

# REALISM

## **The meaning of Realism in Islamic Economics**

What is realism with respect to Islamic economics and finance?

In the context of the characteristics of the Islamic economic and financial systems, realism means that the rulings of the Islamic law (Shari'ah) always stick to things as they exist in the real world, in their actual realistic forms as they actually take place in real life.

Shari'ah does not accept making prior assumptions or presumptions about future results, outcomes or responses; it does not found its rulings on the basis of assumptions or presumptions about future behaviors of the economic agents or about economic variables and magnitudes. Furthermore, whatever assumptions, expectations and hopes the economic agents, transactors or parties to contracts may make do not affect the rulings of Shari'ah. The Shari'ah rulings take as foundation only hard facts and actual events as they unfold on the ground of real life.

## **Sources of Realism in the Qur'an and the Sunnah**

The roots of realism in the Islamic law are found in sources of Islam themselves, the Qur'an and the Sunnah. The Qur'an was revealed in a manner that responds to incidences, events and affairs as they unfolded in the actual life of the Prophet Muhammad, his companions and his society over the twenty-three year period of revelation. During this period of revelation whenever an event or incidence happened, a few verses of the Qur'an were revealed giving the Shari'ah ruling with regard to such events or incidences. Revealed in this manner, the verses of the Qur'an made the law deal with actual transactions and relations without prior theorization or hypothetical judgments.

In the Tradition (Sunnah) of the Prophet, pbuh, we are repeatedly encountered with Sayings to the effect of preventing asking questions about assumed cases, cases that did not happened or details that were not given in the revelation. Muslim scholars consider such Sayings so basic to the extent that they are made part of the primary level of education. See for instance Sayings 9, 12 and 30 of the Nawawi Forty Sayings. Furthermore, realism of Shari'ah is also implied in characteristic of being coherent with the human nature (Fitrah) that is emphatically mentioned in several Sayings of the Prophet, pbuh. Dealing with the Fitrah is dealing with reality and facts not fantasies and imaginative assumptions.

### **Realism in Islamic Economic, Finance and Business Law**

Realism features in the basic pillars of the Islamic economic system as well as in the Islamic business law. You find it in the pragmatic flexible combination of private ownership and public ownership. Such a combination reflects real life as it is lived on the ground away from the dogmatism of both Capitalism and Communism.

Same kind of realism is also found in the Islamic approach to economic freedom that lies exactly in the middle between "laissez faire" and "totalitarianism." It expresses an unlimited freedom of men and women to take economic decisions within boundaries set by law on attainable goods and transactions.

Furthermore, with all the idealism of a religion that aims at salvation in the Life After, the Islamic economic and financial system comes down to earth in recognizing the human material urges and motives for joys and wealth accumulation with no attempt to suppress them in this worldly life and to the extent that such urges and motives are used to encourage good deeds through a vivid description of the material joys given in Heaven as rewards for good doers.

In the Islamic business law a few examples help explain the meaning of Realism and how it features in the different aspects of this law. We will take three examples

from the legal theory of exchange contracts, tort and liability theory and the financial theory.

In the theory of exchange, sale contracts can only be undertaken on specific commodities or rights that can be materially delivered such as physical goods, property's usufructs and publication rights. Hence, exchange contracts cannot be entertained on fish that is still to be caught from the sea or birds that are still to be hunted from the sky. By the same token, Dow Jones and Standard and Poor indices cannot be traded according to the Islamic Shari'ah because they are not factual commodities.

Similarly, a person cannot sell goods that (s)he does not own or owns but does not have possession of because a sale contract must be based on factual ability to deliver. In these and similar exchange-related rulings we find a common element that is "a sale contract can only be entertained on objects that are already on hand in such a way that nothing normally hinders the contracting parties from proceeding with implementing their contract.

The existence of unspoken presumptions that fish is going to be caught, birds are going to be hunted, an index is a notional representative of a bundle of goods and/or properties and sold goods are going to be owned and possessed before the delivery date are all not sufficient conditions to warrant embarking on an exchange contract..

Granted that every rule has exceptions, it is noticeable that in all exceptions of this rule, such as "sale on description," "sale on sample" and "sale with deferred delivery known as Salam contract," the ability of delivery 'under normal conditions' must exist at the time of contract. Consequently, such exceptional contract may be undertaken only on commodities that will normally be available in the market on the day of delivery.

Similarly, in civil liability, the Shari'ah tort theory always focuses attention on the material injurer and amount of material injury, and disregards emotional and psychological losses, not because they are not true but because you can't make a realistic, non-assumptive assessment of their value. Hence, the Islamic tort theory considers emotional, psychological, non-traceable injuries and personal slander as punishable but non-compensatable.

In the area of Islamic finance, the prohibition of Riba (interest) is founded on similar argument. Both the benefit of a borrower and the sacrifice of a lender in a loan contract are either themselves presumptive or cannot be measured without making presumptions. In the literature of Islamic jurisprudence we find interest described as a material increment for an illusory probable utility.

On the other hand, the benefits harvested by the borrower from a loan are recognized but since they are not measurable their compensation is left to God as a reward in Heaven to the lender. Along with the prohibition of loan-interest, equity investment is permissible because in equity investment you distribute the actual real results of an enterprise.

The same realism also appears in the relationship between the entrepreneur and the fund owner, the entrepreneur's contributions is recognized in allowing her/him a share of profit, if a profit is generated by the enterprise while s(he) is not charged any part of the losses because losses are a reduction in capital and s(he) did not contribute capital. In the classical Fiqh literature, we find the expression that s(he) loses her/his labor that went uncompensated because it did not produce any profit. Realism is also reflected in permitting entrepreneurs to enter enterprises as profit sharers or hired laborers, because in real life there are people who take risk for the hope of higher profit and there are the risk averters who prefer secured salary.

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