



O believers! Stand-up firmly by the Commandments of Allah, bearing witness with justice and let not the enmity of any people incite you that you should not do justice. Do justice that is nearer to piety and fear Allah, undoubtedly, Allah is aware of your doings. [*Al-Maida: 8*].



Prophet Muhammad (pbuh) has said: “Do not meet the merchant in the way and enter into business transaction with him, and whoever meets him and buys from him, then when the owner of (merchandise) comes into the market (and finds that he has been paid less price), he has the option (to declare the transaction null and void). (*Sahih Muslim, Book 21 on Business Transactions, Hadith Number 23*).

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The penetration of finance into the everyday life of households has not only created a range of dependencies on financial services, but also changed the outlook, mentality and even morality of daily life. Financial calculation evaluates everything in pennies and pounds, transforming the most basic goods - above all, housing - into ‘investments’”

*Costas Lapavitsas, Financialization of Capitalism: Profiting without Producing*

### Research Note

#### **Monetarists, Monetary Policy and Morality**

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#### **Morality and Monetary Policy**

‘Moral Monetary Policy’! This phrase sounds very awkward because we believe that monetary economics is a positive science and there is no relationship of the monetary policy with morality or immorality. But

actually, like any other economic policy, the monetary policy has very serious moral implications. In 1974, the Nobel Prize in Economic Sciences was awarded to Gunnar Myrdal, an economist who presented “Strict Non-neutrality Thesis”, a theory which says that no action in social sciences could be free of socioeconomic implications.

Myrdal also received several honorary degrees and other prizes for linking the

social sciences to their moral and normative implications. Myrdal also wrote explicitly on the socioeconomic implications of monetary policy.

The words of Myrdal were so logical that he was able to win the most prestigious prize in economics; however, unfortunately his words could not affect the behaviour of Central Bankers towards the monetary policy.

The monetary policy until today is conducted without paying any heed to the socioeconomic consequences. Despite the fact that central banks usually have very strong research wings and they are equipped with lots of resources, it is rare to find a study administered by central banks and relating the monetary policy to the socioeconomic indicators except for employment and growth.

*The monetary policy until today is conducted without paying any heed to the socioeconomic consequences.*

In fact it does not require a long debate to prove that the monetary policy is having very strong association with socioeconomic indicators. The monetary policy today focuses on the inflation as the primary target of the policy. That is one half of the picture. Almost all the literature agrees that inflation is closely associated with income inequality and that is the second half of the picture. If you connect the two halves, the natural conclusion is that the monetary policy is indirectly linked to the income inequality.

Reducing income inequality is included among the Millennium and Sustainable Development Goals, the development

agenda agreed upon by all the nations. So, how can economists at central banks conduct monetary policy without studying its implications for the inequality, when their country is among the signatories of Sustainable Development Goals Declaration? But unfortunately, the monetary practice is going on in such a way that it is hard to imagine that this science is having any relationship to the morality or to the socioeconomic indicators.

### Moral Implications of Inflation Targeting

The most popular monetary policy framework today is the inflation targeting framework which says that inflation is the primary focus of

monetary policy and the interest rate is the main policy variable which should be used to achieve the desired level of inflation. The underlying assumption

is that 'when interest rate increases, the people start consuming less, leading to a fall in the aggregate demand which will ultimately lead to reduction in the aggregate price level'.

There are several questions on the validity of this mechanism, however. Assume for a while that the mechanism works quite well as stated in the textbooks. If so, a little deeper analysis would reveal several socio-economic implications. Why does monetary policy focus on the price level? In the first look, it seems as if policymakers intend to protect the purchasing power of the vulnerable class of the society, but the reality is quite opposite.

Frederic Stanley Mishkin states six reasons for setting the price stability as target of monetary policy, with no mention of protecting the purchasing power of the poor people in this list. The reasons for inflation targeting as mentioned by Mishkin are stability of the fluctuation in aggregate output, transparency and communication accountability, central bank independence and harmony with the democratic principles.

*The implications of inflation targeting are negative for the poorest.*

Actually, the implications of inflation targeting are negative for the poorest. Suppose that the mechanism behind inflation targeting framework works and by increasing interest rate, the aggregate demand could be reduced.

*Any reduction in the aggregate demand will lead to reduction in output and an increase in the unemployment. This means some of the workers may lose their jobs. Who could be more vulnerable to increased pressure of unemployment?*

Any reduction in the aggregate demand will lead to reduction in output and an increase in unemployment. This means some of the workers may lose their jobs. Who could be more vulnerable to increased pressure of unemployment? It would be people among the temporary employees, daily wage workers and small entrepreneurs who will suffer the consequence of reduction in aggregate output.

Those who belong to upper income percentiles, they are capable to protect themselves against unemployment. A 1% increase in total unemployment in a country actually means a greater than unity percentage increase in unemployment for the

poorest cohort of the society. Is it making sense to victimize the poorest cohort of the society for the financial stability which will actually benefit the upper class of the society? This is a serious question mark which is not usually addressed.

### Moral Implication of Demand Channel

Now think about the monetary policy from another angle. Suppose that the mechanism behind the inflation targeting framework is actually working as stated in the textbooks, i.e. an increase in the interest rate can reduce inflation by reducing the aggregate demand.

It is obvious that reduction in the aggregate demand can occur only due to reduction in demand of luxuries. Any

reduction in the demand of necessities is neither possible nor desirable. We will never want to reduce the consumption of wheat and grains to bring the price stability. Therefore, if any reduction in the aggregate prices occurs, it will be driven by the prices of luxuries.

This means the relative income of those who are having larger portion of luxuries in their consumption basket would be protected. This means that the policy will lead to increased income inequality. This is another normative and socioeconomic implication of monetary policy which is never discussed in the monetary literature.

## Monetary Policy and Public Debt

The major reason for increase in interest rate as stated in the statements of central banks is to control inflation. But that's one aspect; on the flip side, it can be observed that many nations have borrowed extensively from their commercial banks for their day-to-day operations. For some countries, the debt to GDP ratio is more than 100%.

Few banks and financial institutions are allowed to participate in trading the government securities which are the government's borrowing instruments. The mark-up on these securities is closely associated with the official interest rate and higher interest rate would lead to higher mark-up payments. The investors in the government securities would be directly benefited from this increase in the mark-up payment.

During 2018-19, the policy rate in Pakistan was increased from 5.75% to 13.25%, doubling the allocation for mark-up payments and the justification for this increase was to fight inflation. As a result, the allocation for mark-up payments jumped to 42% of the federal budget. So in order to protect the price stability, billions of rupees were paid to the richest bankers. Isn't it making more sense to pay these amounts to the people belonging to the bottom 20%

income group to protect them against the loss of purchasing power? But, like many other question marks, there is no reply to this question as well.

## Sectarianism in Economics

Economics is usually presented as a positive science and a positive science should go with facts and realities. But, unfortunately that is not the case, especially in the monetary economics. Monetary economists behave like religious devotees belonging to a particular sect who will defend all the beliefs of their own sect and will ignore and undermine all the theories and explanations coming from the opposite sect. One dominant sect or religion is allowed to take part in the policy making and the theories and beliefs of opposite sects are never brought to the limelight.

*The firms need working capital to produce goods and services and they borrow working capital from the banks. Increase in the interest rate means increase in the cost of the working capital and the firms will transfer this cost to the customer leading to higher equilibrium prices.*

One of the oldest theories in monetary economics is the *Banking School Theory* presented by Thomas Tooke in 1838. This theory says that relationship between interest rate and inflation should be positive.

The logic is very simple and understandable, i.e. the interest rate is a part of cost of production. The firms need working capital to produce goods and services and they borrow working capital from the banks. Increase in the interest rate means increase in the cost of the working capital and the firms will transfer this cost to the customer



leading to higher equilibrium prices. This was one belief which had the simple and understandable logic to support it.

But the dominant majority of economists adopted another view, known as the Demand Channel of Monetary Transmission Mechanism. They argued that if interest rate is going up, then people will postpone some of their spending decisions and the aggregate demand in the economy will decrease. This reduction will lead to reduction in the equilibrium price level.

Both the Banking School's Cost Channel and the mainstream Demand Channel make sense, but the theory of demand channel won patronage of the dominant economic religion. Therefore, it was portrayed in such a way that it appears to be the only existing theory relating the interest rate to prices.

On the other hand, the empirical evidence in every era had been supporting the view of Tooke's Banking School theory and this viewpoint was unacceptable for the mainstream economists. Therefore, it was totally undermined and ignored in such a way that most of the economists are unaware of even the existence of this view.

Gibson (1923) analyzed a very large data set of United Kingdom and found that the relationship between interest

rate and price level is positive. This was such a strong observation that John Maynard Keynes considered it as '*most established fact in the whole field of quantitative economics*'. However despite recognizing the significance of this finding, Keynes termed this observation as Gibson Paradox, which indicates that the observation was not explainable by using economic theory.

But the fact is that this finding was actually supporting one of the oldest theories of monetary economics i.e. the Banking School Theory. About 70 years later, Nobel Laureate Christopher Sims found similar results and his findings were termed as Price Puzzle to indicate the lack of theory explaining the phenomena. But, the two authors actually found the support for the oldest theory in monetary economics.

Later on, Barth and Ramay (2001)

explained the phenomenon by using the cost channel. Since then, there have been numerous evidences supporting the view of Thomas Tooke. Many central banks also conducted research on the existence of cost channel and found the evidences for the channel. However until today, central banks never included the cost channel in their inflation models.

Existence of Cost Channel actually means that the contemporary monetary policy is counterproductive. If you want to achieve a certain target, the policy action will lead you to exactly the opposite direction. Therefore, in an

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objective science, the support from historical data should decide the nature of relationship between the two variables and the policy should follow the findings of historical data. But since the cost channel belongs to a different economic religion, no heed is paid to the existence of cost channel in the Central Bank models and policies.

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targeting regime as the legal mandate of their central banks, even they have abandoned the practice of inflation targeting during the pandemic.

But, when it comes to the countries who owe the debt to IMF and World Bank, the advice is 'stick with the inflation targeting', despite the fact that there is no solid historical evidence to support the inflation targeting

### Behavior of International Financial Institutions

Finally, the behaviour of international financial institutions also implies the dual standards of these institutions. These institutions have two different sets of economics, one for their masters and one for their slaves. All the countries having influence on the international financial institutions are practicing the quantitative easing today to deal with the problem created by COVID-19 pandemic.

On the other hand, all the countries under the influence of these institutions are being advised to follow the inflation targeting for their policy making. In fact, the influential countries who adopted inflation

framework.

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## Viewpoint

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A Stanford article [1] mentions that we Pakistanis are among the most charity giving nations in the developing world. Charity to GDP ratio in Pakistan is almost one percent which is more than in other developing countries (Although US and Canada have this ratio at around 1.3).

Apparently, it is a good indicator of generosity reflecting the contributions of the richer segment of the population of this country. However, there is still a need to revisit the pros and cons of the mechanism of this redistribution of wealth.

We have observed massive institutionalization of charity in the past two decades. Concepts of specialization and division of work, originating mainly from economics, have taken over our entire social and ecosystems. People do not have time and resources to locate the needy and the poor, so institutions have assumed this role for the masses. Welfare institutions as social intermediaries take the form of trusts, societies and even corporates, and their main sphere of activities include provision of food, clothing, shelter, medical, and other basic life needs.

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These institutions collect donations from individuals and corporates and channel the same to the target audience with their own mechanism. According to a Herald Article [2], around four years back, there was an NGO for every 2,000 people in this country. Ramadan and Eid-ul- Azha are probably the two events where one can see the widespread popularity of these institutions among masses.

This institutionalization has made many things easy and efficient. On one hand, donors do not need to worry about searching for the right and real 'poor', and on the other hand, the 'poor' use the right channel to get the financial help. Life becomes easy for both the givers and the takers and the intermediaries do the work probably more efficiently by ensuring that the money or the benefits go to the right hands, a win-win situation.

However, there are certain downsides which in my opinion outweigh the benefits in the long run. The first and foremost is the loss of self-esteem that the benefiting poor gets when it starts receiving the benefits from these institutions.

When a person is helped by a co-worker, neighbour, friend or any other individual in confidentiality, the ego and self-respect of the receiving individual is not hurt or hurt as much as in receiving such benefits publicly from an institution. But, when the same human registers with a social welfare institution for such help and starts getting the same, the ego and self-respect are affected significantly. Such an individual, psychologically, associates himself with 'a beggar' and this label once perceived as such closes the door to become self-sufficient again. Getting accepted oneself as being helped kills the motivation to struggle and overcoming one's own financial turmoil.

It gets worst when the giving by such institutions is made public. When it is known in the social setup that one individual gets help from XYZ institutions, then the loss of social respect and the perception for class discrimination becomes prominent. Think for example of the photos of individuals advertised for donation collection campaigns by such institutions. Can they get the same sense of social respect and self-esteem as a normal individual do? Probably, they will not get it ever in life after such exhibition. Even if a thousand humans are served by capitalizing on such ads, the loss of one human's respect and self-esteem is enormous, especially when there can be other ways to get around the same numbers. Probably for this reason, I have seen some responsible social

welfare institutions not publishing or publicizing any human images in their donation campaigns.

This social division is strengthened on the other side of the spectrum as well. The givers take pride in thinking that masses are being served by their donations and they gain a sense of accomplishment. Though this seems okay, it strengthens the socio economic division of the rich and poor. We get used to see people eating in free *Dastarkhуwans*, getting free medical help, and getting their other problems addressed by us. It gives us a satisfaction being the givers. But, we can never afford or like to sit with them on the same dining table or be treated in the same hospital.

In an ideal society, such division should altogether not exist and the deserving people should get help so silently and confidentially that no one other than the giver and taker knows of such transaction. In our religion, it is said that even the left hand should not know the charity given by the right hand. The institutionalization has created a bipolar social division where we take pride in being among givers and this pride is actually achieved at the cost of the death of self-esteem of the takers.

Another downside is the gradual disowning of the personal responsibility towards helping the poor. "I have donated my part to XYZ institution" and "it is now the institutions'

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responsibility to take care of them, not mine” are the types of attitudes that are developed over time. Institutions are taking over the perceived role of caretakers, and it creates a disconnection between the two classes, and strengthens perceived supremacy in the mind of givers.

The downsides mentioned so far are on the assumption that such institutions operate transparently. But this is not the ground reality for many of them. Forming a social welfare institution, collecting donations and paying salaries to its runners / directors has become a new business model.

There is lack of accountability and post-audits. There are professional or habitual baggers who get away with funds. There can be favouritism, wastage, bureaucratic processes and inefficient handling of donations. It was reported that several people from the government departments in Sindh received income support funds from the previous government’s flagship income support program and they were later on found to be not eligible. Even encroachment to public places is widespread and because of strong

network and goodwill in public, it might be too difficult and risky to get these places vacated despite orders of the courts.

Our strategists need to revisit this culture. Religious scholars and intellectuals should create awareness among the public to realize their personal responsibility towards poor and connect to them. Given these limitations, donors in their personal capacity should spare time and resources to find and sponsor the needy by themselves or engage with institutions in a more interactive way to monitor their activities.

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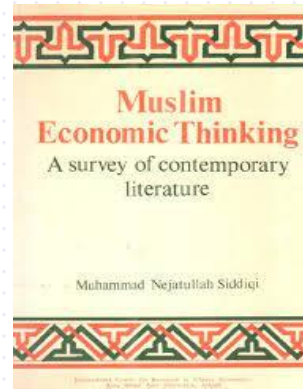
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## Book Review

**Title:** Muslim Economic Thinking: A Survey of Contemporary Literature

**Author:** Muhammad Nejatullah Siddiqi

**Publisher:** The Islamic Foundation UK, 1981



This book is written by Prof. Muhammad Nejatullah Siddiqi. It is a literature review of works in Islamic economics in the twentieth century from the beginning of the century till 1975. The author has reviewed books, research papers, monographs, Thesis, policy documents and even manifestos in English, Urdu and Arabic language.

It is one the most comprehensive account of Muslim economic thinking. Those who want to compare and assess the current progress in Islamic economics would find it a very useful reference to see how much more progress is made in developing Islamic economics.

On the positive side, there is progress in Islamic banking and finance, both at the practical level as well as in the literature analyzing policy and operations along with assessing performance from the profitability, efficiency, coverage, impact and goal fulfilment (Maqasid) perspective. But, in other areas like public finance and central banking, the significant strides are yet to be made.

In institutionalizing Islamic social finance institutions like Zakat and Waqf, there was little progress until recently. The jurisprudential issues which need resolution for effective operationalization of these institutions are still in need of scholarly consensus.

*The prioritization of research areas has followed practical shaping of Islamic finance in the form of institutions.*

In a way, the prioritization of research areas has followed practical shaping of Islamic finance in the form of institutions. Since banking, insurance and asset management were areas having commercial demand and potential, there is much swift progress in practical development of operational capacity of products and services in these areas.

Contemporary scholars with a bend towards empirical research have done performance assessment studies analyzing profitability, risk, efficiency and impact of these institutions both on standalone as well as on comparative basis.

Contemporary scholars with a bend towards Islamic jurisprudence have contributed in analyzing the current

and potential products and proposals in the light of Islamic jurisprudence. Some of them had also done assessment of performance of Islamic financial services from the Maqasid perspective.

Prof. Siddiqi in his book reviews literature written in the first three quarters of the twentieth century. That literature is visionary and optimistic. It may not have mathematical elegance, empirical analysis and specific analysis guiding operations of Islamic financial institutions, but it did well in presenting the Islamic worldview and contrasted its features from Capitalism and Communism.

The economic analysis of positive Islamic injunctions as well as negative Islamic injunctions is presented with sound arguments in the literature during that period. The research questions addressing rationale for prohibition of Riba, property rights in Islamic economics, how to deal with income inequality and how to inculcate socially and environmentally responsible behaviour are adequately answered.

In analyzing economic system, some authors have tended towards Socialism as it had significant appeal in the middle two quarters of the twentieth century while majority have presented Islamic economics as a middle ground between Capitalism and Socialism with a distinction more apparent in the policy tools, institutions and instruments to achieve the economic aims.

In analyzing economic theorizing, quite a few authors had cautioned against taking all assumptions in mainstream economics as is. They opine that with a transformative goal, Islamic economics cannot be value free. Hence, moral axioms shall be incorporated in economic theorizing. Some had resorted to mathematical modelling to instigate analysis with this approach. But, unfortunately, not much progress could be made later on.

In approaching development in Islamic economics framework, the earlier authors had emphasized on multiplicity of goals even before the Millennium Development Goals and Sustainable Development Goals. Emphasis on ethics naturally brings focus towards reducing deprivation and inequalities and fostering responsibility in the use and distribution of resources.

In early literature on interest-free banking, the focus was on profit sharing models and need fulfilment. Remarkably, there is more variety of literature on central banking in the 70s and 80s as compared to now. Since Islamic financial institutions only started coming in the later part of the last quarter of the twentieth century, the earlier literature paved the way for highlighting the economic ills of interest in allocation of resources, distribution of resources and access to finance.

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Finally, the author also gives account of historical works on Muslim thinkers in past. Both the Muslim economists as well as non-Muslim economists have greatly appreciated and acknowledged the works of Ibn-e-Khudun. He discussed division of labour, labor theory of value, developmental stages of civilization and non-linear relationship between tax rates and tax collection (as in Laffer curve) much earlier than his predecessors like Adam Smith, David Ricardo and Arthur Laffer.

All in all, this book is a useful resource to get a quick sense of early literature on Islamic economics. The author has also given a topical Bibliography at the end for the benefit of readers who want to read further.

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The only limitation is that since it is a survey of early literature, there is more coverage in some areas as compared to others. This is not the fault of author, but his limitation. While the quality of arguments in some areas is very profound, scant literature in other areas with lack of sound arguments in literature leaves much to be desired.

For instance, critique on stock market investments on the premise of speculation and critique on monopoly on the premise of wealth concentration while ignoring the case of natural monopoly may have been presented with sound arguments or revisited in the light of contemporary literature and realities. Nonetheless, such shortcomings were replaced with sound discourse in current literature.

### Research Paper in Focus

**Paper Title:** Study of Philanthropic Behaviour in Divine Economics Framework

**Author:** Prof. Nisar Hussain Hamdani

**Publisher:** Pakistan Development Review, 43(4), 875 - 894.

The respected author defines Divine Economics as a “framework for the study of religion and economics in each other’s perspective.” Divine Economics framework takes religion or religious activities as an object of choice in a rational framework. The link between economics and religion is created by arguing that time is money and when

time is allocated on religious activities too, these activities can also be analyzed within the framework of economics. Some engagement in religious activities involves allocation of budget, such as on religious travel, animal sacrifice and almsgiving. Thus, the author argues to mainstream economists that even from a positive



economics perspective, the role of religion cannot be ignored.

The fundamental research aim of the Divine Economics framework is to provide an empirical basis of behavioural comparison between religious and non-religious agents with regards to their economic and non-economic choices. For instance, if religious people use common property resources and public goods more responsibly, then it is worthwhile to promote and create awareness about religious values. On the other hand, if religious and non-religious agents do not differ in their choices, then still it suggests that we need appropriate education and learning to create right kind of awareness about true religious values.

The noted scholar argues that Divine Economics framework establishes a link for cross communication between mainstream economists and faith-inspired economists by using a universal methodological framework, which is sufficiently scientific, objective and broadly agreeable in academics.

Divine Economics framework attempts to endogenize the religious variables. In earlier literature, religion or religious identity has been taken as a categorical variable. It is not differentiated from other demographic characteristics of an economic agent. Some indices are also available, but they do not incorporate the religiosity levels.

Divine Economics provides a framework to rank the agents on their religiosity. It is true that measurement of religiosity is God's prerogative. It is

also true that true religiosity is founded in good actions as well as good intentions. So, it depends on observable and unobservable factors.

However, the measurement of religiosity in Divine Economics framework is not meant to actually reward and punish people on this estimation. Rather, it is meant to measure religiosity by using a robust set of observable indicators as far as possible so as to be able to rank people on their religiosity levels. Thus, it targets criterion related validity for the behavioural comparison. This approach enables the comparison of choices between religious and non-religious economic agents.

Nonetheless, Divine Economics framework also faces some challenges in research. Islam provides a code of life in which even the pursuit of material sustenance can be worship if the believer does it with acknowledging his true role and place in this world. This creates an overlap between religious and non-religious activities.

Furthermore, the quantity of religious activity is not the appropriate indicator of religiosity level if the quality and motivation behind religious activities differ. Hence, a busy professional surgeon, a broadcaster or a steward devoting less time to religious activities, but fulfilling the professional duties with sincerity and commitment may get equal or more reward and be as much religious as a person whose professional and personal life is centred on religious activities like a teacher in Madrasa or an Imam of mosque. While the quantity can be measured, the quality, motivation and contextual

differences which determine the quality of religious activities are unobservable as well as beyond direct examination.

Hence, relative comparisons are difficult to make and which make generalization and aggregation immensely difficult. Without the possibility of aggregation and generalizability, the policy use of empirical findings becomes limited.

Indeed, studies in Divine Economics framework can explain differences in social and economic choices between religious and non-religious groups, but measuring both the religiosity and its exact *ceteris paribus* causal effect on behaviour is difficult to establish. One must take caution that this framework should not be used as a way of validation or invalidation of religious values and principles. Only the right actions can justify the effects of religious teachings and validity of beliefs.

Principles cannot bring contradictory results in behaviour if applied and followed correctly. Contradiction and variety in action is not due to principles, but because of human preferences and sovereignty in choices. It is the compliance to religion that makes a person religious and not his performance determining the effectiveness of religion.

Utility and profit maximization models try to explain economic behaviour in markets. Mainstream economists would argue that by treating preferences as exogenous, economics remains neutral about various motivations behind the choices. Thus, while selecting the

airline, hotel and transport services, one would engage in marginal analysis even in religious travel for Hajj and Umrah.

Likewise, mainstream economists may argue that if a person feels obliged to do household chores, attend to family and also to engage in spiritual activities, then, such non-economic choices are lumped together in leisure.

Their focus is not on determining deeper motivation, but how such choices in labour-leisure trade off determine and affect market wage and level of employment. Problem is that in this framework, if religiously motivated allocation of time and money is taken in objective function rather than exogenously excluded from the constraint function, then there will be a need for price of such allocation of time and money and a supply side.

In response, the noted author argues that this framework also provides a way to see how people substitute time with money to have the desired spiritual fulfillment and well-being. For instance, a religious scholar with humble monetary resources, but abundant knowledge would share knowledge and devote more time in teaching. A businessperson or busy professional having less free time and relatively more monetary resources would contribute money to causes in which he or she personally may not be able to participate directly.

However, the predicament remains that such choices might economically be theorized to achieve economic efficiency with equi-marginal principle, but their acceptance and evaluation

would involve analysis of quality, context and intention beyond merely quantity and following equi-marginal principle.

Is religious choice an economic good? Does it have a price? Does it have a supply side and market too? Economics of religion literature thinks so. But, this framework of analysis seems limiting for Islamic economics where the purpose is to achieve need fulfillment of various economic needs at the individual and collective level within the bounds of religious teachings and norms.

Thus, Islamic economics would suggest that there shall be missing markets for goods that are not allowed to be consumed. It will also suggest development of some new markets for products like Halal meat, cosmetics, medicine, insurance, banking and investments.

On the other hand, mainstream economists suggest that when empirical analysis of demand and supply in such markets is required, some abstraction will be necessary to yield an empirical model. In the current scenario, demand curve is derived from the utility function and supply curve is derived from the profit function.

Some Muslim economists working in the area of Islamic economics suggest that such tools of demand and supply analysis are themselves not quite robust and complete. In some cases, there is no supply function, such as in monopoly. Not all the empirical demand estimation methods necessarily require theoretical underpinning. Hence, empirical models can also be

developed using inductive research techniques. Beyond markets, the empirical analysis focusing on profitability, stability and efficiency of institutions and markets does not require much abstraction to proceed. They argue that there is a case of developing Islamic economics without resorting to abstract mathematical theorization. Divine Economics framework, economics of religion and mainstream economics in general would argue in response that unless a sound alternate theoretical framework is established first, empirical research would lack direction, consensus and be more prone to econometric misapplication.

Another potential challenge in Divine Economics framework is the weakness of stated preferences method of survey in finding motivations behind actions where the questions of ethics are involved. Behavioral economics confirms through empirical evidence that people tend to be overconfident. They have their personal biases which make people to consider themselves more righteous than they really might be in reality if they face actual trade-offs and crossroads.

It is also difficult to create an exact situation of real trade-off scenario by using stated preference method of survey or even lab experiments. People responding with an agreement on the high value attached to truthfulness may act otherwise when they face the actual trade-off involving real payoffs to them in real world scenario.

As per Islamic principles, certain sins can overshadow other noble and charitable acts almost completely.

Some or most religious teachings relate to social behaviour, such as good speech, good manners, justice and honesty, for instance. Hence, if a person has not fulfilled his duty towards his mother and his wife, then, his statement about himself is not an exhaustive means of determining his religiosity since his shortcoming in social relations can better be gauged from the views of those related to him.

To its credit, the data collection strategy in Divine Economics framework makes meticulous efforts to cross verify some details, but as can be expected, not all such personal details and accounts are objectively verifiable.

Another important thing to note is that religiosity is not an addition of positive activity alone, but a net of positive and negative activities. Positive activities may be revealed by the respondent or even exaggerated, but negative activities may be underreported or altogether hidden. Measuring religiosity is so much hard that even the researcher cannot possibly know and predict his or her own religiosity. Moreover, religiosity is also dynamic.

Divine Economics framework also strives to look at the effect of religiosity on well-being. More complications arise in this research question. From an Islamic perspective, this worldly life is a trial (Al-Qur'an: Al-Mulk: 2). Absolute justice and deterministic rewards are promised in

afterlife. Hardships and struggles are meant to test steadfastness, character, devotion and purity. Even the most pious prophets (pbut) in worldly sense faced hardships and some were martyred (Al-Qur'an: Al-Baqarah: 61).

Some or greater part of promised well-being is to be achieved in life hereafter. There is no way to gauge that, but it does have a temporal effect on behavior in this world. Thus, here, both the independent variable of religiosity and the dependent variable of well-being are quite difficult to measure reliably and the role of extraneous variables cannot easily be captured comprehensively.

An alternate strategy could be to focus on societal well-being which is less complex and has more practical significance. Islam asks to feed hungry, take care of weak, establish justice, protect and respect private property, conserve environment and avoid wastage, for instance.

Such social wellbeing indicators are more reliably measurable. Policy goals at the national as well as at the global level also emphasize on improving these indicators and hence societal well-being. Research in this focused area is more doable, universally acceptable, has practical value and will avoid problems in evaluating personal judgments.





## Reflections

Political changes in Afghanistan have brought the world's attention towards freedom and liberty for the Afghan nationals. However, the concept of freedom and liberty in contemporary discourse takes a narrow approach.

In search of weapons of mass destruction that were never found, hundreds of thousands of people lost their lives in Iraq. Same happened in Afghanistan. Hundreds of thousands of people lost their lives. It is estimated that trillions of dollars were spent in Afghanistan primarily as military spending and yet more than half of the population lives below the line of poverty in Afghanistan.

World Bank estimates that there are around 600 million poor people who are facing extreme poverty. If we give them dollar a day, it will amount to \$600 million. Such daily spending if done every day will sum up to \$219 billion for a year. In contrast, as per Stockholm International Peace Research Institute data for 2020, United States had spent \$732 billion and China had spent \$261 billion on defense in a single year.

We need to revisit our priorities and see why we have dual standards and aspirations for 'us' and 'them'.

Twentieth century resulted in around 200 million war related deaths. In just two decades, it seems that the twenty first century might even be worst.

Just reflect on this example of dual moral standards of justice. Raymond Davis, American national, killed human beings in daylight. With political and diplomatic pressure, he got acquittal. After some months, he was charged over a parking lot violation. There is no meaning to democracy if despotic regimes are supported elsewhere for political reasons and democratic governments are toppled as in Egypt, Gaza and nearly in Turkey.

Prof. Jeffery Sachs has documented how colonialism and slavery held Africa back. In learning lessons, intellectuals in American society need to consider their own past which is tainted with exploitation and genocide of slaves, extreme form of racism and now imperialism across many countries.

There is urgency shown to get every US national out of Afghanistan with safety, but also need to ask conscience of a human spirit as to what were the crimes of Afghan nationals and civilians who were shot dead like 'bugs'. What exactly is freedom then?

### Market News

- ❖ The share of Islamic banks in the overall banking system has also increased to 17% on the assets side and 18.7% on the deposits side (Express Tribune, August 23).
- ❖ Millennial and Gen Z Muslims are expected to account for 75% of Islamic banking revenue within the next ten years (Fintech Times, August 9).
- ❖ Abu Dhabi's bank launches world's first Islamic digital bank targeting Generation Z (Geo News, August 23).
- ❖ Islamic banking in Egypt valued at \$24.82bln in June 2021 (Zawya, August 22).
- ❖ Qatar's Islamic banking assets stood at \$121.7bn in 2020 (Gulf Times, August 17).
- ❖ GCC countries collectively account for 45.2% of the total Islamic banking assets globally (Alpen Capital, August 17).
- ❖ Kazakhstan's first digital Islamic bank Tayyab rolls out services (Salaam Gateway, August 6).
- ❖ Islamic banking grows 4.3pc in 2020 compared to 12.4% in 2019 as per IFSB (Trade Arabia, August 19).
- ❖ Egypt to offer its 1st Sukuk in H2 of current fiscal year (Arab News, August 25).
- ❖ Global Sukuk issuances rose 20% to record-breaking \$175bn in 2020 as per IIFM (The National News, August 7).
- ❖ Malaysia's Maybank triples size of Sukuk program to \$7.1 billion (Reuters, August 5).
- ❖ Saudi Arabia closes \$3bn August Sukuk program (Arab News, August 26).
- ❖ First Islamic bond in Tanzania is oversubscribed (The Citizen, August 20).
- ❖ Indian Occupied Kashmir authorities order demarcation, verification of Waqf properties (Pakistan Observer, August 26).
- ❖ Islamic finance assets are expected to reach US \$3.8 trillion by 2023 (Fintech News, August 25).
- ❖ Shari'ah Fintech is projected to reach the USD 125 billion mark by 2025 (Kr-Asia, August 4).

## Economic and Financial Indicators

### Credit Services by Financial Sector and Banks in OIC Countries

| Country       | Domestic Credit by Finance Sector (% GDP) | Domestic Credit by Banks (% GDP) | Country       | Domestic Credit by Finance Sector (% GDP) | Domestic Credit by Banks (% GDP) |
|---------------|---|----------------------------------|---------------|---|----------------------------------|
| Albania       | 58.82                                     | 30.74                            | Libya         | 43.39                                     | 17.62                            |
| Algeria       | 72.74                                     | 24.16                            | Malaysia      | 143.12                                    | 119.33                           |
| Azerbaijan    | 13.18                                     | 19.99                            | Maldives      | 64.94                                     | 28.29                            |
| Bahrain       | 90.89                                     | 73.72                            | Mali          | 32.30                                     | 25.34                            |
| Bangladesh    | 64.06                                     | 46.77                            | Mauritania    | 42.86                                     | 28.56                            |
| Benin         | 26.96                                     | 23.85                            | Morocco       | 110.22                                    | 62.08                            |
| Bosnia        | 62.01                                     | 54.79                            | Mozambique    | 32.89                                     | 22.67                            |
| Brunei        | 28.37                                     | 34.40                            | Niger         | 21.98                                     | 14.08                            |
| Burkina Faso  | 34.03                                     | 29.81                            | Nigeria       | 21.20                                     | 10.91                            |
| Cameroon      | 19.27                                     | 15.20                            | Oman          | 66.81                                     | 70.43                            |
| Chad          | 22.48                                     | 9.62                             | Pakistan      | 58.28                                     | 18.89                            |
| Comoros       | 17.89                                     | 15.40                            | Qatar         | 132.80                                    | 76.66                            |
| Cote d'Ivoire | 39.07                                     | 26.18                            | Saudi Arabia  | 38.78                                     | 53.97                            |
| Djibouti      | 37.24                                     | 32.06                            | Senegal       | 35.39                                     | 28.26                            |
| Egypt         | 91.81                                     | 25.55                            | Sierra Leone  | 23.20                                     | 5.71                             |
| Gabon         | 23.13                                     | 12.93                            | Sudan         | 31.11                                     | 12.37                            |
| Gambia        | 37.57                                     | 6.63                             | Suriname      | 45.23                                     | 28.25                            |
| Guinea        | 23.11                                     | 9.56                             | Tajikistan    | 15.63                                     | 11.41                            |
| Guinea-Bissau | 21.36                                     | 11.91                            | Togo          | 48.76                                     | 36.79                            |
| Guyana        | 68.94                                     | 37.33                            | Tunisia       | 93.34                                     | 67.46                            |
| Indonesia     | 47.24                                     | 32.74                            | Turkey        | 83.28                                     | 64.16                            |
| Iran          | 77.65                                     | 66.06                            | Uganda        | 25.54                                     | 14.85                            |
| Iraq          | 6.97                                      | 8.64                             | UAE           | 91.28                                     | 75.72                            |
| Jordan        | 109.18                                    | 78.32                            | West Bank     | 56.61                                     | 49.90                            |
| Kazakhstan    | 38.23                                     | 23.77                            | Yemen         | 30.12                                     | 5.64                             |
| Kosovo        | 45.16                                     | 41.00                            | Low Income    | 25.91                                     | 20.40                            |
| Kuwait        | 79.90                                     | 88.68                            | Middle Income | 148.80                                    | 101.60                           |
| Kyrgyzstan    | 22.35                                     | 23.76                            | High Income   | 188.44                                    | 79.20                            |

**Source: World Development Indicators 2019**

## Savings Investment Gap in Selected OIC Countries

| Country       | Savings (% GDP) | GFCF (% GDP) | Gap    | Country         | Savings (% GDP) | GFCF (% GDP) | Gap    |
|---------------|-----------------|--------------|--------|-----------------|-----------------|--------------|--------|
| Afghanistan   | 20.79           | 19.17        | 1.62   | Kuwait          | 35.29           | 17.98        | 17.31  |
| Albania       | 16.28           | 24.17        | -7.90  | Kyrgyz Republic | 26.68           | 31.16        | -4.48  |
| Algeria       | 37.83           | 41.36        | -3.53  | Lebanon         | -2.77           | 17.16        | -19.93 |
| Azerbaijan    | 32.97           | 20.63        | 12.33  | Malaysia        | 28.53           | 24.40        | 4.13   |
| Bahrain       | 28.80           | 28.66        | 0.15   | Mali            | 13.99           | 19.96        | -5.96  |
| Bangladesh    | 35.24           | 31.23        | 4.00   | Mauritania      | 19.38           | 57.39        | -38.01 |
| Benin         | 12.33           | 25.77        | -13.45 | Morocco         | 27.68           | 29.07        | -1.39  |
| Bosnia        | 13.86           | 18.59        | -4.73  | Mozambique      | 9.20            | 25.68        | -16.47 |
| Brunei        | 55.64           | 40.89        | 14.75  | Niger           | 20.23           | 33.66        | -13.43 |
| Burkina Faso  | 17.19           | 22.81        | -5.63  | Nigeria         | 18.26           | 14.72        | 3.54   |
| Cameroon      | 18.23           | 22.40        | -4.17  | Oman            | 19.43           | 25.09        | -5.66  |
| Comoros       | 12.03           | 17.52        | -5.49  | Pakistan        | 18.50           | 14.82        | 3.68   |
| Cote d'Ivoire | 14.57           | 20.79        | -6.22  | Saudi Arabia    | 34.91           | 21.39        | 13.51  |
| Djibouti      | 23.65           | 24.20        | -0.55  | Senegal         | 20.42           | 24.95        | -4.54  |
| Egypt         | 10.37           | 16.25        | -5.88  | Sierra Leone    | 3.36            | 17.98        | -14.62 |
| Gabon         | 38.38           | 21.41        | 16.97  | Sudan           | 15.09           | 18.67        | -3.59  |
| Gambia        | 12.04           | 17.01        | -4.96  | Suriname        | 50.34           | 37.54        | 12.80  |
| Guinea        | 8.58            | 19.47        | -10.89 | Tajikistan      | 23.09           | 26.63        | -3.53  |
| Guinea-Bissau | 8.42            | 10.82        | -2.40  | Togo            | 21.73           | 25.27        | -3.55  |
| Guyana        | 30.19           | 31.09        | -0.90  | Tunisia         | 8.87            | 18.69        | -9.82  |
| Indonesia     | 31.63           | 32.29        | -0.66  | Turkey          | 26.60           | 29.67        | -3.07  |
| Iraq          | 19.59           | 14.40        | 5.19   | Uganda          | 18.35           | 24.14        | -5.80  |
| Jordan        | 9.35            | 16.67        | -7.31  | Uzbekistan      | 41.90           | 29.76        | 12.14  |
| Kazakhstan    | 26.03           | 21.89        | 4.14   | West Bank       | 12.63           | 23.20        | -10.57 |
| Kosovo        | 23.60           | 28.73        | -5.13  | Middle income   | 30.76           | 28.69        | 2.07   |
|               |                 |              |        | High income     | 23.07           | 21.33        | 1.74   |

**Source: World Development Indicators 2019**

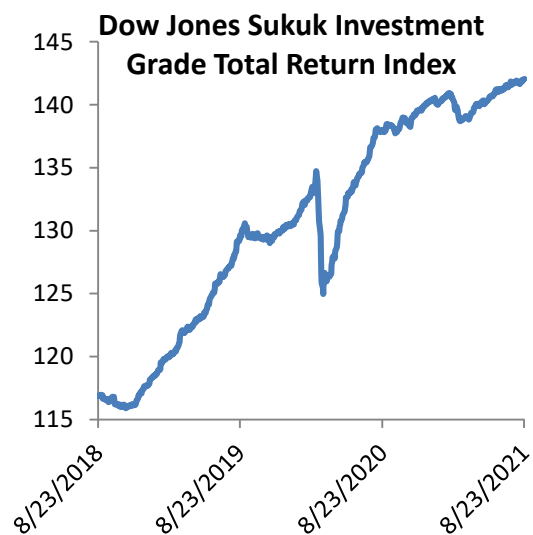
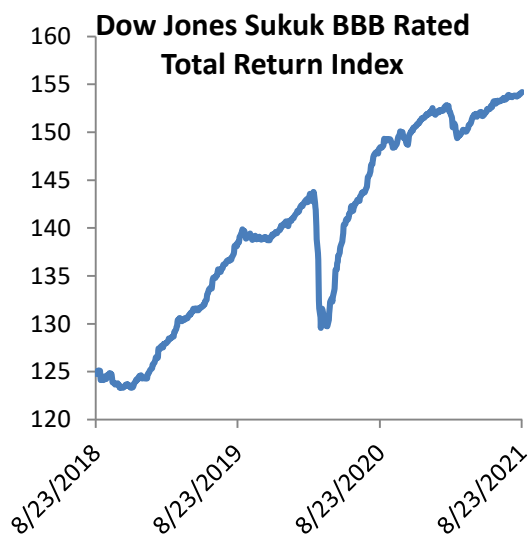
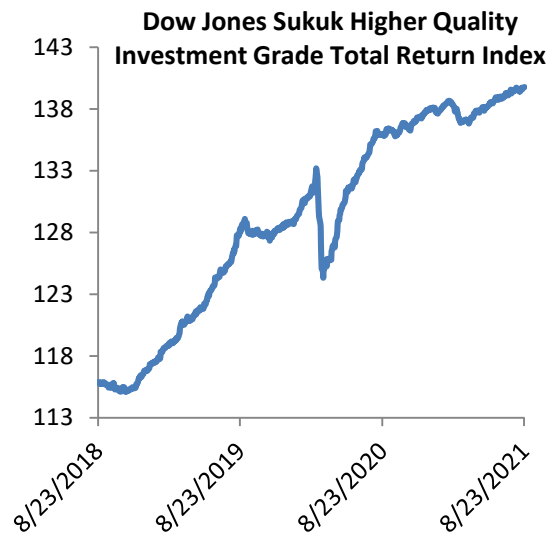
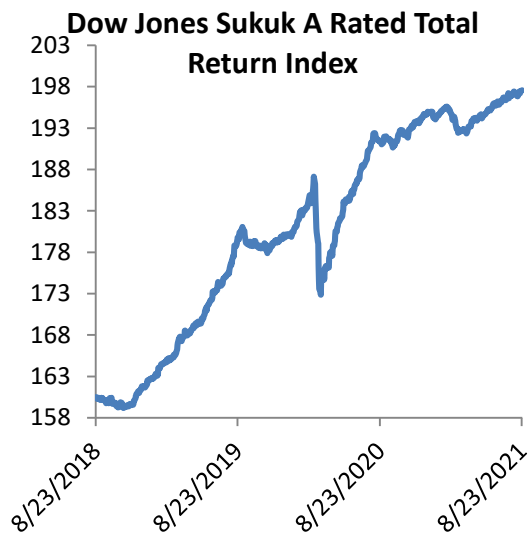
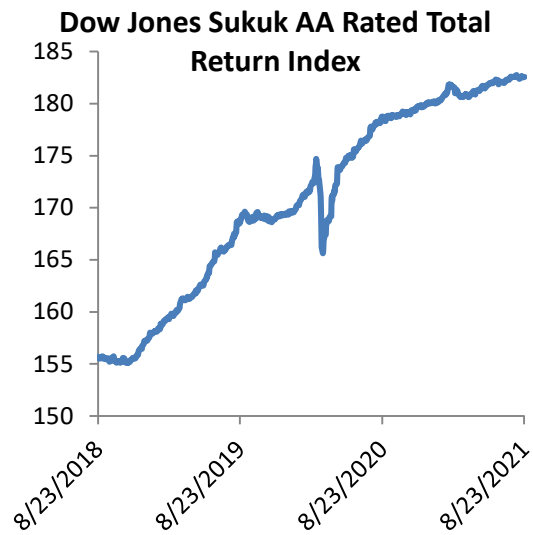
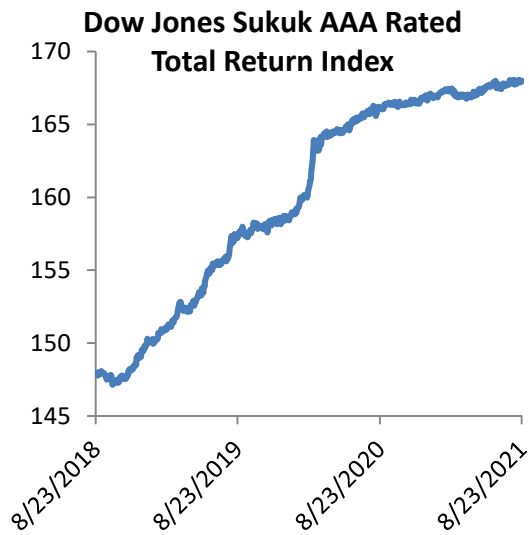


### Islamic Banking Statistics Up to Q4-2020

| Country               | CAR   | Gross NPF | ROA   | ROE   | Net Profit Margin | Cost to Income |
|-----------------------|-------|-----------|-------|-------|-------------------|----------------|
| Bahrain               | 17.80 | 8.30      | 0.40  | 4.50  | 13.80             | 53.20          |
| Bangladesh            | 12.70 | 4         | 1     | 22.90 | 34.30             | 55.40          |
| Brunei                | 19.20 | 4.80      | 1.70  | 13.60 | 56.50             | 45.20          |
| Egypt                 | 19.01 | 5.77      | 2.86  | 32.30 | 60.10             | 26.26          |
| Indonesia             | 21.60 | 3.10      | 1.50  | 13    | 19.90             | 80.10          |
| Jordan                | 22.80 | 2.20      | 1.70  | 17.20 | 49.40             | 50.60          |
| Kazakhstan (2019Q3)   | 33.30 | 0.20      | 1.30  | 4.50  | 19.50             | 34.50          |
| Kuwait                | 17.70 | 1.90      | 1     | 10.20 | 23                | 30.80          |
| Malaysia              | 18    | 1.30      | 0.70  | 9.70  | 28.70             | 40.70          |
| Nigeria               | 16.80 | 7.80      | 3.20  | 41.70 | 96.80             | 37.90          |
| Oman                  | 14.50 | 2.20      | -0.80 | -6.20 | -23.40            | 69.90          |
| Pakistan              | 16.60 | 4.10      | 2.40  | 39.20 | 43.60             | 49.50          |
| Palestine             | 15.20 | 2.50      | 0.70  | 8.50  | 20.70             | 69.20          |
| Qatar (2019Q1)        | 18.30 | 1.40      | 0.40  | 4.40  | 38.90             | 11.90          |
| Saudi Arabia (2021Q1) | 18.60 | 1.20      | 2.50  | 19.80 | 54.30             | 45.70          |
| Sudan                 | 11.50 | 3.50      | 3.50  | 67.70 | 51.20             | 49.70          |
| Turkey                | 17.80 | 3.40      | 1.30  | 16.60 | 23.10             | 36.80          |
| UAE                   | 20.10 | 6.90      | 0.80  | 6.10  | 20.40             | 50             |

Source: IFSB Data

## Performance of Sukuk Indices in Pre COVID-19 and Post COVID-19 Period



### Call for Papers

Emerald Journal of Economics and Administrative Sciences, Special Issue  
The Impact of the Covid-19 Pandemic on Islamic Finance and Environmental, Social,  
and Corporate Governance (ESG)

<https://www.emeraldgrouppublishing.com/journal/jeas/impact-covid-19-pandemic-islamic-finance-and-environmental-social-and-corporate>

International Congress on Islamic Economics and Finance (ICISEF) 2021  
21-24 September 2021, Sakarya University  
[www.icisef.com/](http://www.icisef.com/)

7th International Islamic Monetary Economics and Finance Conference  
Bank Indonesia Institute, Bank Indonesia, October 25 - 27, 2021  
<https://jimf-bi.org/index.php/JIMF/announcement>

5<sup>th</sup> Annual Islamic Finance Conference  
Pusat Ekonomi & Bisnis Syariah, 25 - 26 August, 2021  
<https://pebs-febui.org/en/5175/the-5th-annual-islamic-finance-call-for-papers/>

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### Other Resources on Islamic Economics Project Portal

- |                                   |   |
|-----------------------------------|---|
| ❖ Research Articles               | ❖ Book Reviews                              |
| ❖ Research Presentations          | ❖ Frequently Asked Questions                |
| ❖ Islamic Finance Calculators     | ❖ Topical Bibliographies                    |
| ❖ Course Outlines                 | ❖ Islamic Finance Education Providers       |
| ❖ Academic Resources              | ❖ Researchers Database in Islamic Economics |
| ❖ Data Resources Links            | ❖ Call for Papers                           |
| ❖ Islamic Economics Journals List | ❖ Glossary of Islamic Finance               |
| ❖ Qur'an and Hadith on Economics  | ❖ Video Library                             |



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