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**Islamic Economics and Happiness Economics a Case Study on the Role of
Central Banks in Approaching Human Wellbeing**

Prof. Dr. Fouad H.Beseiso

*Former Central Bank Governor, Founder of the Center of Economic Future Center, For Consultancy
and Strategic Studies*

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ABSTRACT

Keywords: *Islamic
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reform and Human
Wellbeing.*

This study explores the role played by the Islamic Economics in approaching Happiness Economics with a case study on the role of central banks in achieving human wellbeing. The study concluded that while a revolution emerged in the economic sciences field which is more effective and efficient, if accurately followed, in approaching human wellbeing, Central banking and the financial sector remained within its traditional role and functions aiming at economic and monetary stability. Only Islamic Banking and Finance and within the Islamic Economics from conceptual and pragmatic basis could be considered a welcomed development which might be building a corner stone for enabling a new role for banking and finance sector for approaching happiness economics from national to global perspective.

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Part 1: Happiness Economics – The Conceptual Basis and Thought Development¹

1. Introduction

Happiness constitutes the greatest and first priority within human beings' wellbeing. This fact creates the first motivation for my presentation.

The recent history of economic thought succeeded in laying the cornerstone for Happiness Economics which has been considered to be emerging as a turning Revolutionary economic point which integrated analytical economic tools with psychology science tools.

This revolution has proved to be a leading approach affecting both public policies and private sector business community towards achieving subjective happiness atmosphere.

Revolutionary developments in economics are rare. The conservative bias of the field and its enshrined knowledge make it difficult to introduce new ideas not in line with received theory.

"Happiness research, however, has the potential to change economics substantially in the future. Its findings, which are gradually being taken into account in standard economics, can be considered revolutionary in three respects: the measurement of experienced utility using psychologists' tools for measuring subjective well-being; new insights into how human beings value goods and services and social conditions that include consideration of such non-material values as autonomy and social relations; and policy consequences of these new insights that suggest different ways for government to affect individual well-being²".

"In Happiness, emphasizing empirical evidence rather than theoretical conjectures, Bruno Frey substantiates these three revolutionary claims for happiness research. After tracing the major developments of happiness research in economics and demonstrating that we have gained important new insights into how income, unemployment, inflation, and income demonstration affect well-being, Frey examines such wide-ranging topics as democracy and federalism, self-employment and volunteer work, marriage,

¹ This research Paper has drawn heavily upon a chapter prepared by the researcher as author of a book to be published shortly by Emerald Publishing on "Approaching Happiness Economics within the World Challenges - The Conceptual and Practical Basis Case Study on the Role of Islamic Economics"

² Bruno S. Frey(2008), Happiness: A Revolution in Economics (Munich Lectures in Economics) Hardcover – May 2, 2008. http://www.amazon.com/Happiness-Revolution-Economics-Munich-Lectures/dp/0262062771/ref=pd_sim_b_1

terrorism, and watching television from the new perspective of happiness research³".

Turning to policy implications, Frey describes how government can provide the conditions for people to achieve well-being, arguing that a crucial role is played by adequate political institutions and decentralized decision making. Happiness demonstrates the achievements of the economic happiness revolution.

1.1. Happiness and Subjective human wellbeing

Objective human wellbeing covers three main dimensions including economic, social and environment wellbeing and focus on many subjective wellbeing indicators reflecting the quality of life.

"Objective indicators capturing varied dimensions of economic, social, and environmental well-being of the targeted communities. Also focusing on subjective indicators of quality of life such as community residents' satisfaction with life overall, satisfaction with various life domains (e.g., life domains related to social, leisure, work, community, family, spiritual, financial, etc.), as well as satisfaction with varied community services (government, nonprofit, and business services serving the targeted communities".⁴

The Happiness of People determine internationally development policies

The implication one may draw is that in countries where most people are not happy, there is economic underperformance and loss. In July 2011, the United Nations (UN) General Assembly proposed 'the happiness of the people' as a new measure to guide development policies. In April the following year, the UN launched the first meeting on happiness and wellbeing, presided over by the Prime Minister of Bhutan. Not long after, the first World Happiness Report (Earth Institute 2012) was published, pooling existing multi-disciplinary knowledge. This momentum, along with progress in data standards and collection, has led to the integration of happiness components into the Sustainable Development Goals for 2015–30, the successor to the Millennium Development Goals.

It is thought that Capitalism and other Socio-economic systems applied in our recent world including capitalism, socialism, dictatorship and welfare systems had been producing periodic crises, world economic instability, social

³ Bruno S. Frey is Professor of Economics at the University of Zurich, Visiting Professor at the Swiss Federal Institute of Technology, and Research Director of CREMA (Center for Research in Economics, Management, and the Arts). He is co-editor of *Economics and Psychology: A Promising New Cross-Disciplinary Field* (MIT Press, 2007).

⁴ <http://www.springer.com/series/8363>

injustice, continued conflicts, hate and wars spreading globally in general and in the Middle East and developing countries in particular.⁵

Various Socio-economic and political systems proved to have many gaps in responding to the human wellbeing including in economic field {sustained economic growth, full employment, sustained real per capita growth and stability, in the social and cultural aspects (ensuring an adequate level of social justice, education and higher education and ensuring basic quantitative and qualitative health services , social care) and moral (preservation of virtue, morality, religion and societies avoid corruption) and environmental pillar into development activities (establishing a green development projects committed to a clean environment requirements and preserving the rights of future generations), and the political aspects (including democracy, Democratic institutions provide the opportunity for the most disadvantaged groups in society to participate, institutionalize their rights, make choices, challenge public policies and hold Governments accountable, political freedom of choice, formation of political parties, free public opinion, judicial just system, freedom of speech, publication, and assembly; and the duty to respect human dignity in social life)⁶

1.2. Happiness Economic Definition

The economics of happiness assesses welfare by combining economists' and psychologists' techniques, and relies on more expansive notions of utility than does conventional economics. The related research highlights factors other than income that affect well-being.⁷ Consequently the economics of happiness is an approach to assessing welfare which combines the techniques typically used by economists with those more commonly used by psychologists.

"While psychologists have long used surveys of reported well-being to study happiness, economists only recently ventured into this arena. Early economists and philosophers, ranging from Aristotle to Bentham, Mill, and Smith, incorporated the pursuit of happiness in their work"⁸.

⁵ CHAPR, Umer,M,(995) Islam and the Economic Challenge, The Islamic Foundation and The International Institute of Islamic Thought 1416 – 1995, Islamic Economics Series - 17 http://ierc.sbu.ac.ir/File/Article/Islam%20and%20the%20Economic%20Challenge_93524.pdf

⁶ NICKEL, James (2014), "Human Rights", The Stanford Encyclopedia of Philosophy (Winter 2014 Edition), Edward N. Zalta (ed.) <http://plato.stanford.edu/entries/rights-human/>

⁷ GRAHAM, Carol (2005) , The Economics of Happiness, Economic Studies Program, The Brookings Institution, Forthcoming in Steven Durlauf and Larry Blume, eds., The New Palgrave Dictionary of Economics, Second Edition. <http://www.brookings.edu/~media/research/files/articles/2005/9/globaleconomics%20graham/200509.pdf>

⁸ Ibid.

Happiness economics – which represents one new direction – relies on more expansive notions of utility and welfare, including interdependent utility functions, procedural utility, and the interaction between rational and non-rational influences in determining economic behavior.

"Richard Easterlin was the first modern economist to revisit the concept of happiness, beginning in the early 1970s. More generalized interest took hold in the late 1990s (see, among others, Easterlin, 1974; 2003; Blanchflower and Oswald, 2004; Clark and Oswald, 1994; Frey and Stutzer, 2002a; Graham and Pettinato, 2002; Layard, 2005"⁹.

After reviewing most of the definitions given to Happiness, I refer in the following to the clearest definition that shed clearer lights on the state of subjective happiness and illustrate at the same time happiness determinants serving our objected conceptual and practical basis required for achieving wellbeing happiness.

"Happiness occurs in various ways and it is often seen as a reflection of satisfaction with life"

"In the context of psychology, "happiness" has been cited as a psychological state and an overriding goal of human behavior. Watson (1980) stated that no quest claims a larger following than happiness. According to him, the essentials of happiness for most people are among the stable elements of life (friends, work, and nature)"¹⁰.

Time emphasis: Happiness is an evaluation of life as a whole.

The judgement may cover not only the present, but also on the past or anticipate the future. It is, of course, one thing to identify the correlates of happiness, and quite another to use public policies to bring about a society-wide rise in happiness (or life satisfaction). That is the goal of Bhutan's Gross National Happiness-GNH, and the motivation of an increasing number of governments dedicated to measuring happiness and life satisfaction in a reliable and systematic way over time.

The most basic goal is that by measuring happiness across a society and over time, countries can avoid "happiness traps" such as in the U.S. in recent decades, where Gross National Product-GNP may rise relentlessly while life satisfaction stagnates or even declines.

In light of the preceding concepts about Happiness we would use both terms of Happiness and satisfaction with life and subjective well-being to mean the same.

⁹ Ibid.

¹⁰ Ibid.

Governments are increasingly measuring well-being with the goal of making well-being an objective of policy. Lord Gus O'Donnell, former UK Cabinet Secretary and Head of the Civil Service, showed just how this can be done. It shows how different are the policy conclusions when health, transport and education are viewed in this light¹¹.

Governments worldwide are now measuring subjective well-being or are currently considering whether to do so. OECD explains the thinking behind their new international standard guidelines for measuring well-being, and the office of the UN Human Development Report explained its own approach to the issue.

1.3. Islamic Economics and Happiness

Responding to world thinkers seeking a third road to achieve happiness as both systems of Capitalism and Socialism and their added reforms and restructuring decisively failed to attain human happiness, but lead to more wars and human suffering and international financial and economic crisis as deeply represented in the latest continuing Crisis of 2008. This crisis gave arising belief in the Islamic economics which witnessed a rapid growth within regional and international circles and has been developing as a welcomed source for playing a basic contributing role in the International financial system.

Another important motivation for searching about the relation between Islamic Economics and happiness is arising from the state of conflicts and hatred prevailing in our recent national, regional and international sphere. This position motivates the need for the search for a "third way" to fight against hate-speech and hate-crimes as a result of the growing phenomena of Hate in Europe whether as anti-Semitism or anti Islam and Islamic people. This applies to Israel's ambassador to Germany when he claimed that German Jews are being hunted again like in 1938. It also applies to all voices claiming Muslim Germans are now in the position of Jews in 1938. This searched third road requires understanding all factor lead to this world of hatred and discrimination"¹².

The solution for this world state of affairs might be searched in the determining factors which sow the seeds for human love and Happiness. Here we will explore the role of the Islamic Economics as the third road.

Several foreign and international voices cry out in order to stress the fact that Islamic economics is the hope for the salvation of humanity from the

¹¹ Ibid.

¹² *Neuwirth, David* © *Qantara.de* 2015 <https://en.qantara.de/content/anti-semitism-and-islamophobia-a-third-way-yes-but-one-that-acknowledges-the->

extremist positions adopted by each of the two dominant economic systems capitalism and socialism¹³.

Economy is the vital context which reveals the material and spiritual strength of Islam and through which the Islamic Ummah can achieve its cohesion, strength and universal mission.

Islam was not revealed to man for spiritual guidance, as was Christianity which advocates the principle of "Give to Caesar what belongs to Caesar and to God what belongs to God". Instead, Islam came in order to organize man's life in all its aspects, whether they are political, social or economic. The Messenger Mohammad, may Allah's prayer and peace be upon Him, was not only a Prophet but also an executive judge¹⁴.

1.4. Islamic Economics –Conceptual Basis¹⁵

Islamic economics has been having a revival over the last few decades while, conventional economics has become a well-developed and sophisticated discipline after going through a long and rigorous process of development over more than a century. How does Islamic Economics differ from conventional economics, and what contributions have it made over the centuries?

This evolution emerged as all development theories which led to the establishment of capitalism, rooted in Adam Smith's thought of free market invisible hand concept (1776) as well as all of development theories which developed from economic development to socio-economic development and then to human development as initiated by UN-UNDP. However the human economic thought discovered that all included concepts in the mentioned theories could not succeed in approaching human happiness and wellbeing. Then all these development theories and thoughts progressed towards economic development of happiness. This last development of economic thought has been emerging in the search for other determinants of human happiness than the building of wealth and GNP.

These lacked gaps are defined mainly as virtual ethics, socio-economic and political indicators approaching happiness.

Secular and materialist worldviews attach maximum importance to the material aspect of human well-being and tend generally to ignore the importance of the spiritual aspect. They often argue that maximum material well-being can be best realized if individuals are given unhindered freedom to pursue their self-interest and to maximize their want satisfaction in keeping

¹³ <http://www.kantakji.com/media/6605/teaching-islamic-economics.htm>

¹⁴ Ibid.

¹⁵ M. Umer Chapra, (2005) Op.cit,

with their own tastes and preferences. In such a worldview there is little role for values or government intervention in the efficient and equitable allocation and distribution of resources. When asked about how social interest would be served when everyone has unlimited freedom to pursue his/her self-interest, the reply is that market forces will themselves ensure this because competition will keep self-interest under check.

In contrast with this, religious worldviews give attention to both the material as well as the spiritual aspects of human well-being. They do not necessarily reject the role of reason in human development. They, however, recognize the limitations of reason and wish to complement it by revelation. They do not also reject the need for individual freedom or the role that the serving of self-interest can play in human development. They, however, emphasize that both freedom and the pursuit of self-interest need to be toned down by moral values and good governance to ensure that everyone's well-being is realized and that social harmony and family integrity are not hurt in the process of everyone serving his/her self-interest.

There is no doubt that, in spite of its secular and materialist worldview, the market system led to a long period of prosperity in the Western market-oriented economies. Inequalities of income and wealth have also continued to persist and there has also been a substantial degree of economic instability and unemployment which have added to the miseries of the poor. This indicates that both efficiency and equity have remained elusive in spite of rapid development and phenomenal rise in wealth.

Islamic Economics and Conventional Economics

While conventional economics is now in the process of returning to its pre-enlightenment roots, Islamic economics never got entangled in a secular and materialist worldview. It is based on a religious worldview which strikes at the roots of secularism and value neutrality. To ensure the true well-being of all individuals, irrespective of their sex, age, race, religion or wealth, Islamic economics does not seek to abolish private property, as was done by communism, nor does it prevent individuals from serving their self-interest. It recognizes the role of the market in the efficient allocation of resources, but does not find competition to be sufficient to safeguard social interest. It tries to promote human brotherhood, socio-economic justice and the well-being of all through an integrated role of moral values, market mechanism, families, society, and 'good governance. This is because of the great emphasis in Islam on human brotherhood and socio-economic justice.

1.5. Islamic Economics, Finance, Banking and Wellbeing

While economic revolution emerged the national, regional and international financial system witnessed within the same era the birth of the Islamic

Economics and Finance which based its concept on the shariah teachings and its objectives (Maqased)¹⁶. Islamic Economics has been developing and widely spreading from national and regional circles to global perspective, registering sustained annual growth with about 15-20 percent in its assets. The recent economic and financial crisis and their monitored sources and reasons motivated the convincement of many of the international financial system about the feasible refuge to Islamic banking and finance which seems to be more qualified to prevent crisis than the traditional banking and finance sector¹⁷.

In light of lessons of frequent crisis which had their drastic impact on banks including Islamic Banks, central banks should be very careful within their strategic direction to run a system through which early warning system with related required indicators should be built efficiently, better crisis and risks management, and established measures to deal with crisis¹⁸

Islam is a social, economic and political guide for individuals and communities.

The spiritual and secular lives in Islam are closely interrelated.

From an Islamic viewpoint, happiness is not restricted to material prosperity, though material reasons makeup some elements of happiness is on non-material concerns. Happiness depends totally on the degree of happiness. The material aspect is merely a means, but not an end in itself. The main focus is attaining growth and development attained by the soul.

In the volume published by Emerald publishing group which we edited and contributed a research paper on the strategic role of central banks towards Islamic finance role, we highlighted the conceptual basis governing the leading role of central banks as well as the practical basis resulted from our academic research and practical experience.¹⁹

Islamic Finance –Sustainability and Wellbeing Contribution

Dr. Zeti Akhtar Aziz, Governor, Central Bank of Malaysia, with her deep experience in Islamic Banking and Finance illustrated effectively and

¹⁶ Shariaah Maqased is mainly five; many Islamic thinkers including added the sixth masked which is freedom.

¹⁷ Beseiso, F, (2013)A keynote Speaker in the International Conference On Islamic Finance Organized by Emerald Publishers Group International and Abu Dhabi University Knowledge Group in Abu Dhabi on 14-16 April. Prof. Beseiso, F (2013) Presentation was On "The Role of Central Banks in Shaping the Future of Global Islamic Banking ".

¹⁸ Beseiso, F,(2010) Manual On The Management of Economic Financial and Banking Crisis(The Conceptual and Practical Basis) Published by Arab Banks Union , 2010 (Arabic)

¹⁹ Beseiso, F (2012) Op.cit.

with accurate analytical evaluation the role played by Islamic finance in achieving stability, sustainable economic growth for the regional and international economy. This is proved through the basic principles and preventive measures against crisis as well as other available financial instruments governed by the main financial intermediation role in its relation to the economic productive activities and thus leading to sustainability and stability which ends with sustained human wellbeing.

In the following illustrations as derived from Dr. Zeiti evaluative speech²⁰.

On the searched solution for a financial system that will best serve the real economy, sound and resilient and that is less vulnerable to financial crisis Dr. Zeiti said;

*"The global crisis has in fact demonstrated the pivotal role of an efficient functioning financial system towards achieving such a self-sustaining economic recovery. This has prompted an intensive collaborative effort by the international community to undertake wide ranging and far reaching financial reforms. This commitment is for a solution that will evolve a financial system that will best serve the real economy, a financial system that is sound and resilient and that is less vulnerable to financial crisis"*²¹.

Islamic finance, as a rapidly growing form of financial intermediation, has demonstrated its resilience during the global financial crisis and has every potential to advance the growth and development agenda.

*"As a form of financial intermediation, Islamic finance incorporates several elements that guide the process of the mobilization and allocation of funds to generate productive economic activity and inclusive development." Fundamental to Islamic finance is the requirement that financial transactions be accompanied by an underlying productive economic activity that will generate legitimate income and wealth. There is therefore, a close link between financial transactions and productive flows. Thus, the growth in Islamic financial assets is generally accompanied with growth of underlying activities that have economic value"*²².

²⁰ Speech of H.E. Dr. ZETI, Akhtar Aziz, Governor, Central Bank of Malaysia, Islamic Finance: An Agenda for Balanced Growth and Development, at the IDB Group Luncheon at the IMF-World Bank Annual Meetings, in honor of the IDB Governors and other dignitaries. Washington, 10 October 2010. <http://www.isdb.org/irj/portal/anonymouse?NavigationTarget=navurl://a60b98a8e4f1ebf3dc9fd8650aa4617f>

²¹ Ibid.

²² Ibid.

The resilience of Islamic finance is a main contributor to its sustainability. The global financial crisis, unprecedented in modern history has brought to the forefront the main issues concerning soundness and stability of financial system. It is recognized that financial stability is critical to ensure the sustainability of the intermediation function.

On the international aspects and risk management Dr. Zeti illustrated the development of Islamic Finance as becoming an important channel for fostering international financial linkages and in so doing is contributing to more balanced growth and development. "The internationalization of Islamic finance has therefore not only allowed for further diversification of risks, it has also contributed to more efficient allocation of funds across borders from centers with surplus funds to regions with investment opportunities²³".

The importance of Islamic finance in strengthening financial linkages and rapid pouring into the international financial markets is evident in particular with the emergence of sukuk (Islamic bonds) instruments to prominence as an attractive new asset class for investors and a competitive form of financing for businesses. "The global sukuk market currently stands with an average growth rate of about 40 percent annually. Having now become the most vibrant segment in Islamic finance, the sukuk market has evolved into a truly international market, generating significant cross-border flows as funds are being raised from beyond domestic financial markets"²⁴.

"As we pursue with stronger vigor the agenda of balanced growth and development, we have the potential to leverage on the increased role of Islamic finance in contributing to the global growth and global financial stability agenda. In addition, it can also be leveraged upon to foster greater financial flows across borders to contribute towards our agenda of enhancing a mutually reinforcing growth and the development agenda to achieve global aspiration of a self-sustaining, balanced and long lasting economic progress and development"²⁵.

Part 2: The Role for Central Banks in Approaching Human Wellbeing - A case Study

2.1. Conceptual Introduction

Our main Objective for this case study is defined to explore the opportunity for a new role to be played by central banks in approaching Happiness Economics (Human wellbeing) and consequently laid the groundwork upon

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

which to propel our aspirations towards effective responding role about happiness economics. We should keep in our minds, while designing the new architecture and required infrastructure for the new central banking mission, the vital role played by Islamic Banking and Finance nationally, regionally and internationally as well as the unavoided contributing role of Ethical considerations in the reallocation of financial resources to more socially responsible areas and contributing to greater social well-being²⁶.

Islamic banking and Finance continues to grow strongly

During the past three decades, considerable progress has been made in almost all significant aspects of a comprehensive Islamic Financial Services Institutions (IFSI). The various segments of the industry and the related intellectual capital, institutions and policy initiatives have developed rapidly and attained a degree of maturity and international recognition.

The Islamic banking sector is reported by Ernst & Young to have grown at an annual rate of 16% in the period 2008–2012, reaching assets of USD1.7 trillion by the year 2013.⁵¹ Estimates of the asset size and growth rate vary significantly (another report, for example, estimates banking assets to be USD950 billion⁵²), but the consistent findings are that the sector is rapidly increasing in size, with assets near or above USD1 trillion. The sustained growth of the sector throughout the financial crisis is seen as a sign of resilience and of ongoing relevance to customers worldwide. Islamic banking remains the core of the Islamic financial services industry. It is estimated that 73% of total Islamic finance assets worldwide are banking assets. Nearly three-quarters of the industry's assets, therefore, are in the banking sector²⁷.

The opening session of the IFSB Summit culminated in the launch of the flagship Islamic Financial Services Industry (IFSI) Stability Report 2015, which is published by the IFSB. The Secretary-General of the IFSB, Mr Jaseem Ahmed, summarized the key findings of the Report²⁸: Despite the global economic slowdown, growth has been robust across Islamic financial sectors, with the banking sector growth rate at about 17% per annum during the post-crisis period, 2007–14. The growth rate of Sukuk issuances was even higher during this period, at about 19% per annum.

²⁶ Islamic Financial Services Industry Development, Ten-Year Framework And Strategies (2007), A joint initiative of the Islamic Research & Training Institute , Islamic Development Bank and Islamic Financial Services Board, http://www.ifsb.org/docs/10_yr_framework.pdf

²⁷ Ibid.

²⁸ Islamic Financial Services Board, Islamic Financial Services Industry (IFSI) Stability Report 2015, 12th IFSB Summit 2015 Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework Kazakhstan, 20–21 May 2015 Proceedings [http://www.ifsb.org/docs/IFSB%2012th%20Summit%20Proceedings%20\(final\).pdf](http://www.ifsb.org/docs/IFSB%2012th%20Summit%20Proceedings%20(final).pdf)

In Malaysia, the Islamic banking industry has achieved a market share of 26% of the total banking sector; Sukūk constitute more than half of bonds outstanding (both government and private Sukūk); the Takāful sector has a 13% market share of the total insurance sector; and the Islamic fund industry has an 18% market share²⁹.

We have been living in the recent years witnessing a central Banking role remain functioning within a traditional mission in conformity with the traditional concepts of Economic, Money and banking sciences and the traditional authority in organizing, supervising banking and financial sector and formulating the implemented monetary policies which constitute the cornerstone of its role as directed to achieve economic and monetary stability.

This is the conventional role of central banking being played while at the same time a documented revolution of the economic sciences have been emerging during the last quarter of last twentieth Century as mentioned before, that is known as the economics of happiness which integrated the economic science tools with psychology science tools in order to approach human happiness and wellbeing³⁰.

"In 2015, eight years on since the eruption of the crisis, the central banking community still faces many difficulties and challenges as it surveys possible exit strategies from their current policy stances and grapples with the possible medium-term impacts"³¹.

Newly emerging thought about the need for a new role for central banks and monetary policy in light of the last world economic and financial crisis and related studies. In light of the crisis and the subsequent policy responses, important questions have arisen as to the proper roles, duties, and obligations of central banks in the years ahead. The central banking thought began to question a new role to be delineated which empower central banks to play more active role in achieving sustained development with the environment pillar, as well as the sustained wellbeing instead of just sustained economic growth and began to be caring about medium and long-term monetary policy impacts.

"Climate change and other environmental challenges are moving up policy agendas worldwide. Nonetheless, the potential implications of

²⁹ IFSB (2015), Proceedings of 12th IFSB Summit 2015 Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework, Kazakhstan, 20–21 May 2015.

³⁰ Bruno, S. Frey (2008), Op.cit

³¹ Fundamentals Of Central Banking (2015), Lessons from the Crisis, Published by Group of Thirty Washington, D.C. October 2015.
<http://www.williamwhite.ca/sites/default/files/CentralBanking.pdf>

environmental risks and scarcities for central banking as well as the linkages between financial regulation, monetary policy and environmental sustainability remain largely unexplored. Against this background, the Council on Economic Policies (CEP) and the Bank of England (BoE) are organizing a workshop on Central Banking, Climate Change and Environmental Sustainability, on November 14-15, 2016 at the Bank of England in London, UK. The event will bring together researchers from academia, central banks, and other nonacademic research of a larger CEP program on monetary policy and sustainability¹⁶².

Sukūk issuance has caught the imagination of the world, with the G20 and multilateral bodies exploring the efficacy of Sukūk as a suitable instrument to finance especially infrastructure in Muslim member countries³³.

It should be noted that despite the rapid growth of Islamic finance and the available opportunities for its sustained flourishing, Islamic finance is still a nascent industry in most countries and has not yet achieved a critical mass or the strategic focus needed for an effective recognition of its unique operational features in the national policy-making process. Therefore, Islamic international infrastructure institutions can and should play a key catalytic role in promoting the industry at the national level³⁴.

Reforming the Financial Sector

The current structure and practices of the banking and financial sector are impacting human wellbeing in a painful and noticeable suffering. Reference could be highlighted to illegal and inhuman exercises which should attract central banks utmost care to address these practices. It should be mentioned also that such practices exercised by the financial and banking institution were to a large extent responsible for the emerging regular crisis, particularly the last one of 2008 which reflected the practices of the newly designed financial engineering tools called derivatives and the financing practice directed to the real estate sector.

Reforming the financial system is a strategy required in light of inequality and ineffective traditional practices towards the business community and the deep weakness of moral aspects of financing policies as could be seen in the practices towards the poverty and the poor as towards SMEs.

³² <http://www.cepweb.org/wp-content/uploads/CEP-BoE-Call-for-Papers-2016.pdf>

³³ IFSB (2015), Proceedings of 12th IFSB Summit 2015 Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework, Kazakhstan, 20–21 May 2015.

³⁴ Islamic Financial Services Industry Development, Ten-Year Framework And Strategies (2007)

There are many practical examples on the banks illegal, unconstructive policies and Practices; the inequitable allocation of financing in the conventional banking system is now widely recognized. Lender wishes to get a return without sharing in the risks of business, it would be irrational for him' 'to lend as much to the impecunious as to the richer members of society or to lend the same amounts on the same terms to each. The established practice of banks is hence to lend mainly to those individuals and firms who have the necessary collateral to offer³⁵.

Therefore reforming the financial system should constitute one of the key objected socio-economic reforms in light of the revolution of economic sciences.

The adoption of the Islamic financial system could be more conducive to the needed reform. The restructuring should be comprehensive enough to enable the financial institutions to make their full contribution towards the removal of imbalances, and towards the equitable as well as efficient intermediation of financial resources. Since the resources of financial institutions come from deposits placed by a wide cross-section of the population, it is only rational to regard them as a national resource in the same way as water supply coming out of a public reservoir. They must be utilized for the well-being of all sectors of the population and not for the further enrichment of the wealthy and the powerful.

In light of the preceding analysis pertaining to the socio-economic and political systems prevailing in the Islamic countries and their impacts on the wellbeing of the human moslem societies , it has been very clear that in order to shift the current state of affairs and the direction from miseries including poverty and corruption, socio-economic and political system which is based on Maqasid al shariah should be accompanied by moral reform, transformation of life-styles and structural changes in the economy including islamic banking and finance sector.

"While catering to such specific needs of society, Shari'ah-compliant financial services could appeal to other segments of the population so long as the quality of these services is at least comparable with other alternatives. Being an option among many others, the Islamic financial services industry (IFSI) could therefore enhance competition in the financial sector. In a nutshell, the services provided by the IFSI are compatible with the principle of "social inclusiveness", which is a basic requirement for ensuring just and equitable social progress. Furthermore, such an inclusive financial sector

³⁵ From the direct experience of the author as Governor of Central Bank and Controller of Banks in Palestine.

*development strategy with good service quality can be expected to successfully replace informal markets with formal and regulated ones*¹⁶⁶.

International plans, policies and programs for reforming the International financial and monetary system are designed in light of the conventional traditional financial and monetary sector role. This could be illustrated from the G20 reforming program directing to present the structural problems as reflected by the international last crisis.

*"New Global Regulatory Reforms – G20 Agenda and Basel III The crisis has nevertheless led to an overhaul of the global financial regulatory system led by the G20 Agenda, which mandated the Financial Stability Board (FSB), standard-setting bodies and the IMF with the task of restoring global financial stability. The Agenda covers all the sectors of the financial services industry, and focuses equally on enhancing the supervisory and enforcement elements of regulation and on strengthening rules and standards. The core goals of these developments include strong micro prudential regulation that is globally coordinated; effective supervision; a robust cross-border resolution framework; and a larger regulatory perimeter that includes, for instance, addressing shadow banking issues, and strengthening accounting standards, data gaps and credit ratings*¹⁶⁷.

While considering this agenda to be conducive in light of the crisis lessons and required reforms, however we can judge that this direction is not centered around the priorities arising from the proposed mission for a new role for the banking and finance sector towards the human wellbeing as defined in our preceding analysis.

2.2 Central Banking Role in Approaching Wellbeing.

Financial Sector Social Role

"The critical and persistent issues of poverty reduction and improvements are important aspects of human welfare such as health and education, reducing child mortality, youth insecurity and restlessness, and so on, face every society today whether at the local, national, regional or international level. The financial intermediation system must play a vital role in alleviating these perennial human development problems and in achieving economic

¹⁶⁶ Islamic Financial Services Industry Development, Ten-Year Framework and Strategies (2007), Op.cit.

¹⁶⁷IFSB(2015),Op.cit.

[http://www.ifsb.org/docs/IFSB%2012th%20Summit%20Proceedings%20\(final\).pdf](http://www.ifsb.org/docs/IFSB%2012th%20Summit%20Proceedings%20(final).pdf)

development by efficiently channeling financial resources towards productive opportunities, hence enhancing production, investment and trade activities³⁸."

"Historical evidence shows that the efficiency of financial markets and institutions and financial depth and diversity can affect economic growth positively, and that development and competitiveness of the financial system are closely linked to economic growth. At the same time, international evidence shows that financial instability can harm economic growth and create unemployment and social insecurity. Therefore, the development of efficient and sound financial institutions and markets, with a policy and institutional framework aimed at fostering stability, remains a basic prerequisite for resource mobilization and allocation to achieve and sustain the objectives of development policies³⁹."

In light of the conceptual and practical basis for enabling efficient and effective role of Central Banks, as regulatory body in shaping the future of Islamic Financial System towards achieving human wellbeing, key legal, institutional and managerial strategic determinants for this role should be defined aiming at achieving stability, sustained socio- economic and political human growth and the effectiveness of the financial Sector, mainly with relation to their social aspects⁴⁰.

2.3 Development of Financial Markets and Ethics

This is an area of priority for the financial industry including mainly Islamic Banking and Finance. In this regard, the development of a comprehensive system including the various components of the financial markets would meet the requirements of the various differentiated groups. The challenge in the banking industry is, therefore, to steer the development of a financial system towards one which is more dynamic and responsive⁴¹.

³⁸ Islamic Financial Services Industry Development, Ten-Year Framework and Strategies (2007), Op.cit.

³⁹ Ibid.

⁴⁰ The Speaker attended The Bank of France (Central Bank) Celebration memorizing his inception before 100 Years (Paris, May 1999).A seminar was following the inaugural celebration and presided over by the Prime Minister and attended by many governors of central banks from many countries of the world .The seminar concluded that Independence of Central Banks should be guaranteed in order to design freely monetary policies as authorized by the country's population. In this case economic, social and also political stability could be achieved.

⁴¹This section draws extensively on the author performed volume as editor on "The Developing Role of Islamic Banking and Finance: From Local to Global Perspectives. Contemporary Studies in Economics and Financial Analysis – Volume 95 (U.K and U.S.A, Emerald Group Publishing Limited, 2010).

The development of a financial system should include the key components comprising the money market and the Islamic equity and debt capital market, given the strong linkages, inter-dependence and synergies among these components in the system. Of importance is the Islamic money market to act as a platform to provide a ready source of short-term funding and investment. Financial instruments and interbank investment will allow surplus banks to channel funds to the deficit banks, thereby maintaining the funding mechanism necessary to promote stability in the system. The Islamic money market will also facilitate the conduct of monetary policy.

The Islamic financial system also needs to include the capital market to provide an alternative source of financing, as well as to create broader and more diverse Islamic financial instruments for investors. The equity and bond markets will provide a more balanced allocation of financial and economic resources.

This would result in a more efficient distribution of risks within the system, thus creating stability in the system. The equity and bond markets would also provide an avenue for raising long-term capital. With a wider spectrum of instruments in the market, fund managers would be able to manage their portfolios better and spread their risk according to their desired risk tolerance, thereby contributing toward greater stability.

Complementing these financial markets is the development of non-bank Islamic financial institutions. Takaful, or Islamic insurance, provides the risk protection to its policyholders and serves as an important mobiliser of long-term funds. In addition, development financial institutions, savings institutions and housing credit institutions need to be developed to meet the diversified customer demands. These specialized institutions will meet the different requirements of the economy⁴².

2.4 Banking sector and Technology

Creating synergy between IT and operations to ensure sustainability will be a key driver in the future success of the financial services sector and wellbeing. The benefits of technology such as scale, speed and low error rate are also reflecting in the performance, productivity and profitability of banks, which have improved tremendously in the past decade. These mentioned benefits of technology would be reflected positively on human wellbeing. Regulatory

⁴² Ibid.

initiatives and organizing measures from the Central Bank as illustrated in the Indian case have also played a large role in the banking sector as follows⁴³:

- ✓ To enable the finalization of a framework for the delivery of basic financial services using mobile phones, the Cabinet Secretariat constituted an inter-ministerial group (IMG) in 2009
- ✓ Banking Technology Excellence Awards were instituted in the year 2001 with a primary objective of encouraging and recognizing the excellence in implementation of Technology for better customer service, operational efficiency and expansion of banking services to the hitherto uncovered sections of Society.
- ✓ Financial inclusion, in recent years, has emerged as a major policy initiative. The Reserve Bank of India has significantly scaled up its efforts aimed at increasing the level of penetration of bank financing in the economy.
- ✓ The government has set up two funds — the Financial Inclusion Fund to meet the costs of developmental and promotional interventions toward financial inclusion, and the Financial Inclusion Technology Fund to meet the costs of technology adoption.

Sustained Development and Environment

One of the main cornerstones of effective socio-economic, political and cultural system including the financial system is its commitment to achieve sustained human wellbeing, with environment basic project component. . Environment pillar includes; Poverty alleviation, social integration, Sustainable Management of Natural resources, Foods and water security, Land degradation and desertification. The financial sector whether on national or regional basis is considered one of the determinant factors playing a vital role in the success of approaching human development and wellbeing.⁴⁴

⁴³ Beseiso, F. (2012) Strategic Planning for Banking Technology -The Conceptual and Practical Basis, Presentation for the banking sector senior staff, Tehran Electronic Banking Event, Tehran-Iran, 18-19 November, 2012

⁴⁴ Beseiso, F. (2008) Two Researches On the Economics of Environment and Sustained Deployment, Published in the Book on "Environmental Management, Sustainable Development and Human Health", Edited by E.N. Laboy-Nieves, F.C. Schaffner, A. Abdelhadi & M.F.A. Goosen, November 2008, CRC Press, Taylor & Francis Group, London, New York, Leiden.

- Conceptual Framework of Environmental Economics and Management- Governance and Pragmatic Approach for Integrating Sustained Environment into Human Development- Regional Case (UN- ESCWA).

2.1 Reforming Central Banking Mission and Restructuring

Strategic Planning for a leading role of Central Banks

Effective regulatory and supervisory framework

The hallmark of a well-developed financial infrastructure is an effective legal, regulatory and supervisory framework which would underpin the stability and sustained growth of the financial system enabling it to reach objected happiness. The regulatory and supervisory function is an indispensable and vital component of the financial infrastructure. For the Islamic financial system, this framework also needs to be consistent with the requirements of the Shariah principles, including the establishment of a Shariah council, which provide assurance that the strategic direction, the formulation of policies and the conduct of financial transactions are in compliance with the Shariah principles. Shariah makases include basic human needs to be attained by happiness economics and wellbeing.

Many challenges remain facing the Islamic finance sector which should attract the continued strong will of central banks. A review of supervisory and risk management arrangements and the infrastructure support for Islamic finance reveals significant gaps and weaknesses. These are in the early stages of being addressed by some national authorities, and by the Islamic international infrastructure institutions, most of which were established only recently (with the exception of AAOIFI, which was established in 1991 to develop accounting and auditing standards for Islamic banks). AAOIFI has made a major contribution to establishing key accounting, auditing and reporting standards, and to supporting Shari'ah contract and governance standards, but much remains to be done to support rapid innovations in the industry.

The IFSB has begun to address a range of prudential supervision and financial stability issues in Islamic finance effectively, although significant challenges remain to be addressed regarding the cross-sectoral features of the industry. However, significant gaps remain in addressing the weaknesses in key financial infrastructure components that are needed for sound market development and product innovation in the sector. These infrastructure weaknesses also impede effective risk management and reduce the effectiveness of supervision⁴⁵.

Central Banks could be playing their objected role through adapting all monetary policy tools, including discount rate, interest rates, reserve requirements and credit policies, as well as central bank capacity as the main

⁴⁵ Islamic Financial Services Industry Development, Ten-Year Framework and Strategies (2007), Op.cit.

adviser for the government to the response in a conducive manner to the requirements and determinants of happiness economics and wellbeing as defined. This mission relates to the products and polices and outputs of the Socio-economic, cultural and political system objecting to approach human wellbeing.

This direction requires supervising and organizing the financial role of the financial sector towards a new leader of socio-economic, cultural projects' priorities conforming to human development projects and building the stones for the strong base required for the take off towards sustained development and wellbeing. This means a strong role to be emerging to support and encourage the green development projects including agriculture, food and water security, rural development directed to reach the poor and achieving equity among people and narrowing the Gap between the wealthy and the poor, support social projects related to Human capital and Knowledge economy (education, higher education, training, health projects ,cultural and social projects such as elderly services and needy students in schools and universities while supporting the role of universities in the community development activities.

Particular emphasis should be directed to restructuring and reorganizing credit policies which have been responsible as a main contribution to recent continued financial crisis including the last international economic and financial crisis of 2008.

Central Banks provide the opportunity for a major improvement in the management and effectiveness of Islamic Banks. It provides the impetus for agencies to clarify their missions and objectives, measure their performance better and improve their efficiency and effectiveness. It must, however, avoid the risk of becoming, like some previous efforts to improve government management, largely a paper exercise which produces many numbers and reports but few real results.

As central banks throughout the world respond to the new proposed role pertaining to human wellbeing requirements as illustrated in the preceding analysis a new pressures on them are imposed in order to restructuring their activities and re-defining their roles, and as they come under the glare of public scrutiny, in so they naturally pay more attention to their performance. Standards are established, performance evaluation measures defined, and management styles changed. Efficiency and accountability have to be demonstrated to a skeptical public.

Governing boards, ministers and the media have to be assured that official organizations are using resources in cost-effective ways.

Satisfying these multiple objectives requires staff development, training and performance management of a. high order⁴⁶. All of this means that an effective strategic management function is at the heart of an efficient modern central bank or agency.

Required world Financial Stability

The Financial Stability Forum was created in the aftermath of the 1997-8 financial crisis in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country and to enhance the institutional framework to support global financial stability.

It is now apparent that the reforms that it has proposed, although important, have not been sufficient to avoid major global financial instability. If it is to become the main instrument for the formulation of reforms of the global financial system it must take into consideration the importance of financial stability for the development of the real economy.

Conclusion

We conclude by saying that while a revolution emerged in the economic sciences field which is more effective and efficient, if accurately followed, in approaching human wellbeing, Central banking and the financial sector remained within its traditional role and functions aiming at economic and monetary stability. Only Islamic Banking and Finance and within the Islamic Economics from conceptual and pragmatic basis could be considered a welcomed development which might be building a corner stone for enabling a new role for banking and finance sector for approaching happiness economics from national to global perspective.

Pouring the economic revolution about happiness into the vital banking and financial sector gathering the central banks as the leader for this sector and all players within this sector including banks and financial non-banking institutions (as takaful and financial markets) is a required process as well as a necessity for human wellbeing.

Financing is a powerful political, social and economic weapon in the modern world. It plays a prominent role not only in the allocation and distribution of scarce resources but also in the stability and growth of an economy. It also determines the power base, social status and economic condition of an individual in the economy. Hence, no socio-economic and political reform can be meaningful unless the financial system is also

⁴⁶ <http://www.bis.org/review/r050225f.pdf>

restructured in conformity with the socio-economic and political goals of the society.

Both continued periodical economic, banking and financial crisis which all being affected and resulted mainly from the financial sector with its maintained traditional role which are still subject to this sector inhuman practices for human beings, thus restructuring and reforming this sector nationally, regionally and internally should be approached with central banks leading the whole new scenario.

Central banks should be aiming at his new mission subjecting the people to the concept of subjective happiness instead of just accumulating income and wealth while neglecting many human happiness bases including morality, religious, ethical, social aspects of humanity. Subjective happiness as identified concept should be the main objective for the financial sector and the central banks.

A newly created regulatory environment and mission will place the financial system on the human track. Building the required instructive technological environment can lead to new and favorably better financial services. Shariáh corporate governance for banks and financial non-banking institutions should be reached as defined to be the way in which a corporation is directed, managed and controlled through the application of Shariáh law or in a manner that is consistent with Shariáh law.

"In the modern world application of conventional corporate governance principles to Islamic Financial Institutions, not all of the conventional practices are rejected; but rather, an additional layer of corporate governance principles derived from Shariáh law is added to the existing layer of it".

To live this conceptual opportunity for redesigning financial sector, including mainly Islamic Banking towards human wellbeing, both policy makers within the proposed socio-economic and political system led by central banks and financial institutions need to play their part effectively and with a strong will. They need to ensure that the financial system is fit for the defined purpose and able to finance the newly emerging services.

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