This book is written by Dr. Umer Chapra, a well-known Muslim economist from Pakistan and pioneer contributor in Islamic Economics. The book is published by Islamic Research & Training Institute (IRTI), Jeddah. In this short book, the respected author explains the foundational differences between conventional and Islamic economics with regards to difference in worldview, emphasis on social versus self-interest in economic choices and policy analyses and the methodology to develop theory and how to use it in prediction and policy-making.

Dr. Umer Chapra explains that simultaneous realization of both the positive and normative goals requires three indispensible mechanisms: filtering, motivation and socio-economic restructuring. In the conventional economics which was developed under the shadow of the secular worldview, the role of moral filtering had been neglected. The secular worldview is also unable to provide motivation for moral action beyond laws. Hence, according to the author, this gave rise to materialism and Social Darwinism.

The author argues that conventional economics is characterized by advocacy of a) individual freedom in economic choices to pursue self-interest, b) positive approach to economic analysis and answering economic questions and solving economic problems and c) belief in unfettered market forces. Hence, market prices became the only filtering mechanism and the pursuit of self-interest the only driving motivation behind economic choices. The author argues that in conventional economics, Pareto efficiency is implicitly assumed to be the most equitable outcome. The author quotes Arthur Okun who remarked that “markets tend to award prizes that allow the big winners to feed their pets better than the losers can feed their children.”

Adam Smith argued that self-interest and socially desirable outcomes are not mutually exclusive. He argued that when everyone pursues the self-interest, the social outcomes are also as per desired. However, the world today represents stark realities of unprecedented poverty, debt enslavement of low income countries and massive gap between the rich and the poor countries and rich and poor income classes within much of the developed and developing countries.

It is a fact that more than a billion people live in poverty even in the twenty first century. On the other hand, there has been an unprecedented change in income disparity between poor and rich people during the last half century. Do we really have scarcity of resources due to which we cannot end poverty, hunger and famine? Nobel Laureate, Amartya Sen did research on famine in Bengal and he argued that the famine was not caused from the lack of resources. It is also
striking to note that the world agriculture produces 17% more calories per person today than it did 30 years ago, despite a 70% increase in the population.

As an alternative, Islamic economics is not a value-free approach to economic analysis and economic policies. It is based on the Islamic worldview which is based on Tawheed and after-life accountability. In Islamic economics, the unhindered individual freedom in economic choices is filtered by moral filters and the moral and socially desirable economic choices are motivated by the concept of after-life accountability. Islamic worldview regards the individuals as trustees for whatever material resources they possess, own and earn during their lives in this world.

Hence, the division between short term and long term self-interest based on the concept of two-worldly view of life in Islamic worldview influences the economic choices for a faithful economic agent. This can potentially help in promoting necessary social values, social choices, bring social responsibility and to effectively deal with the problems of moral hazard, adverse selection, free-riding and negative externalities which is hard to achieve in unfettered markets with sole reliance on prices and individual preferences.

The author calls for a multi-disciplinary approach in developing Islamic economics. He opines that methodological pluralism is suitable for developing Islamic economics in order to incorporate both the positive and normative aspects in economics. He points towards the need for incorporating the Islamic worldview in microeconomic analysis of economic agents in order to assess the existence and effects of Islamic values on the economic choices undertaken by faithful economic agents. On the policy front, the author highlights the role of the government to help in establishing and promoting the right mix of social and economic institutions to serve the social interests in the society.