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Islam and the Path to Human and Economic Development

Abbas Mirakhor; Hossein Askari

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*Abbas Mirakhor
and
Hossein Askari*



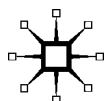
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May Allah (SWT) accept this effort as a modest contribution in walayahh. May He guide our children—Hassan, Cyrus, Hashem, Afsaneh, and Sonya—to His path. And may their development be complete and their journey filled with peace, blessings, and much happiness.

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Contents

<i>Foreword</i>	ix
<i>Preface</i>	xiii
<i>Acknowledgments</i>	xvii
1 The Evolution of the Western Concept of Development	1
2 Development as Human Well-being	27
3 The Foundational Elements of Development in Islam	53
4 The Dimensions of Development in Islam	91
5 The Institutional Structure of Development in Islam	129
6 Conclusion	179
<i>Notes</i>	185
<i>Glossary of Arabic Terms</i>	197
<i>Bibliography</i>	203
<i>Index</i>	219

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Foreword

Most people do not make a connection between the religion of Islam and the vital issues of economic and social development; and when they do, it is often to disparage Islam as a hindrance, even a retrograde force, in the progress of Muslim societies. The attempts by Muslim social scientists and economists in the past decades to develop a coherent discipline of “Islamic Economics” have not gone beyond the confines of the academic world, and, with the limited exception of Islamic banking, have not had a serious impact on either policy planners or the general public. They have also failed, I believe, to make the case that Islam has something distinctive to offer to the resolution of the myriad problems that face humanity, both in the rich and in the developing world: from poverty eradication, income inequalities, good governance in the poor countries to the problems that affect the rich world of overconsumption, alienation, and social fragmentation. At its heart, the inability to argue convincingly for a uniquely Islamic pathway to development has been because those who appear to advocate such a course have been unable—or unwilling—to base their case on a fundamental shift in their frame of analysis. That is until now.

Abbas Mirakhor and Hossein Askari have written a pioneering and profoundly significant work. Both writers have a long and distinguished record of scholarly achievement and have occupied prominent positions as policy makers and advisers to a variety of international agencies and national governments. Their work combines academic rigor, a thorough understanding of the evolution of economic and social theory and policy in the Western world, together with remarkably fresh insights into the moral and spiritual universe of Islam and its significance to the outer world of material achievement. It is in the way that they have woven the spiritualized precepts of Islam into the articulation of an alternative understanding of the nature, meaning, and purposes of economic development that sets this work apart. In the process Mirakhor and Askari have set markers for a new field of inquiry in economic development.

The authors demonstrate how economic theory became progressively distanced from its rooting in moral and political philosophy, until a reaction of sorts set forth with the rise of the New Institutional Economics of the postwar era. This opened economic development theory once again to a greater concern with the ethical component of economic activity, a position best exemplified in the work of writers such as Amartya Sen. Nevertheless, Mirakhor and Askari emphasize that in each era where a particular school of economic theory prevails—for example, the neoclassical economics that dominated economic theory and policy in the 1950s and 1960s—there are implicit underlying conceptions of *homo economicus*. These are the basic assumptions and postulates that drive the economic decisions of the irreducible individual. But this basic building block of all economic theory is not an invariant factor. It is one that changes with the age, and reflects the circumstances, values, and assumptions of that age. However, the models of *homo economicus* that have evolved to explain economic behavior have all tended to reflect the increasing secularization of society, where moral decisions are no longer embedded in the sense of the sacred. So that even when moral considerations appear to prevail—such as in Sen’s thesis of “development as freedom,” Giri’s emphasis on self-development or even in Mahbub al-Haq’s derivation of a human development index—there is no connection to an overarching spiritual framework for guiding human action and for setting the permissible limits and boundaries to such action. Although many scholars have recently resurrected the moral writings of Adam Smith and their integral role in the formulation of his economic theories, Askari and Mirakhor point out that Smith’s moral views were rooted in a strong belief in the Divine and cannot be properly understood except when viewed through the prism of a man of faith.

The great achievement of Askari and Mirakhor’s work is that they have brought back the great spiritual traditions of Islam right into the heart of the debate on economic development. And this is a sea change from the sterile debates on the nature of interest in Islamically acceptable transactions, or the convoluted, apologetic attempts to find a place for Islamic teachings in the framework of prevailing theories of development. These have dominated the discipline of Islamic economics for too long and have contributed in no small measure to its very restricted audience and its inability to seriously affect the course of economic development.

Mirakhor’s and Askari’s work is truly path-breaking and deserves to be recognized as such. By establishing what they call the “Metaframework” and the “Archetypal Model” as an integral component of an alternative perspective on the idea of economic development, they have affirmed the

primacy of the moral vision that must form the basis of humankind's economic relations and transactions. In this respect, they have built on key Quranic terms and ideas and developed them into directions that could form the basis for a new theory of economic development in Islam. Their arguments are original, well reasoned, and convincing as well as being authentic to the traditions of Islam. They construct the model of a human being whose economic actions are guided by both inspiration and the pursuit of virtues, and not only self-interest. And these actions take place in a framework where both the Divine and the normative human archetype are ever present. Notions of *walayabb* (cherishing concern), *khilafa* (vice-regency), *karama* (dignity), *tazkiyya* (purification or making whole), *iman* (faith-in-action), *taqwa* (God-awareness)—all Quranic terms with a deep font of meaning—establish the moral identity of the spiritually charged human being and govern his or her actions. They are related to the Divine sanction by which humanity organizes its affairs and manages the earth as its custodian, as well as the way in which individuals expand their self-awareness through mindful acts of worship and correctly transacting with others.

Islam's moral universe shares a great deal with the other great spiritual traditions of mankind, and Mirakhor and Askari continually stress the interconnectivity of these, drawing on the many instances where both Christianity and Judaism reach the same or similar positions as Islam. The balance between the inner drive of individuals for self-awareness and fulfillment in the Divine Oneness (or *tawhid*), and the needs of a community that organizes itself to best serve these goals is the desirable end state for humanity. Economic development that is fair, dynamic, and harmonious becomes the natural concomitant to this balanced state of affairs.

Askari and Mirakhor continue by examining the institutional and broad policy implications of their case, what they call the rules-basis of comprehensive development in Islam. They anchor their argument on a decisive verse in the Quran, which confirms humankind's ability to attain a felicitous state of inner and outer plenitude if people cultivate an ethic of faith-in-action and the commitment that that would imply in terms of the pursuit of the virtues, not least the ideals of a Just Society.

Mirakhor and Askari raise a host of challenging issues and questions that can be the basis for a serious reexamination of the ideals of economic development in light of the world view of Islam. The directions to which they have pointed can be pursued by any number of scholars and researchers, both Muslim and non-Muslim, to elaborate further on such relationships. It would be possible then to formulate a theory of human beings that privilege humanity as moral actors working in the framework of a

divinely ordered world and pursuing the ideals and virtues that elevate humankind.

It has been a great privilege for me to have been afforded the opportunity to write the foreword to this book of riveting importance.

ALI A. ALLAWI
Cambridge, MA
December 2009

Preface

Muslims have recently begun to search for a genuine Islamic paradigm to guide them in developing their societies. Their ardent search is no more than a few decades old, and it is still in its nascent stage. This book is a modest effort in support of this pursuit.

There is a large cognitive deficit between the holistic vision of the Quran for human and societal development and the results achieved by Muslim societies of today. We try to draw out the Quranic vision, which we refer to as the “Metaframework.” The experience of the earliest society organized by the Prophet, the most perfect human receptor of the vision embedded in the Metaframework and the one human being who best understood the objectives of the Quran for mankind, we identify as the “Archetypal Model.” Whereas the Metaframework applies to the whole of humanity in the abstract and at all times and in all places, the Archetypal Model is an operationalized blueprint that takes into account the actual conditions and experiential mode of specific societies. Every path of development followed anywhere and called Islamic must contain the essence of the Archetypal Model. Together, the Metaframework and the Archetypal Model represent the Islamic paradigm.

In another sense, this book is a modest effort to understand one verse of the Quran in which the Creator specifies the necessary and sufficient conditions for the holistic development of human societies. In verse 96 of Chapter 7 of the Quran, we are told that a human society will be on “automatic pilot” on the path to full development, at the level of both its individual members as well as their collectivity, if the members of that society are rule-compliant and are in constant awareness of the ever-presence of their Cherisher Lord Creator. Today’s development theories consider operative rules in societies as the institutional structure underpinning the path of economic and social progress. We endeavor to flesh out these rules from the Quran and from the sayings and doings of the Prophet as he implemented them in the society he organized in Medina, and to understand how complying with these rules paves the path to development. Before

doing so, however, we begin by placing the Islamic paradigm of development within the historical context of Western development thinking.

Although the literature on economic development has a rich history spanning more than three centuries, the early discussions were narrowly focused on the development of the market-oriented economies of the West. Attention to less-developed economies has been largely a post-World War II phenomenon. In the early post-WWII period, economists defined economic development as a combination of rapid economic growth and structural transformation. Countries that had low levels of per capita income needed to grow faster to catch up with the developed, or industrial, countries of the West. To achieve this, they would benefit from a transformation of their economies from an agrarian to an industrial base, where the level of productivity and its growth were significantly higher.

Given that narrow definition of economic development, most early post-WWII theories of economic development focused on how rapid growth and structural transformation could be achieved. It was not until the late 1970s and early 1980s that economists, inspired by the pioneering contributions of Mahbub ul Haq and Amartya Sen, began to question the popular definition of economic development and the path for its achievement. They argued that development was much more than an increasing level of per capita income and a simple structural transformation. For the first time, human development, including education, healthcare, poverty eradication, a more even income distribution, environmental quality, and freedom, was seen as an integral component of the economic development process.

The metamorphosis of economic development theories incorporating human development has also been reflected in the topics covered in the World Bank's annual flagship publication, *The World Development Report* (first published in 1978, with its history recorded by Shahid Yusuf in 2009), and by the United Nation's initiation of a *Human Development Index* in 1990. Although economic growth is still a necessary condition for economic development, it is no longer deemed sufficient. In other words, although man needs bread to live, he does not live by bread alone! Following the footsteps of Mahboub ul Haq and Amartya Sen, some authors have introduced additional components of human well-being, such as the need for sharing with the less advantaged and of belonging to a group, and the avoidance of opulent living. Others have added the importance of sustainability and natural resource management to benefit current generations in less-developed countries and to support future generations.

Thus, through the passage of time, economists have come to see the process of economic development as much more than the quest for increasing economic prosperity. While economic growth merely signifies more

output, our understanding of what determines growth has also gone through a transformation. The Solow-Swan neoclassical model of economic growth attributed economic growth to inputs of capital, labor, and technical change (embodied in capital). Paul Romer and others enhanced the Solow approach by giving technology an endogenous role, incorporating the importance of education and human capital in the growth process. At the same time, the role of institutions in the growth process and especially those of the rule of law, of rule-compliance and trust, based on the work of Douglas North and others, became increasingly recognized.

While the definition of economic development and the policies for its achievement have gone through a metamorphosis in the West, the concepts of economic and human development in Islam are not time dependent, because Muslims believe that the Quran is the divine word of God. Islam is an immutable rules-based system with a prescribed method for humans and society to achieve material and nonmaterial progress and development grounded in rule-compliance and effective institutions.

In this book, we briefly survey the evolution of the Western concept of development before exploring the path to development in Islam. The Western concept of development provides the context and benchmark for comparing and assessing Islam's concept of development. The Western approach, now recognizing the wider dimensions of human development and the role of institutions and rules, has moved over time toward the vision and the path of development envisaged in Islam, emphasizing human solidarity, belonging, well-being, sharing, concern for others, basic human entitlements, and modest living. The focus in this book is on the Quran's view of development and the conditions necessary for individual and collective human progress. In Islam, development is composed of three interrelated and interdependent dimensions: individual human self-development, the physical-material development of the earth, and the development of human society as a whole. The most important of all these is the first without which the other two would not progress as envisioned.

More often than not, it is the lack of sufficient knowledge of the principles and institutional requirements of Islam that has created a gulf between the ideal vision and actual practice. While the Quran presents clear rules of behavior (institutions) for a balanced, holistic development of the individual and of the collectivity, these have been poorly understood and practiced. Centuries spent in the search for and articulation of the developmental vision of the Quran for humans led to the emergence of societal forms that in practice were antithetical to the vision articulated by the Quran and operationalized by the Prophet. A reversal has begun over the past few decades, initiating ardent efforts to understand the institutional requirements of an authentic Islamic vision for human development.

It is hoped that this book will make a modest contribution to this continuing effort and to an understanding that all claims, or pretensions, to Islamicity on the part of any society must be validated by the existence and effective operations of the institutional structures (rules of behavior) mandated by the Quran and operationalized by the Prophet. A reading of this book should confirm that in today's Muslim societies the most important core elements of an Islamic institutional structure are, by and large, notable for their absence.

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Chapter 1

The Evolution of the Western Concept of Development

The concept of development in the West, which has evolved over a number of years, today can mean quantitative growth, qualitative improvement, and expansion in the capabilities, capacities, and choices of individuals, groups, or states. Development is conceived as more than a quantitative change in some index, such as a higher level of per capita income; it is about being more, not having more. To appreciate the context for Islamic thinking on development, it is helpful to briefly review the historical origins and evolution of the Western concept of development. There are two distinct periods marking the evolution of the development concept in the West: the first period is from 1700 to 1945, covering largely the development of the capitalist economies of the West, and the second is after WWII, focusing on the less-developed economies.¹

The Early Roots of Development (1700–1945)

The concept of development can be traced to the eighteenth-century writers of the Scottish Enlightenment, especially Adam Smith, who formulated the first systematic idea of economic development. The Scottish Enlightenment itself was a response to the challenge posed by seventeenth-century philosophers, such as Thomas Hobbs, who saw mankind as aggressive, self-absorbed, and given to extremes. In the natural state, where there is no organized government, this leads to intense competition, “a war of all

against all,” to gain the greatest possible advantage. In this view, a major challenge for society would be to establish social, political, and economic order. The solution, according to Hobbs, was a powerful sovereign—a Leviathan—to whom all citizens would “submit.”

During the late seventeenth century, the debate focused on the nature of human history as mirroring the life cycle of all living organisms, thus exhibiting the stages of germination, growth, maturity, and decay. The Scottish Enlightenment countered this pessimistic view with its belief in the progressive unfolding of human potential through effort and cooperation. An important member of this school, Francis Hutcheson, believed that the need to be loved and respected by others would balance humans’ self-love and thus allow cooperation between humans.²

Deeply influenced by Hutcheson, Smith believed continuous material improvement could be assured as a result of individual decisions motivated by self-love and moderated by the moral value of “sympathy” for others. Sympathy is the quality that each individual would take to the market as a mechanism that would translate the self-love, or self-interest, of each market participant into love for others. If individuals entering the market were devoid of sympathy and cooperation, progress would be undermined. The dimension of the self that is a reflective judge of a person’s own actions and sense of duty would create an appropriate balance between the interests of the self and those of others. This guidance by an “invisible hand” would lead to positive economic and social change. The separate self-love of all individuals would be galvanized toward the benefit of all, leading to a stable social order.³

Driven by self-love and regulated by sympathy, each individual would be directed to the most productive economic activity. This division of labor would be one of two drivers for increasing the “wealth of nations.” The other driver would be capital accumulation motivated by self-love in pursuit of profit. Increased productivity of labor leads to a surplus in output beyond wages, rents, and profits, thus creating a source of funds for investment in machinery and equipment. The notion of increasing returns based on the division of labor that creates gains from specialization provided the basis for Smith’s optimism. Labor productivity could either be increased through the expansion of skills and the dexterity of labor because they produce the same commodity repetitively, or through the adoption of new technology and the deployment of new machinery and equipment, namely, the accumulation of capital. The accumulation of capital, requiring savings, was deemed necessary for sustained growth. Smith considered frugality and savings an integral part of human nature, stemming from one’s desire to improve one’s material conditions. An important element of Smith’s vision is the limited role of the state to guarantee the sanctity

of property, to create the conditions allowing free and voluntary exchange, and to ensure that commitments generated from contracts of exchange are honored. Under such circumstances, the only limit to continuous material progress would be the size of the market; this limit could be removed through trade among nations. Trade would benefit all trading nations, and all nations would be mutually enriched, resulting in global peace and tranquility.⁴

Smith's optimistic vision was challenged by Thomas Malthus, who argued that human passion, especially passion between the sexes, would always overwhelm the self-love that motivates the pursuit of self-interest. This passion, geared to instant gratification, would lead to a geometric rate of increase in the population, which would soon outstrip the means of subsistence (food), which grows at an arithmetic rate. Malthus, therefore, rejected the idea that self-interest would lead to continuously expanding material wealth. David Ricardo's analysis of wages, rents, and profits (distribution issues) led him to argue that in the evolution of market capitalism a stage would be reached where the economy would no longer grow. This would be the result of diminishing returns to agriculture as production expanded into less and less productive lands. This process would squeeze producers' profits, which would, in turn, reduce investment and place the economy in a stationary state. At about the same time, appalling conditions and misery resulting from a series of crises in the latter part of the eighteenth century and the early decades of the nineteenth century in England and in France led to serious social and political turmoil.⁵

Faced with such turmoil, French thinkers at first questioned and then rejected the idea that linear automatic progress was possible through the free workings of the market. The emphasis of the French thinkers of the time was on how to bring about a just social order. Among them, Henry de Saint-Simon and his followers focused on the possibility of social engineering to create order and progress. They rejected the idea that driven by self-love, men of industry would have any concern for society. They saw the operations of the free market without government interference as the foundation of social disorder. Saint-Simonians envisioned humanity as a collective entity with a history of progressive development of social relations characterized by phases of order and disorder. Each phase of disorder meant that old social and economic relations would decay and break down, creating conditions for the emergence of an improved social order with widening social relations and greater awareness of the common good. This would mean that improvements in the prosperity of each member of society would depend on the prosperity of all, with morally aware elites serving as agents of change and transformation.⁶

The most celebrated member of the Saint-Simonians, August Comte, believed that progress was dynamic and the logical goal of humanity, but that it had to be achieved with social stability and order. The social order, just as the natural order, had static laws that would regulate the dynamics of social progress. To achieve ordered progress, these laws would have to be understood through the method of positivism, namely, devoid of metaphysical assertion. Thus, a science of social order could be created through the application of social laws. In this way, a system of objective knowledge would become the basis for human action to control the forces that create disorder. Socially conscious industrialists would be in charge of utilizing the wealth of society as a temporal power to serve as agents of progress. Humanity would progress to reach a stage where universal love, as opposed to self-love, would become the main social instinct and the arbitrator between social order and progress.

Influenced by Saint-Simonians, John Stuart Mill argued that societies were either in a desirable steady state or in a transitional state. The transitional state was characterized by disorder caused by the inability of those in power to manage change and maintain social order. This state of chaos would continue until growth of knowledge and human understanding, gained through education and the exercise of individual liberty and choice, would bring about a new social order, namely, a stationary state. Mill distinguished between progress and development. Whereas development was a process that led to ordered social and economic improvements, progress was chaotic. A development process designed to manage and mitigate the chaos of progress would lead to a stationary state in which human beings adapt by preserving nature against the chaos of progress. To avoid chaos, Mill believed progress had to be steered toward a stationary state. He suggested that chaotic progress that leads to “unlimited increase in wealth and population” would lead to the earth losing a “great portion of its pleasantness—for the mere purpose of enabling it to support a large, but not a better or happier population.” Mill believed that societies in which conditions for development, or ordered progress, do not exist could be guided by more developed societies.⁷

In Germany, development was seen as being of two kinds according to Friedrich Hegel: natural and intentional. The first is an inherent process, which is repetitive and without change, much like the growth process inherent in natural organisms. A seed, for example, holds within itself the potential to grow into a plant; a cycle of germination, growth, maturity, and decay is a continuous and repetitive process. Every being contains within itself the potential to develop. Hegel made a distinction between “being-in-itself” and “being-for-itself.” The first is the characteristic of a plant. As self-conscious beings humans have the potential to develop

into “beings-for-themselves” through the conscious exercise of their will, despite the influence of external forces. In the case of the plant, however, nothing interferes with the process of its development from a seed to a plant; the plant is hence a “being-in-itself.” In humans, thought is capable of uniting itself with the body to move from a state of “being-in-itself” to that of “being-for-itself.” The consciousness of the spirit, whose essence is freedom, is the force behind development. For Hegel, human development is, qualitatively, a process of change in which consciousness becomes exposed to the essence of freedom. When the goal of economic and social progress is established, the process of change culminates in the emergence of the state. Individuals in such a state would obey the laws of the state as the culmination of their own human reason.⁸

Hegel saw institutions of society as crucial for human development because they allow individuals a sense of self-worth and lead the individual to regard others as worthy. Hegel saw the family as an important ethical-social institution for individuals to learn self-knowledge, altruism, love for others, trust, sharing, and obedience. He viewed the collectivity of social institutions as constituting the civil society that intermediates between the state and the individual to give individuals a sense of themselves as a part of the larger whole. He considered these institutions to be central to human happiness because they provide satisfaction to individuals by allowing them self-identification with their social roles and interests. Hegel incorporated Comte’s idea that love was the means of development embodied in the state, providing freedom for individuals to express their uniqueness through their association with the structures of civil society. Through experience with German bureaucracy, however, Karl Marx was convinced that the state did not, and could not, function as the agent of development. According to Marx, the various structures of civil society use the apparatus of the state to promote their own economic and social interests. In particular, neither the state nor its bureaucracy is interested in meeting the needs of the growing poor and destitute, who are the product of the capitalist system. Marx believed that the capitalist mode of production could only create class conflict. This, in turn, would lead to the consciousness of the masses of their own alienation, which would motivate them to replace capitalism with leaders who understood the shortcomings of capitalism.

Between 1820 and 1840, a number of continental European thinkers had theorized that capitalist development would unfold into a struggle between capitalists and working classes. In particular, Léonard Simonde de Sismondi, a Swiss economist, envisioned such a struggle as early as the 1820s. In 1842, a French intellectual, Eugène Buret, published a book titled *The Misery of the Working Classes in England and France*, depicting