the vain desires, and the economists, who counsel the opposite course of action. The Quran also describes the behavior of human beings who ignore the guidance from Allah, compete with each other for an illusory success (Quran 57:20)

*Know that the life of this world is but amusement and diversion and adornment and boasting to one another and competition in increase of wealth and children ... And what is the worldly life except the enjoyment of delusion.*

The human heart is a battleground between good and evil, and economics and Islam are on opposite ends of the spectrum in this battle. See Zaman (2019) for an argument that modern Economics is actually the economics of Nafs-e-Ammara, while Islam teaches us to progress beyond this lowest order of spirituality towards Nafs-e-Lawwama and Nafs-e-Mutma'inna.

Islam counsels us to see the life of this world as the enjoyment of a delusion, so that we should abstain from our base desires, and pursue higher goals. Instead, economics tell us that rational behavior

involves attempting to fulfill all our desires, regardless of their origin. For instance, Samuelson and Nordhaus (1989, p. 26) state that economists “must reckon with consumer wants and needs whether they are genuine or contrived”. Similarly, Stigler and Becker (1977) state that “Tastes are the unchallengeable axioms of a man's behavior”. This is obviously un-acceptable from an Islamic point of view, which differentiates between our genuine needs and vain desires, and encourages the fulfillment of one but discourages wasteful, excessive and extravagant consumption on the other.

## 6 RADICAL METHODOLOGICAL DIFFERENCES

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We have already addressed some of the methodological differences between Islamic approach and the standard conventional economic methodology. Standard Western methodology in economics is grounded in the misunderstanding of science created by logical positivism; for a detailed explanation, see Zaman (2013, Positivism). Briefly, for our present purposes, economic methodology is based on consideration only of the observables, and ignores unobservables. Since norms are ideals for which we strive, they are not manifest as observations. As a result, economists believe that normative statements are not scientific, and cannot be part of economic theory.

### 6.1 REJECTING THE NORMATIVE/POSITIVE DISTINCTION

Since morality is built into human hearts, it is not observable. For this reason, Logical Positivists excluded this from the realm of knowledge. They argued that only positive descriptions of reality could be knowledge, while normative ideals which describe what should be, are excluded from scientific knowledge. However, as Hausman and MacPherson (2006) clearly demonstrate, economic theory is inherently normative. Because of adherence to positivist principles, economists are forced to hide the normative implications of economic theories, and present moral judgments as if they were objective facts. For a detailed example, see Zaman (2012, Scarcity), which explains how three different normative judgments have been hidden in the framework, which presents scarcity as an objective and fundamental principle of economics.

In any social science, instead of looking only at observables as per positivist methodology, we must look both at the unobservable normative principles which men utilize as ideals, and also the actual behaviors which are observable, and may not be in line with the stated ideals and purposes. This simultaneous consideration of the normative and the positive must be central to an Islamic methodology for the humanities. Observable Human action is guided by unobservable ideals, even though it may not be able to achieve them. We cannot understand human behavior without taking both the ideals and the reality of the observed behavior into consideration. See Zaman (2014) for an Islamic approach which takes both into account.

### 6.2 THE TRANSFORMATIVE STRUGGLE FOR THE GOOD

The normative/positive distinction may have some relevance for physical and inanimate objects, but it fails completely when it comes to the study of human beings and society. Life consists of the effort to transform our behavior (the positive) towards the ideals (the normative) prescribed by Islam. This struggle for change is what creates knowledge

*Those who strive in our paths, we will surely give them guidance.*



This struggle to create a transformation, to cleanse and purify our hearts of the evil tendencies, and to strive for excellence in conduct, is radically different from Western methodology. Islam does not allow us to be neutral and detached observers in the war between good and evil that takes place both within our souls and in the external world. Instead, if we see evil either within ourselves or externally, we must struggle to change it, or to voice our support for the good, or at least to feel concern in our hearts, which is the weakest level of faith. When we observe economic conditions of the world around us, as Muslims we are not allowed to remain neutral and detached observers of injustice, oppression, and inequality.

Economic theory takes human behavior as exogenous and fixed, while the central concern of Islam is to change this behavior. The transformation created in the behavior of the early Muslims is witnessed by the Quran. Quran (3:103) describes the dramatic changes which led divided and perpetually warring clans and tribes to unite in love:

*Remember with gratitude Allah's favor on you; for ye were enemies and He joined your hearts in love, so that by His Grace, ye became brethren; and ye were on the brink of the pit of Fire, and He saved you from it.*

The idea of creating change, of teaching selfish and competitive people generosity and cooperation, is not within the ambit of conventional economic theory, but central to a genuine third generation treatment of the subject. The foundations of such an approach are described in Zaman (2014)

## 7 CONCLUSIONS

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Conventional economic methodology is supposed to be neutral, detached, and objective description of the laws governing our economic affairs. In opposition to this, Islam takes a strongly interventionist approach, describing both the good and the evil and asking us to command the good and abstain from the evil. Islam is the attempt to achieve spiritual goals by material means. Since men and jinn were created only for worship, all our actions must be directed towards this goal (Quran 6:162):

*Say, "Indeed, my prayer, my sacrifice, my living and my dying are for Allah, Lord of the worlds"*

In our dealing with the material world, the central question is, how we can turn our getting and spending of wealth into worship? This is done by earning using halal means and spending for halal purposes. The one who earns to feed his family is fulfilling his Islamic responsibility, and hence performing an act of worship. Whereas economic theory teaches us that pleasure acquired from consumption is the goal of life for all humans, Islam teaches us to turn acts of consumption into worship. This can be done by feeling gratitude towards Allah for being given material wealth, instead feeling that we have earned it and we deserve it, like Qaroon did.

Modern economic theory is exactly the theory of Qaroon, and diametrically opposed to Islamic principles for organization of our economic affairs. It focuses on acquisition and consumption as the sole purpose of human lives. It justifies inequality and argues that wealth accrues to those who are productive – the marginal product of labor. The first generation of Islamic Economists recognized the radical differences, but the second generation attempted to find a compromise. This attempt has failed.



It is now time for the Third Generation to build a new discipline founded purely on Islamic principles based on the Quran and the Sunnah.

Allah T'aala informs us that the real competition is not for the worldly goods but for the good deeds: (Quran 67:2)

Allah T'aala "*created death and life that He may try you-- which of you is best in deeds*".

Instead of making acquisition of wealth and material consumption the purpose of life, as per economic theory, our engagement with the material world is a means of spiritual progress. This is achieved when we feed the poor, for the sake of the love of Allah, and we urge the feeding of the poor. We must abandon the pursuit of wasteful and extravagant luxuries, and choose simple and modest lifestyles for ourselves. By following and implementing the orders of Allah in our personal and collective lives, we can create models which are desperately needed by the whole humanity today. This is the challenge which faces the Ummah: how to translate the teachings contained in our books and in our past experience into a living reality?

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