

### Seminars, Conferences, Addresses

## **Report on the Third Seminar on Islamic Economics: Resource Mobilization and Investment in an Islamic Framework**

The Catholic University of America, Washington, D.C.

*Herzfeld Auditorium, Hannan Hall*

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The Third Seminar on Islamic Economics, held under the sponsorship of the International Institute of Islamic Thought (IIIT) and the Association of Muslim Social Scientists (AMSS), took on an international character with delegates in attendance from as far east as Malaysia, Egypt, and Saudi Arabia in addition to participants from Canada and the United States. This year's theme for the conference, "Resource Mobilization and Investment in an Islamic Framework," evoked considerable interest among both academicians and practitioners of the Islamic economic reform movement. Evidence of this interest was seen in the large number of research papers received on the subject although, regrettably, funding limitations prevented many a scholar from participating in the meetings.

The first day's sessions opened with brief remarks from Sayyid M. Syeed, general secretary of the AMSS, and Zaidi Sattar, program director for the

seminar. Their remarks, while highlighting the significant strides made in the past decade in research on Islamic economics, pointed to the substantial financial and logistical constraints that remain in the advancement of future research in the area. IIIT and AMSS were commended for their past role in this endeavor, and hopes were expressed for a more vigorous role in the future.

The highlight of the opening session was the thoughtful inaugural address by Ṭāhā Jābir al 'Alwānī, President, IIIT, who emphasized the importance of the "human" element in the organization and management of economic resources as ". . . man is both intellect ready for thought, and hands ready for action." Citing from the Holy Qur'an and the works of Islamic scholars, he stressed that Islamic thought has much to offer in the emancipation of the ummah from the debilitating influence of colonialism. Development of the mind, he argued, is as critical to a society's growth process as is the development of economic resources.

The first session of the seminar saw the presentation of conceptual papers. Mahmoud Abu-Saud reiterated the need for Muslim economists to conduct research within defined parameters of Islamic economics that differed fundamentally from the Western mentality based on materialism, individualism, and utilitarianism. He went on to define the Islamic economic framework, deriving its basic principles from the Shari'ah underlining the purpose of human life as revealed in the Qur'an. Next, the meeting received a flavor of the Christian perspective on economics from a reputed scholar of ethical and Christian economics, Albert M. Piedra, Head, Dept. of Economics at the Catholic University of America. His paper highlighted the socioeconomic doctrines of the Catholic Church but, more importantly, revealed the remarkable similarities between them and those of Islam, particularly in the area of development. A common theme which he stressed was the need for collaboration in the development of the whole person and of every human being.

In his paper, Masudul A. Choudhury (University College of Cape Breton, Canada) developed an Islamic concept of moral entitlement in resource allocation derived from the ethico-moral foundations of the Qur'an. In the light of this concept of entitlement, he presented a summary picture of the Islamic general equilibrium system. The final paper of the session was about the financing of the public sector in an Islamic perspective and was presented by Monzer Kahf (Islamic Development Bank, Jeddah, Saudi Arabia). His main thesis was that the Shari'ah assigns substantial resources to the state for financing its administrative and developmental objectives, yet the size of the public sector is envisaged to be moderate vis-à-vis the society.

The second session of the seminar was devoted exclusively to research on models of investment in an Islamic framework. Fahim Khan (Islamic Development Bank) highlighted the weaknesses in existing models of demand

while presenting an alternative formulation of a demand function based on the profit-and-loss-sharing system. He was followed by Ali Darrat, Abdel-Hameed Bashir, and M. O. Solaiman (Louisiana Tech and Grambling State universities), who presented a theoretical model with an empirical test which showed that equity capital and the profit-sharing ratio were among the primary determinants of investment, both in a positive way. The final paper on investment from Zaidi Sattar (The Catholic University of America) involved a dynamic model of investment in an interest-free economy. Again, the rate of profit-share proved to be a critical variable in the investment function. However, the comparative statics of the aggregate macroeconomic model revealed the potency of monetary policy over fiscal policy under the stipulated investment relationship.

The final session of the day began with a paper on zakah contributions and resource allocation authored by Jamal Abu-Rashed and Dr. Abdulhafid Belarbi (Xavier and Cincinnati universities). The paper applied optimal growth modelling and dynamic analysis to find that the optimal growth path for an Islamic economy corresponds to that of the golden rule of capital accumulation implying, in the long term, an efficient allocation of resources through the process of institutionalizing zakah contributions. Next, J. J. Harrington (Seton Hall University) presented a paper on the role of insurance and insurers in developing Islamic countries. His analysis showed how insurance and insurers can help Islamic nations increase their rate of development and how insurance practices of other nations can be used, sometimes in modified form, in Islamic societies. The session concluded with a paper from Sami S. Gandy, who demonstrated the relevance of insurance within the Islamic financial system. He argued for a role for insurance in wealth conservation within a social structure based on the precepts of the Qur'an and the Sunnah.

The highlight of the second day of the seminar was the roundtable discussion on problems of Islamic banking by a distinguished panel of experts assembled from Egypt and Saudi Arabia. However, the day began with a session consisting of three research papers. Abdul Aziz and Saeed Mortazavi (Humboldt State University) presented the fundamentals of a time-state preference model in an interest-free environment. Their main findings were that common stock was definitely an acceptable security according to Islamic jurisprudence, as none of the two types of return on it (i.e., dividends and capital gains) are risk-free. They contended that further investigation was required to determine whether options, futures, risky debt, and preferred stock were also valid financial instruments.

Akbar A. Khan (Bangladesh Embassy, Washington, D.C.) presented a historical analysis of the practice and rates of usury in ancient South Asia, finding that these societies did not consider interest as morally shameful because it was viewed as a compensation for risk and loss. *Bankruptcy and*

destitution were not the results of wicked exploitation by money-lenders; they were considered just punishment for sins committed in previous lives. Yet, he concluded that high rates of interest were not in the long-term interest of South Asia; they perpetuated a low-level equilibrium trap where all surplus was attracted to money-lending and not to productive investment.

Finally, Jamshed Uppal (The Catholic University of America) presented Ausaf Ali's paper on the investment of capital as an economic resource. Ali toyed with the notion of an accounting rate of interest to replace the actual rate of interest in an Islamic economy, and then went on to propose a theory of capital allocation suggesting that those projects which hold the prospects of a higher profit rate, or return on capital, rather than the accounting rate of interest will attract capital resources.

The Third Islamic Economics Seminar concluded with a lively roundtable discussion by a panel of experts on fiqh and Shari'ah as they relate to the issues and problems of Islamic banking. The session was moderated by Jamal Barzinji (IIIT) with the participation of Gamal Atiyyah (IIIT, Egypt), Sheikh Ali Jumah (Al-Azhar University), and Nazeeh Hamad (Umm al Qura University). The discussions emphasized the importance of maintaining the complete independence of Shari'ah committees on Islamic banking to avoid the appearance of conflict of interest.

Zaidi Sattar

Program Director of the Third Seminar  
on Islamic Economics

Dept. of Economics and Business  
Catholic University of America